Stanbic Holdings Plc

Annual Integrated Report and Financial Statements 2018

Stanbic Moving Forward™
A member of Standard Bank Group

KENYA IS OUR HOME – WE DRIVE HER GROWTH

Contents

About this report

Our 2018 Annual Integrated Report is a demonstration of our commitment to, and strategies for, creating value for our clients, people, shareholders and community. This report aims to inform stakeholders about our financial and non-financial performance in 2018. This includes a look at how we create value over time and how our new strategy is structured to address the challenges, risks and opportunities Stanbic faces in a fast-changing world. We are committed to the principles of integrated reporting as they align with long-term value creation and the role we play as a bank in society, in moving Kenya forward.

Our scope and content

Unless otherwise stated, all information included in this report refers to the year ended 31 December 2018. It covers the operations of Stanbic Holdings Plc and the ways we are creating value for our stakeholders – in the context of our operating environment. All financial information presented, including the comparative periods, is in accordance with the International Financial Reporting Standards (IFRS) applicable to our operations and businesses. The non-financial sections of this report are guided by the International Integrated Reporting Council's (IIRC) International Integrated Reporting <IR> Framework . We have determined the content of this report after extensive engagement with our clients, people, shareholders and community.

Our materiality review

We consider a material theme to be any matter that has the capacity to affect our shared value creation from the standpoint of the "Group" and its main stakeholders. Determining material themes is crucial to guide decision-making, since it provides a broader vision of the risks and opportunities inherent to the business and connects the strategies to the multiple outside interests.

As part of our engagement with stakeholders, we have identified the environmental, social and governance issues presenting significant risk and opportunity to our business, and our ability to create value.

Material issues

The world around us is constantly changing. This section highlights several trends that have a major impact on both our operating environment and that of our competitors. This includes the economy and current interest rate environment, increasing regulatory scrutiny and costs, IFRS 9, digitisation and changing client behaviour, and what our stakeholders expect of us.

These icons refer readers to information elsewhere in this report.

57/ OUR ACCOUNTABILITY

77/ ANNUAL FINANCIAL STATEMENTS

How to read our report

We produce a full suite of reports to cater for the diverse needs of our stakeholders.

This report

Our Business

This section provides information on who we are , our mission and vision statement, our strategy and our value creation model.

Key frameworks* applied
- King Code IV
- The International <IR> Framework of the International Integrated Reporting Council (IIRC)

Read more on page 5.

Our Performance

This section contains messages from the Chairman and Chief Executives as well as the Business unit heads. It also details the execution of the various facets of our strategy.

Key frameworks* applied
- IFRS
- Companies Act
- Banking Act
- CBK Prudential Guidelines

Read more on page 17.

Our Accountability

A detailed review of the group's risk management statement and corporate governance and remuneration practices, including the Group's remuneration policy.

Key frameworks* applied
- Basel II & III
- Companies Act
- Banking Act
- CBK Prudential Guidelines
- King Code IV

Read more on page 57.

Annual financial statements

Sets out the Group's full audited annual financial statements.

Key frameworks* applied
- IFRS
- Companies Act
- CBK Risk Management Guidelines
- Banking Act
- CBK Prudential Guidelines
- The Group accounting policies

Assurance

Unmodified audit opinion expressed by PricewaterhouseCoopers.

Read more on page 77.

Other Information

This section includes other documents such as the AGM Notice and the Proxy Form as well as an appendix on our progress in the implementation of the CMA guidelines on Corporate Governance

Key frameworks* applied
- Companies Act
- CMA Guidelines

Read more on page 205.

*** Definitions:**
- IFRS – International Financial Reporting Standards
- Companies Act – Kenya Companies (Amendment) Act of 2017
- CBK Risk Management Guidelines - CBK Risk Management Guidelines of 2013
- Banking Act – Banking (Amendment) Act of 2016
- CBK Prudential Guidelines – Central Bank of Kenya Prudential Guidelines of 2013
- CMA Guidelines - Capital Markets Authority Guidelines
- Basel II & III - Basel Committee on Banking Supervision's Basel Accords
- King Code IV – King Report on Corporate Governance, also known as King IV
- The Group – Stanbic Holdings Plc

References

Refers readers to information elsewhere in this report or in our other reports, which are available online.

The invitation to the annual general meeting and the notice of the resolutions to be tabled at the meeting are on page 227

WHO WE ARE

We are a **client-centric, digitally enabled universal** financial services organisation.

OUR BUSINESS MODEL

Our legal entity operates under Corporate and Investment Banking (CIB), Personal and Business Banking (PBB) and Wealth.

OUR STRATEGY

Our strategy remains unchanged, but we continue to respond to shifts in our operating context, our stakeholders' needs and the related material issues.

FOCUS AREAS

Client centricity	Digitisation	Integrated group
We want to do valuable things for our clients	In a digital way	Delivering a seamless universal financial services proposition

OUR VALUE CREATION MODEL

Our business model enables us to respond to a dynamic environment of competing stakeholder expectations, complex competitive forces and regulatory pressures.

MEASURING OUR PROGRESS

Our strategic value drivers help us focus our efforts and measure our progress in delivering our strategy, across all of our business units and corporate functions, and our geographic footprint.

CLIENT FOCUS + **EMPLOYEE ENGAGEMENT** + **RISK AND CONDUCT** = **FINANCIAL OUTCOME** | **SEE IMPACT**

WHY INVEST IN US?

1 GROWTH

Focusing on our clients and creating a great place to work for our people enables us to compete, grow, innovate and achieve scale in our chosen markets.

2 RESILIENCE

Doing the right business the right way enables us to safeguard the deposits our clients entrust to us and the capital our shareholders invest in us.

3 RETURNS

Delivering on our strategic focus areas enables us to drive shareholder returns.

5 /

Our Business

Who We Are

We are a client-centric, digitally enabled universal financial services organisation.

Stanbic at a Glance

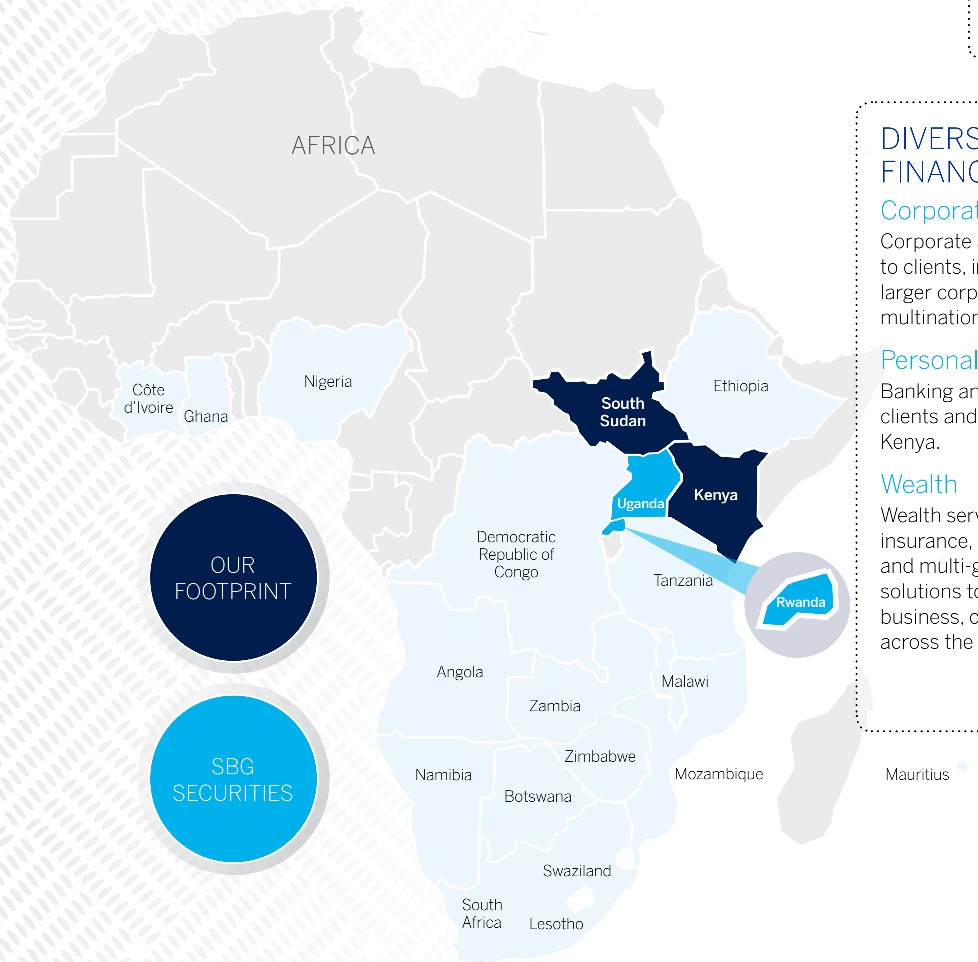
Kenya is our home and we are focused on fostering her socio economic growth. Founded on a solid legacy that spans over 100 years, we are a leading financial services organisation with an on-the-ground presence in Kenya and South Sudan. Stanbic is a member of the Standard Bank Group Limited, Africa's leading bank and financial services group, which operates in 20 countries.

Our Purpose
– the reason we exist

Kenya is our home,
we drive her growth

Our Vision
– what we aspire to be

To be a leading nationally relevant financial services organisation in Kenya, delivering exceptional client experiences and superior value



DIVERSIFIED UNIVERSAL FINANCIAL SERVICES OFFERING

Corporate & Investment Banking

Corporate and investment banking services to clients, including governments, parastatals, larger corporates, financial institutions and multinational corporates.

Personal & Business Banking

Banking and other financial services to individual clients and small-to medium-sized enterprises in Kenya.

Wealth

Wealth services and product offerings, including insurance, investment, fiduciary, bespoke banking and multi-generational wealth preservation solutions to high net worth individuals, retail, business, commercial, and corporate clients across the Group's footprint.

Recognised brand

Standard Bank | Stanbic Bank

On-the-ground presence

25 BRANCHES
2017: 27

48 ATMs
2017: 54

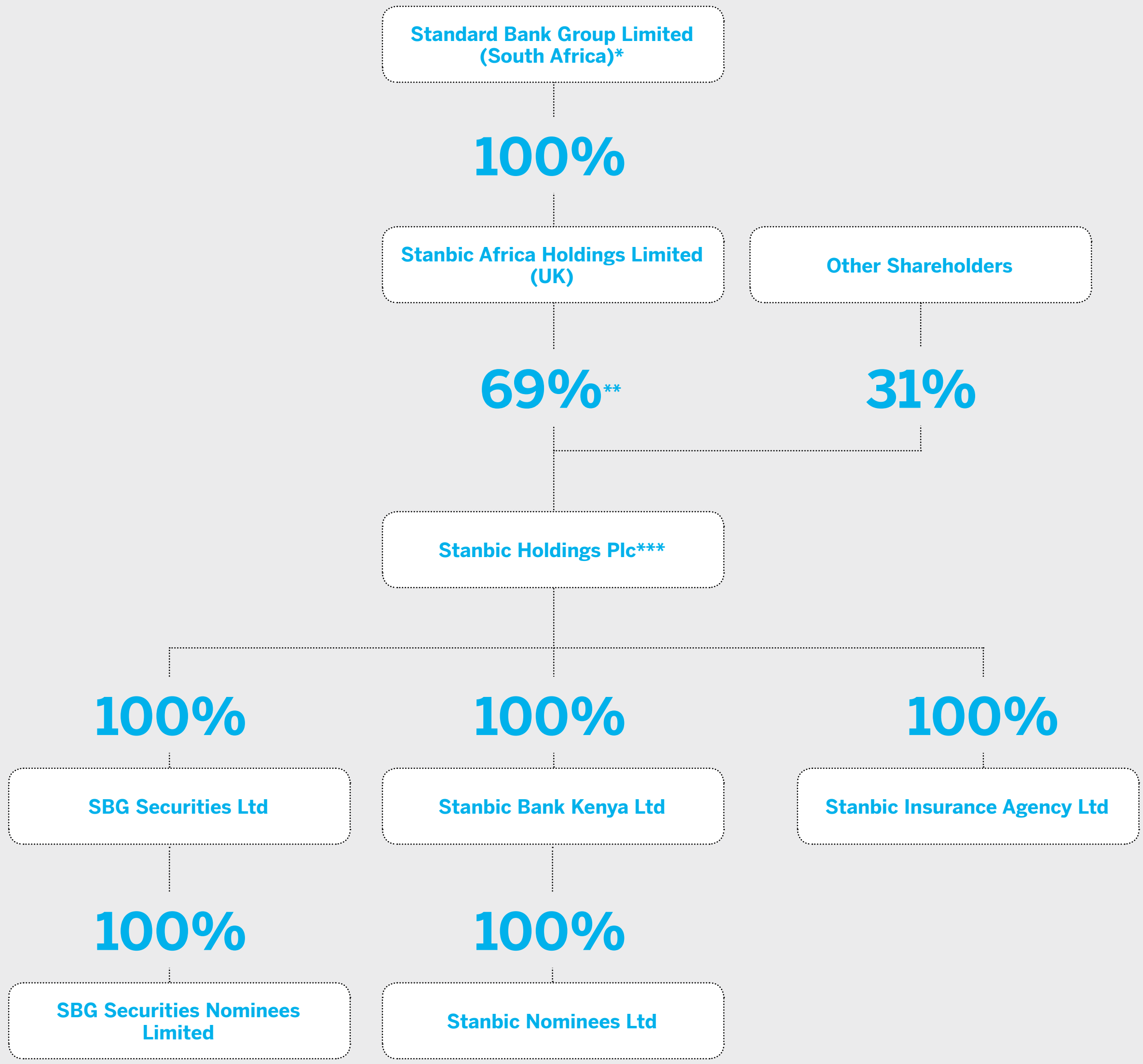
27 Bulk Note Acceptors
2017: 19

Valued people

1 112 EMPLOYEES
2017: 1 133

Best-in-class technology
modernised core banking platforms providing leading-edge digital capabilities

Our Business Structure



* Listed on the Johannesburg Stock Exchange

** During the year, Stanbic Africa Holdings Limited acquired additional shares in Stanbic Holdings Plc to increase its shareholding from 60% to 69%

*** Listed at the Nairobi Securities Exchange

Our business units

Diversified **business units** provide client solutions across the full range of banking and related financial services.

CORPORATE & INVESTMENT BANKING

Provides corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties.

WHAT WE OFFER

- Global markets
- Investment banking
- Transactional products and services

↑ 13 936 KShs million
TOTAL REVENUE
2017: 12 098

PERSONAL & BUSINESS BANKING

Provides banking and other financial services to individual clients and small to medium-sized enterprises.

WHAT WE OFFER

- Transactional products
- Lending products
- Bancassurance
- Digital banking solutions
- Vehicle and asset financing
- Trade finance
- Chinese desk

↑ 8 158 KShs million
TOTAL REVENUE
2017: 6 966

WEALTH

Offers valuable advice that enables individuals or businesses to plan and manage their wealth over time with an objective of growing, preserving and protecting their wealth by taking a long-term approach to their financial matters.

2018 performance highlights

6 277 KShs million
PROFIT AFTER TAX
2017: 4 309

290 570 KShs million
TOTAL ASSETS
2017: 248 739

146 604 KShs million
CLIENT LOANS
2017: 130 536

191 585 KShs million
CLIENT DEPOSITS
2017: 154 661

22 094 KShs million
TOTAL REVENUE
2017: 19 064

14 %
RETURN ON EQUITY
2017: 10

50.2 %
COST TO INCOME
2017: 57.2

5.80 KShs
DIVIDEND PER SHARE
2017: 5.25

15.88 KShs
EARNINGS PER SHARE
2017: 10.90

Our approach to universal financial services organisation

To create a shared future for our clients, our people and our stakeholders, our strategy is consistent with integrated thinking.

Influencing our integrated thinking

Our clients

We have adopted a universal approach to client focus. Our clients are at the centre of everything we do. Client focus aligns our efforts to redesign our operating models, develop our people and shift our culture to ultimately create sustainable competitive advantage in a changing industry.

| Read more on pages 26-31.

Our stakeholders

Our stakeholders are the providers of the financial and non-financial capitals we need to create value. Our proactive engagement with stakeholders informs the execution of our business strategy and activities, shapes products and services, helps us to manage and respond to their concerns and expectations, minimises reputational risk and influences our operating environment.

| Read more on pages 14-15 & 18-19.

Our operating context

Our organisational agility supports flexible strategic responses to the cyclical pressures in our markets while aligning our business effectively to the structural shifts in our industry over the longer term. We identify focused opportunities for revenue generation, and use well-developed risk models to anticipate and manage the impact of risks that are heightened during times of economic stress. We align our risk appetite to changes in our operating environment, instil a risk-aware culture throughout the Group and continually enhance our risk management capabilities.

| Read more on pages 36-40 & 58 -63.

Our strategy

Our Group strategy is focused on creating sustainable value. It represents our commitment to the shared future we are creating for our clients, our people and our other stakeholders. Our strategic value drivers and focus areas align our allocation of resources to our strategy. They direct and provide the basis for measuring the value we create.

| Read more on pages 12-13 & 26-55.

Our material issues

Our material issues synthesise the interests of the Group and our stakeholders, taking into account structural shifts and cyclical pressures in our operating context. They inform our priorities in managing our strategic value drivers.

OUR ABILITY TO CREATE AND PROTECT VALUE

Our governance approach promotes strategic decision-making that combines long-term and short-term outcomes to reconcile the interests of the Group and society in our pursuit of sustainable value. Our governance framework supports the creation and protection of value in our activities which enables ethical and effective leadership, corporate citizenship and a sustainable organisation.

Performance linked to value creation

Our high-performance culture is supported by an environment in which our people are empowered and motivated to deliver exceptional client experiences and are rewarded for their contribution towards realising our purpose and vision.

Remuneration that drives value over time

Our reward philosophy reflects the Group strategy and is aligned to our value drivers through the lenses of client experience, productivity and shareholder value.

Material issues impacting the Group | Strategic value drivers

- Deliver a compelling value proposition for our clients in an increasingly competitive environment.
- Protect and maintain the integrity of client data.
- Work with our clients to mitigate over-indebtedness.

CLIENT FOCUS

+

- Diversity and inclusion (with a particular focus on gender equity).
- Impact of digitisation and automation on workforce requirements.
- Build and retain talent.

EMPLOYEE ENGAGEMENT

+

- Cybersecurity.
- Stability, security and speed of IT systems.
- Reputational and operational risk associated with third-parties, counterparties and suppliers.
- Card fraud.
- Policy, regulatory and legal risks in key markets.
- Constructive relationships with regulatory authorities.
- Increase in physical security threats/incidents.

RISK AND CONDUCT

=

- Returns on IT investment.
- Maintain resilience of our balance sheet.
- Improve efficiencies and manage the cost base.
- Sustainable revenue growth.
- Resolution of non-performing loans.

FINANCIAL OUTCOME

- Contribute to job creation and enterprise development.
- Deepen financial inclusion with appropriate digital offerings.

SEE IMPACT

Allocating our resources

We apply a formal decision-making framework to optimally deploy our resources and align our relationships to drive growth, deepen resilience and deliver sustainable value for all our stakeholders.

GROWTH

STRATEGY

- Does the investment or opportunity align with our strategy?
- Does it create value for our clients and support our ability to deliver a universal financial services offering?
- Does it drive Kenya's growth?

RESILIENCE

CAPABILITY

- Does the investment or opportunity fall within our risk appetite and available resources, and can we deliver it through our existing expertise, processes and digital platforms?

RETURNS

VALUE

- Will the investment or opportunity provide us with an adequate return and unlock future opportunities to create value?

YES

The investment or opportunity will be assessed for acceptability by considering the trade-offs between our stocks of capital.

NO

The investment or opportunity will either be ranked lower or subject to trade-off decisions or will not be accepted.

Our Group Strategy

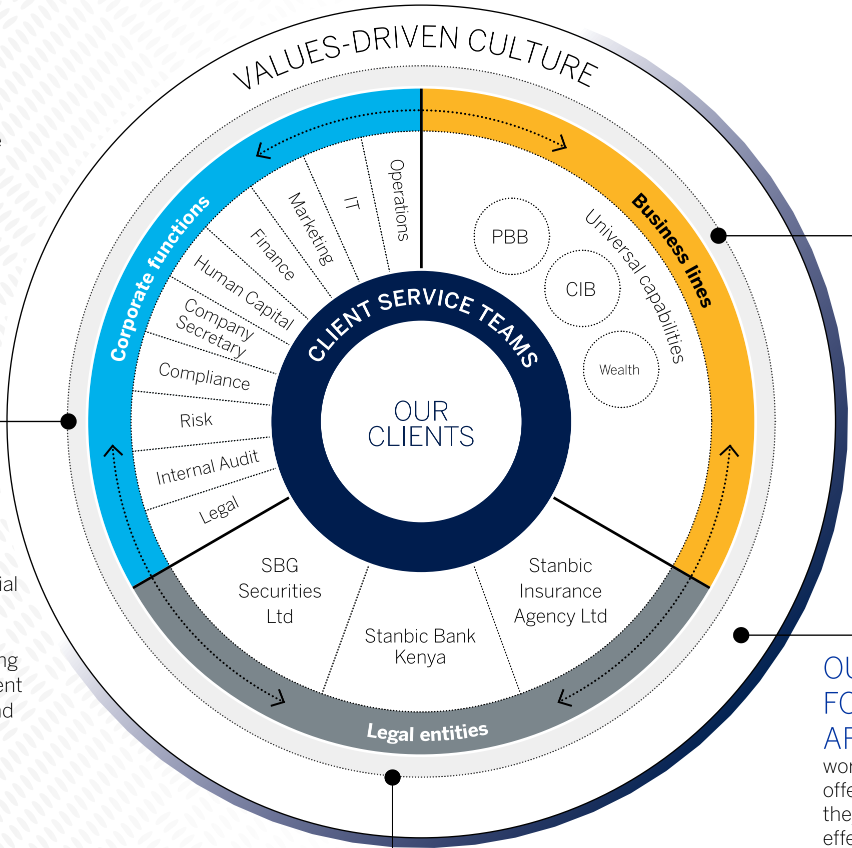
Our strategy is designed to realise the opportunities that Kenya presents.

OUR PURPOSE

Kenya is our home, we drive her growth.

OUR VISION

To be a leading nationally relevant financial services organisation in Kenya, delivering exceptional client experiences and superior value.



OUR VALUES

serve as beacons for the behaviour and qualities that define us at our best as we execute our strategy.

- Being proactive
- Growing our people
- Constantly raising the bar
- Working in teams
- Delivering to our stakeholders
- Respecting each other
- Serving our clients
- Upholding the highest levels of integrity

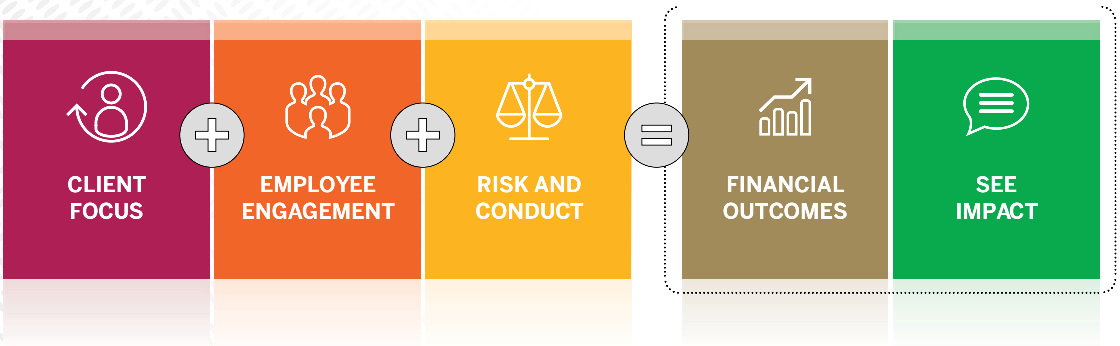
OUR KEY FOCUS AREAS

work together to ensure we offer our clients everything they need in the most effective way possible.

- Client centricity
- Digitisation
- Universal Financial Services Organisation (Integration)

OUR STRATEGIC VALUE DRIVERS

Focus our efforts and measure the progress we are making against our Group strategy and vision.



OUR VALUES-DRIVEN CULTURE

Our culture is 'the way we do things'. Our work to shift our culture for the better recognises that how we do things is as important as the things we do. Our culture is determined by our purpose, vision, values and our approach to ethics. Our code of ethics guides us to be responsible and respectful in our dealings with all our stakeholders, as we work to become a leading financial services organisation in Kenya. It outlines acceptable business conduct and is an important reference point for employees acting on behalf of Stanbic Group. These clearly defined parameters empower us to make faster, more confident decisions that have the interests of our clients, and the society, at heart.

We are focusing on three critical principles that will shift our culture and make the most difference in supporting our strategic journey:

- Always putting the **client first.**
- Hold **open, honest** and **critical conversations.**
- **Collective responsibility** and **accountability.**

THE WAY WE WORK/THE WAY WE WIN

Client centricity places our clients at the centre of everything we do.

CLIENT CENTRICITY requires that our people and processes are focused on our clients as their needs and expectations change. This means we align the way we plan, deliver and execute work, doing the basics brilliantly and consistently so that we can do what our clients value.

We are working to:

- See clients as **real people, not numbers**.
- Provide our clients with **relevant solutions**.
- Be a **trustworthy partner** on our clients' growth journeys.
- **Do the basics brilliantly** and **deliver on our promises** quickly, efficiently, reliably and respectfully.

Digitisation means we are always on and always there to deliver our clients' and employees' needs in a secure, personalised and relevant way.

DIGITISATION is more than just technology – it is about delivering the full range of financial services through secure, personalised, relevant and digitally enhanced experiences to our clients and employees in real time, all the time.

We are working to:

- Ensure that the services our clients and employees need are **consistently available, anywhere, anytime**.
- **Use data proactively** to discover valuable insights and deliver personalised experiences.
- Remove friction, paper-based processes and waste to ensure **intuitive, easy to use, reliable interfaces** for our clients and employees.
- Create a workplace that encourages **curiosity, digital thinking and continuous improvement** for quick and frequent refinement of ideas and brilliant delivery.

Our ability to offer an integrated service/universal financial services proposition to our clients is a key differentiator.

Offering a complete range of **FINANCIAL SERVICES** follows from our commitment to client centricity, and reinforces the competitive advantages of our scale, scope and expertise. This means that our business units, legal entities and corporate functions must work as an integrated whole to service our clients' financial needs in a seamless way.

We are working to **seamlessly and efficiently deliver** the financial services organisation, so our clients have access to and experience all our propositions relevant to their needs.

Our value creation model

Our business model enables us to respond to commercial and social realities in a dynamic environment of competing stakeholder expectations, complex competitive forces and regulatory pressures. We strive to manage our resources and relationships responsibly in what we do and how we do it, to deliver the best outcomes for our clients, our people, our shareholders and other stakeholders.

OUR CAPITAL INPUTS

CLIENT FOCUS

- SRC/ Profitable client relationships built on trust
- HC/ Employees equipped to provide exceptional client experiences
- IC/ Client focused, digitally enabled ways of working
- MFC/ Fit-for-purpose branch and ATM network
- NC/ Utilities (direct) and financing activities (indirect)

EMPLOYEE ENGAGEMENT

- HC/ Strong executive and leadership teams
- Engaged and capable employees
- SRC/ Good relationships with employee representatives
- IC/ Reward structures linked to performance and value drivers
- High-performance ethical culture
- Investment in training that supports client-focused ways of working

RISK AND CONDUCT

- SRC/ Constructive relationships and ongoing dialogue with regulators and governments
- HC/ Embedding a risk-aware, compliant and ethical culture
- IC/ Strong internal control systems, and risk and compliance frameworks

FINANCIAL OUTCOME

- FC/ Competitive investment proposition
- Affordable access to capital and a resilient and diverse capital structure.
- HC/ Competitively reward employees for the value they deliver
- SRC/ Good standing in the investment community

SEE IMPACT

- SRC/ Supporting socioeconomic development and sustainable markets
- NC/ Working with clients to manage environmental risk, including applying the Equator Principles
- Viable business and market growth
- Reputable and ethical brand

Our purpose is the ultimate outcome of our strategy over the short, medium and long term.

IMPLEMENTING OUR STRATEGY

Our strategy is designed to realise the opportunities that region presents. Our three key focus areas combine to ensure we offer our clients the solutions they need in the most effective way possible, and **our strategic value drivers focus our efforts and measure our progress in delivering value**.

Read more on pages 26-55 .

RISKS AND OPPORTUNITIES

We follow a **strategic process to identify the significant risks and emerging threats** faced by the Group. This focuses our attention and prioritises our responses in addressing the risks, opportunities and threats that may impact on our ability to achieve our strategy.

Read more on pages 36-40 & 58 -63.

BUSINESS ACTIVITIES AND OUTPUTS

As a universal financial services organisation with a broad offering of products and services, our business units and corporate functions work together to deliver on our clients' needs.

OUR GOVERNANCE

Our governance and risk frameworks are integrated across our operations to enable **enhanced accountability, effective risk management, clear performance management, greater transparency and effective leadership**.

We see effective leadership as that which unites purpose and performance by embedding an ethical and risk-aware culture which recognises that the trust of our stakeholders is the basis on which we compete and win.

Read more on pages 64-74.

EXTERNAL ENVIRONMENT

SRC/ Social and Relationship Capital | HC/ Human Capital | IC/ Intellectual Capital | FC/ Financial Capital | NC/ Natural Capital | MFC/ Manufactured Capital

WHAT WE DO FOR OUR CLIENTS

OUR BUSINESS ACTIVITIES

INCOME AFTER CREDIT IMPAIRMENTS

BANKING ACTIVITIES

Banking activity	Income statement impact and associated risks
Lend money to our clients	Interest income and credit impairments
Source funding from client deposits and other funders	Interest expense
Provide transactional banking facilities and knowledge-based services to clients	Net fee and commission revenue
Market access and risk mitigation products to businesses	Trading revenue
Revenue from other sources linked to core businesses, as well as strategic investments	Other revenue

EXPENSES

WHAT WE INVEST IN TO SUPPORT WHAT WE DO

Client centricity
We invest in our people to equip them to deliver exceptional client experiences in a changing world of work.

Digitisation
We invest in our operations, including our IT platforms, to enhance our capabilities, improve efficiency and remain compliant with all applicable laws and regulations.

Universal Finacial Services Organisation
We invest in our integrated financial service offering and capabilities delivered through PBB, CIB, Wealth.

Strategic investments
We invest to support our access to innovation and drive socioeconomic development.

INCOME STATEMENT IMPACT AND ASSOCIATED RISKS

Other operating expenses

Staff costs

OUR VALUE CREATION OUTCOMES

Detailed information on our value creation outcomes is disclosed in Measuring our strategic progress, by Group and business unit. Read more on pages 26-55.

HOW WE MAKE MONEY

Income after credit impairments − Expenses − Direct and indirect taxes = Net profit − Dividends to shareholders = Retained equity to sustain and grow our business

● Credit risk ● Interest rate risk ● Insurance risk ● Business and reputational risk
● Funding and liquidity risk ● Market risk ● Operational risk, including compliance, environmental and/or social risk

17/ Our Performance

Chairman's statement

Fred Ojiambo, MBS, S.C.

"We have shaped Stanbic Group to position it as a leading financial services organisation over the period."

5.80 KShs
DIVIDENDS PER SHARE
2017:5.25

15.88 KShs
EARNINGS PER SHARE
2017:10.90

2018 was characterised by recovery of the Kenyan economy after a fraught 2017 marked by the spectre of drought and political uncertainty resulting from protracted elections. Reconciliation in the political sphere in early 2018, in both Kenya and South Sudan, marked an end to the political rivalry that had impacted negatively on economic growth in late 2017. These developments coupled with lifting of drought conditions in the region in early 2018, indicated improved prospects for the year.

In the financial services industry, the positive effect gained from the unwinding of the previous year's political tensions was offset by the twin regulatory headwinds of continued interest rate capping and the adoption of International Financial Reporting Standard (IFRS) 9.

These developments in the regulatory landscape demand that financial institutions do business in the right way with increased client centricity, delivering exceptional client experiences and superior value while using innovative approaches, to be sustainable. Innovation through digitisation speaks to more than adoption of new technologies and platforms as it involves using data and analytics to carefully craft our client service experiences. It encompasses leveraging new technologies to generate efficiencies while remaining relevant to our clients. Even as we focus on digital innovation the risks associated with the adoption of new technologies must be robustly identified, mitigated and managed.

2018 will remain a poignantly memorable one for me as Chairman of Stanbic Holdings Plc (the Company), as it marked the last full year in my role as Chairman and Director on the Board of this company and on the Board of its subsidiary company, Stanbic Bank Kenya Limited (the Bank). I became Chairman of the Company and of the Bank in 2010. Over the last 9 years, I have been privileged to witness the Stanbic story of resilience, that speaks to a tradition of generating consistent growth despite challenges in the operating environment. It is also a story of evolution and of positive social and environmental impact, that emphasises the meaningful role we play in the society we operate in through how we choose to do business.

This story is inspired and driven by the hard work of committed staff led by our skilful executive team, who execute on a sound strategy while ensuring robust risk management.

Our continued journey

As I reflect on our continued journey centred on our corporate purpose, **'Kenya is our home we drive her growth'** I am proud to see the progress we have made in becoming a nationally relevant bank during my tenure as chairman. Our client focus has led us to do many valuable things for and with our clients over this period.

We have shaped Stanbic Holdings Plc and its subsidiary companies (the Group), together to position it as a leading financial services organisation. In the early years of my tenure, we completed the migration to a new core banking platform as a critical step to integrate the operations of CFC and Stanbic Bank. This platform remains core to the execution of our client needs. We continue to upgrade this system to ensure it remains robust to address changing client needs.

We have improved how we connect with our clients by upgrading our channels. Our branch foot print has grown from 11 to 25. We have invested in transforming our branches to digital hubs with 5 of our 25 branches now fully digital. Our corporate clients continue to benefit from efficient execution through various digital capabilities built over time.

In 2011 Stanbic Holdings Plc restructured its business by divesting from Heritage Insurance company, Stanlib and Liberty Life through a common control transfer of assets to Liberty Holdings Plc. This restructure was aimed at enhancing value to our shareholders by allowing management teams to focus on their areas of strength while optimising the benefits of being part of a larger group.

In 2012, we opened our first physical branch in South Sudan. Our relationship with the people of South Sudan runs deep and the opening of this branch was symbolic of our commitment to drive the growth of South Sudan. The country has suffered unrest in recent years, but we remain optimistic that negotiations to end this crisis will achieve lasting peace. The South Sudan branch has had several successful years contributing to more than 8% of the Groups profitability in the last two years. Prior to the unrest, the South Sudan branch contributed 15% of the Group's profit. We remain committed to be a key contributor to the growth of the financial markets of South Sudan.

As an integrated financial solutions provider, our insurance agency, Stanbic Insurance Agency Limited (SIAL) opened its doors to the public in 2015, focussed on providing our clients with peace of mind by intermediating the insurance needs of our clients and the public. In 2018, SIAL covered over KShs 2billion in insurable risks earning KShs 257million in commissions for the Group. Through several investments we have made in this service, we are well poised to increase the penetration of this vital financial service in Kenya and South Sudan.

Our stockbrokerage business, SBG Securities Ltd (SBGS), has invested in digital solutions, launching i-Trader in 2010 and mobile trading in 2017. This has improved the efficiency and speed of execution offered to our clients, helping them power their growth at their convenience. We extended our reach across East Africa by opening branches in Rwanda and Uganda in 2011, thus offering our clients a wider scope of investment opportunities.

To emphasise our Africa wide and international foot print and to make it easier for the public to associate us with a well-established brand, we rebranded from CfC Stanbic Holdings to Stanbic Holdings Plc in 2016.

These investments in our shared journey have yielded positive financial returns through the years, 2018 marking a high-water mark with our profit after tax of KShs 6.3billion. Indeed, the Group's profit after tax has grown by a Compound Annual Growth Rate (CAGR) of 17% and our Return on Equity (RoE) improved from 6.5% to 14% in the period between 2010 and 2018.

The Group's balance sheet more than doubled over this period as our clients increased their trust in us by growing their deposits from KShs 71billion to KShs192biliion. We reciprocated that trust by funding our clients' dreams through growing our loans them from KShs 59billion to KShs146billion. As a result, our total assets grew from KShs 140billion in 2010 to KShs 290billion in 2018. This focus on adding value for our clients, in partnership with them, has seen our revenues grow at a CAGR of 12%.

Further, the Group became more efficient, with operating expenses growing at a CAGR of 7%, well below our 12% CAGR on revenue, resulting in a decrease in the cost to income ratio from 72% in 2010 to 50% in 2018. Sustaining this impressive growth reflects our relentless pursuit to continue connecting with our clients and providing relevant solutions through brilliant execution.

This has culminated in a return to our shareholders that has shown steady growth with the share price increasing from lows of KShs 40 per share by end of 2011 after the demerger of the insurance business to a high of KShs 100 in March 2019. The net asset value has also improved to KShs 113 per share from the KShs 71 in 2011. In 2010 we paid a dividend of KShs 1 per share, we are now proposing to pay a full dividend of KShs 5.8 for 2018.

As a Board, we have promoted gender balance, as is evident from the current composition of the Board. We have implemented several policies to ensure effectiveness of the Board and sustainability of the Group, including, the Board Diversity Policy, the Board Dispute Policy, the Stakeholder Engagement Guidelines, the Environment & Social Policy, the Operational Risk Management Policy and Cyber Security Policy, to name but a few.

In February 2019, Stanbic Kenya Foundation Limited was incorporated. The sole purpose of the Foundation is to carry on corporate social investment on behalf of the Group. The establishment of the Foundation emphasises our commitment to have a positive impact on our society and the natural environment we operate in.

Moving forward our strategic focus is to continue to conduct meaningful business for the benefit of and in partnership with our clients and all our stakeholders. Our client value proposition is to deliver universal financial services through a simple, secure and value adding digital experience.

In closing

We are well positioned to continue to meet the needs and expectations of our clients and all our stakeholders. I would like to express my gratitude to our clients and shareholders, without whose confidence and support, these achievements would not have been possible. I also take this opportunity to appreciate the executive team, my fellow board members and staff members for their commitment to building an enterprise that is future-fit, competitive and that is transforming the lives of our stakeholders, while driving the growth of Kenya, South Sudan and East Africa.

Serving as Chairman of this Company has been an honour. Thank you and keep moving forward.

Stanbic Holdings Plc Chief Executive's statement

Greg Brackenridge

"We seek to continuously and consciously engage with our clients to understand their ambitions and customise appealing solutions that help them achieve those ambitions."

6 277 KShs million
PROFIT AFTER TAX
2017: 4 309

112.88 KShs
NET ASSET VALUE PER SHARE
2017:108.66

The operating environment in Kenya and South Sudan showed some improvement in 2018 notwithstanding ongoing challenges posed by the Interest Rate Capping law which served to dampen private sector credit growth in certain segments of the market in Kenya.

Macroeconomic indicators in Kenya were largely stable which permitted the Central Bank to cut its policy rate twice during the year and while this caused some pressure on our net interest margins the improvement in business confidence did enable us to grow loans and advances in targeted segments.

Peace building efforts in South Sudan are starting to bear fruit with a steady increase in oil production, which is the largest economic sector and most important foreign exchange earner. Political stability is essential to restoring the economic wellbeing of the country and its people.

The Group profit after-tax grew by 46% to Kes 6.3 billion reflecting a strong performance by all the business units and clearly demonstrating the value of having a well- diversified portfolio of revenue streams. The increase in Non-interest Income is particularly pleasing given the impact of the Interest Rate Capping law on Net Interest Income.

Our brokerage arm, SBG Securities continued to report growth in revenues despite the decline in the market capitalisation of the Nairobi Securities Exchange and Stanbic Insurance Agency saw a revenue uplift arising from increased volumes from embedded products sold in the banking business.

We continue to maintain cost discipline with total costs growing by less than inflation despite increasing the amount invested in building new capabilities deemed to be essential to the future well- being of the Group. Our investments are increasingly focussed on further digitisation to improve the experience of both clients and staff in the delivery of all services.

We seek to continuously and consciously engage with our clients to better understand their ambitions and to customise appropriate solutions that help them achieve those ambitions. At the same we strive to uphold the highest levels of integrity with the aim of ensuring that we do the right business, in the right way.

Underpinning the execution of our strategy is a commitment to creating shared value that is mindful of the social, economic and environmental impact that we have so as to ensure the long term sustainability of the Group.

I see exciting times ahead. We will continue to disrupt ourselves as part of our own continuous improvement and make an even larger contribution to our clients and Group's success.

Stanbic Bank Kenya Limited Chief Executive's statement

Charles Mudiwa

↑ 14%
RETURN ON EQUITY
2017: 10

↓ 50.2%
COST TO INCOME
2017:57.2

Stanbic bank remains true to its purpose, Kenya is our home we drive her growth by continuing to play a leading role in development projects in Kenya. Last year we actively participated in helping the Government of Kenya raise USD2 billion to finance various development projects to spur economic growth and improve living standards of Kenyans. This enabled our financial institution to positively and sustainably impact the communities within which we operate. Therefore, it was encouraging to deliver strong commercial growth and financial results in 2018 while at the same time empowering our clients with unique and differentiated experience.

Last year, we posted good results across all banking business lines and subsidiaries. Our client revenues increased year on year while our costs remained flat. Buoyed by growth in client loans and deposits of 12% and 24% respectively, total revenue went up to KShs 22 billion from KShs 19 billion in 2017 an increase of 16% year on year. Subsequently, the Group reported a profit after tax of KShs 6.3 billion, a 46% growth over 2017. In line with the sharp growth in profitability and subdued costs, earnings per share increased to KShs 15.88 compared to KShs 10.90 in 2017. It is also worth noting the substantial revenue contribution by our South Sudan operation which posted an impressive increase in profitability signalling a return to stability for the young economy.

The strong performance witnessed in 2018 was made possible by our accelerated implementation of our newly defined strategy which is centred on client centricity and speedy execution in doing valuable things for our clients. The strategy also focuses on simplifying banking, digitisation and putting the clients in charge of how they interact and get served by our integrated financial organisation. To serve our clients better, we launched M-Jeki, online distributor financing solution and invested over KShs 30 million in training more than 500 clients on entrepreneurial skills in partnership with Strathmore Business School to build capacity in the Small and Medium size enterprises.

Despite our rapid growth, we continue to conduct our operations responsibly by doing the right business the right way and paying close attention to emerging risks of cybercrime, threats to client information, financial crime, frauds and illicit financial flow.

Staff remain our most valuable asset in our journey to increase our market share and achieve sustainable growth. We therefore remain deeply committed to their development through training and coaching in the right skills/capabilities while at the same time ensuring that we attract and retain the right talent through various recognition and reward programs. Last year, we undertook several people interventions in addition to creating an enabling environment for our people to grow, stay engaged, agile, adaptive and to remain relevant in the rapidly evolving environment.

We instituted organisational effectiveness exercise which is aimed at realigning and refreshing our corporate culture to increase staff productivity and meet our business goals. This program will continue in 2019 as we continue to build a strong team of competent colleagues who have been our super ingredient for success over the years.

In 2019 we are looking to consolidate our strategy and continue to build efficiencies across our financial organisation to be future ready. The focus in the coming year will be to resolutely execute on our plans aimed at making the organisation data driven, artificial intelligence minded and digital in nature. In addition, we will re-engineer our processes, build universal capabilities and launch agency banking to get even more closer and serve our clients more conveniently.

We however remain cognisant of the potential challenges posed by the effect of interest rate capping, cybercrime, increasing frauds, non-performing loans, vagaries of weather and the ever-increasing competition from both traditional and non-traditional challengers. Nonetheless, we are optimistic and confident that our strong team buttressed by our solid balance sheet will provide the necessary leadership to manage these risks and innovate to maintain our growth trajectory to generate sustainable returns to our shareholders and superior value and experiences to our clients.

In the horizon, we see great opportunities for sustained business growth and our aim is to transform Stanbic Bank into a financial organisation where we work in teams, decisions are made fast, executed swiftly and communication flows freely to generate sustainable returns to our shareholders and superior value/experience to our clients and all other stakeholders.

I take this opportunity to thank all our clients for giving us the opportunity to serve them and to our staff for working hard and serving with dedication throughout the difficult year to make the difference. We are also very grateful to our regulators, the Central Bank of Kenya for their guidance and partnership and to the Government of Kenya at large for creating an enabling environment for business. Finally, to our board of directors, we thank you for providing direction and guidance throughout the year and we look forward to your continued leadership in 2019.

Corporate and Investment Banking

2018 was a good year for CIB on the back of positive investor sentiments, marked with increased demand for goods both in the local and foreign markets that saw Kenya post the strongest private sector growth since 2014. This was also supported by good weather, eased political uncertainties, improved business confidence and strong private consumption.

Anton Marais
Head, CIB

CIB profit before tax increased 65% to KShs 8.02 billion from KShs 4.87 billion in 2017. Client loans and advances increased by 14% while client deposits grew to KShs 101 billion from KShs 85 billion, a 20% increment. We continued to focus on cost management and proactively managing the non-performing book.

We maintained our focus on client centricity, connecting with our clients to offer value add solutions and improved exceptional experience. Our clarity, in terms of specifically targeted sectors and clients is proving rewarding as the conversion of target clients into revenue earning clients gains momentum.

We recognise that our team is critical in delivering on our client's aspirations and attaining our corporate purpose, Kenya is our home we drive her growth. We have made great strides in enabling our employees to deliver to our clients, appreciating and recognising their efforts while supporting them to pursue and achieve their personal goals.

Digitisation and data remains a critical strategy for CIB as we seek to understand our clients, predict future needs and innovate solutions that are delivered through our digital platforms. Over the coming years, we intend to digitise key areas of our business, to allow us to offer bespoke client solutions. In addition, we are working to simplify our processes to improve efficiencies.

In 2018, we focused on technological reliability and making sure our services are consistent. We launched a Mobile App for online banking to enable processing and authorisation of transactions remotely through ones' phone. We also launched e-biller in partnership with AIG Insurance and introduced M-Jeki to provide short term credit in partnership with our Personal & Business Banking partners. In the year, we noted increased uptake of digital solutions such as e-biller, e-market trader and BOL.

Through the universal financial solutions model, we draw synergy working with Personal & Business Banking and Wealth which has become an area of intensified emphasis for us. Focus being cross selling opportunities to drive our universal organisation strategy.

2019 is the year of acceleration in terms of growth targets. The focus remains, doing valuable things for our clients in a digital way.

On a less positive note, Cyber security remains a key area of concern which is receiving the necessary attention to avoid any occurrences. Furthermore, Global market conditions such as Brexit, trade tension and recession fears may negatively affect the economy in general and our clients and their businesses.

Regulatory actions and requirements and how they impact the business will remain a key factor going forward.

Personal & Business Banking

Personal and Business Banking focuses on banking business clients (i.e. Small and Medium Sized businesses and Commercial businesses) and personal clients. In 2018, we remained focused on our strategy to deliver superior value through innovative products that resonate with our clients' needs, enhancing our use of digital solutions and ecosystem banking for our clients. Our revenue grew by 11% year by year while client assets grew by 17% and deposits by 29%.

Maurice Matumo
Head, PBB

Client-centricity is at the heart of our strategy execution and we are therefore conscious of our clients' changing needs. In 2018, we personalised several solutions in response to our clients'. These include wealth worksite academies and improving payment solutions such as Lipa360, M-Jeki and Cash Deposit Machines (CDMs). We also enhanced our ecosystem approach as we sought to bank entire value chains and strengthened our Africa China banking offer.

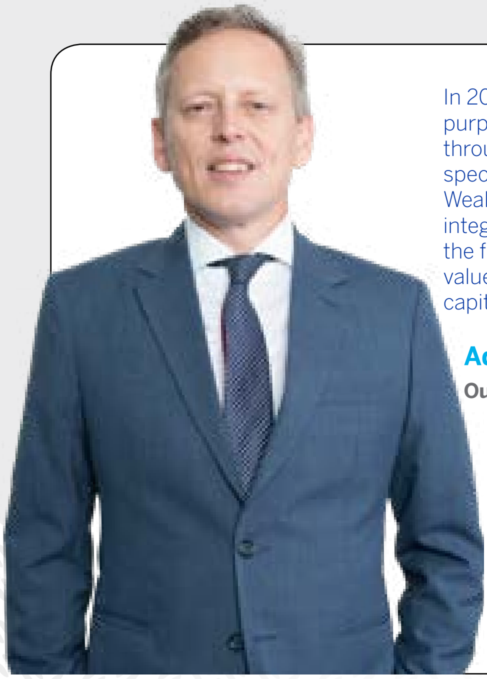
Superior employee value proposition remains topical; therefore, we consistently seek to reward performance and have created an environment that enables high performance, continuous and candid feedback. To enhance the capacity of our team, we provide opportunities for staff to work in other markets under the exchange program and continuous online training.

Digitisation is key to our delivery of superior, reliable and easy to use services. In 2018, we undertook several innovations in the digital space to meet our clients needs. We digitised cash deposits for business banking clients by providing cash deposit machines (CDMs) with the focus shifting to offsite and exclusive CDMs for cash-rich business clients. This has resulted in almost 80% of cash deposits being banked through the offsite BNAs, reducing the cost and security risk borne by clients in transporting cash to the Bank. Notably, 27% of these deposits are done outside of branch operating hours, showcasing the convenience provided to clients. For our salaried and micro-business clients, we have provided a short-term loan that can be accessed through mobile phone, instantly. Our business clients can now pay their electricity, taxes and health insurance (NHIF) directly through our digital platforms. We have also facilitated instant bank account opening without having to visit a branch.

In the same year and in collaboration with both CIB and Wealth, we launched M-Jeki. This is a solution that provides instant short term working capital financing accessed through mobile phone.

We remain vigilant about fraud, cybersecurity, information risk and data/client information. Interest rate capping continues to have an impact, limiting our participation in the retail business space. However, despite these concerns and challenges, we are well prepared to manage these risks, optimistic about the future and cherish our role in financing SMEs, a key driver for the Kenyan economy and a major plank of our work at PBB.

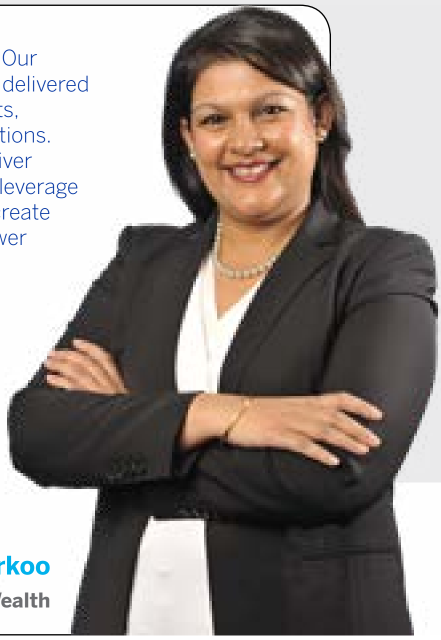
Wealth



In 2018, we created the Wealth Business Unit in Kenya. Our purpose is to thoughtfully enable legacies and dreams, delivered through outstanding expertise in insurance, investments, specialised banking and multi-generational wealth solutions. Wealth is an important part to Stanbic's strategy to deliver integrated universal financial services to its clients. We leverage the full capacity of the Group to serve our clients, and create value for shareholders through diversified revenues, lower capital requirements and enhanced ROE.

Adam Jones

Outgoing Head of Wealth



Anjali Harkoo

Incoming Head of Wealth

Wealth is a new business unit that cuts across the entire spectrum of products and services offered by Stanbic Bank. Our key goal is to enable our clients to create and prudently manage their wealth. We cover the full spectrum of wealth from high net wealth individuals (Wealth and investment) to our entire client base and aim to create a wealth strategy for all our clients whether personal or corporate. Our wealth function is premised on the principle that everyone has a wealth aspiration. We view our role as being facilitative, providing the requisite tools, information, products and services to enable our clients to consciously create wealth.

We successfully launched wealth as a business unit over the course of 2018. Our first signature initiative is the financial fitness academy, which we initially launched to our employees. As we indicated in last years report, we managed to undertake 9 financial fitness academy events with 1044 staff members in attendance. In 2018, we focused on delivering these academies to our clients. The financial fitness academy provides a forum for training, information exchange and discussions focusing on wealth aspirations of participants and strategies for achieving these aspirations. We have worked collaboratively with CIB and PBB, to deliver these trainings to their clients, based on our insights on these clients needs.

We also work with the broader Standard Bank Group companies including Liberty Life, Heritage Insurance and Stanlib. Each session is tailor made for the participants, thus meeting our overarching strategy of being client centric.

Client centricity is of essential importance in the wealth strategy. For example, we recognise that Kenya has a wide array of debt products that are easily available, even on mobile phones, leading to a high level of indebtedness. Our wealth offering provides information and advise to enable indebted individuals to manage their debt effectively through such solutions as debt consolidation etc. Gender is another facet that has been of particular interest in terms of client centricity, since we identify that wealth aspirations and needs of women are not necessarily the same as men.

Another initiative under wealth is the future leaders' academy for the children of our clients, especially the high net worth individuals. The aim of this academy is to prepare the next generation on how to handle significant wealth and to empower and educate the families of our clients on the principles of investing, banking and lending, financial planning, leadership, and philanthropy. This academy was launched in Kenya in the third quarter of 2018.

We have also made considerable strides in working with family businesses, which have shown a noticeable appreciation and acceptance of the wealth offering. We have many products and services that resonate with this business segment.

Family businesses are a major component of the private sector in Kenya estimated to comprise 70% of all businesses. This area also allows us to work across CIB and PBB as well as high net worth individuals.

In terms of insurance products, we have various channels that allow our clients to easily and conveniently access insurance products with limited complications and hurdles. Additionally, we rolled out webtrader, an online platform that allows clients to trade on 30 security exchanges across the world. We continue to offer onshore and offshore financial services for all classes of clients irrespective of their financial capacity.

We have had a good year. Core business growth year on year was positive. We increased our client base by over 50% and we are particularly proud of the calibre of clients we have attracted. Our future plans are to improve our insurance offering and revamp the insurance platform, expand our academies to more clients and external parties and enhance debt counselling and support. In terms of women, we want to enhance our value proposition to resonate with their needs and aspirations. We also intend to roll out our financial fitness academies expansively to cover more clients.

Strategic value drivers

CLIENT FOCUS "Always connecting with our clients"

Our clients are at the centre of everything we do. We strive to meet their individual needs by seamlessly delivering holistic, relevant financial services offerings through the channels of their choice.

MEASURING OUR STRATEGIC PROGRESS

What success looks like

- We understand our clients and offer them solutions to support their goals.
- We serve our clients quickly, efficiently, reliably and respectfully.
- We earn and keep our clients' trust.

How we measure progress

The Group's strategic focus areas of client centricity, digitisation and to be a universal financial services organisation, enable a singular focus on our clients: understanding their needs precisely and gaining, and keeping, their trust by consistently delivering complete solutions that help them to bank, earn, grow, insure, save and leave lasting legacies for future generations.

Our focus on our clients anchors our efforts to build a digital bank, redesign our operating models, develop our people and shift our culture. In combination, these will underpin our long-term sustainable competitive advantage.

We conduct internally facilitated client surveys appropriate for each business unit throughout the year, to understand how satisfied our clients are with our service and to improve on areas of specific concern.

How we performed

Our indicators

Net promoter score (NPS) for PBB and Wealth

NPS indicates how likely a retail client is to recommend Stanbic Group for good service. It is calculated by subtracting detractors from promoters. This value can range from -100 if every client is a detractor to +100 if every client is a promoter. Any score above zero means there are more promoters than detractors.

Client satisfaction index (CSI) for CIB

CSI is a measure of the extent to which our corporate and investment clients are satisfied with the service CIB provides. It is calculated using weighted scores for different dimensions, from response times to the effectiveness of client relationship managers.

***Internal service survey (ISS)**

ISS is an internal survey dependent on the levels of departmental engagements and perceived support within units that depend on each other for an end to end service delivery. It is measured at a total bank level. A scale of 1 to 10 is applied: 1 - poor internal client service, 10 - excellent service

PBB NPS

33%

NET PROMOTER SCORE
2017: 28

CIB CSI

8.1%

CLIENT SATISFACTION INDEX
2017:7.7

ISS - Total overall Group score in 2018 was 9.2 compared to 2017 score of 9.0

KEY STAKEHOLDER CONCERNS

- Delivering consistently excellent client experiences.
- Affordable and appropriate products and services.
- Safety and security of client data and assets.
- Assisting in times of financial distress.
- Ability to compare products and prices.
- Access to financial services and financial inclusion.
- Responsible credit provision and the reduction of over-indebtedness in society.
- Simplified processes and quicker turn around times

Raised by:

Clients, regulators, legislators and national governments, political parties and civil society groups, investors and shareholders.

RELATED MATERIAL ISSUES

- Deliver a compelling value proposition to our clients in an increasingly competitive environment.
- Protect and maintain the integrity of client data.
- Work with our clients to mitigate over-indebtedness.

2018 key priorities

- Simplify processes to respond more precisely to our clients' needs.
- Deepen existing client relationships in support of their growth journeys.
- Leverage data and advanced analytics to gain deep client insights and provide timely and relevant offerings.
- Implement digitally enabled solutions that improve client convenience.
- Provide our clients with the choice to interact with us digitally or through our branch networks.
- Leverage the ICBC and Liberty relationship to support the growth strategies of, for example, Chinese multinationals operating in Kenya, growing Stanbic Insurance Agency.

Related trade-offs

- The client experience benefits and efficiencies of digital platforms require ongoing development and maintenance of IT assets to ensure stability and security, resulting in higher spending on IT.
- Enhancing IT stability and cybersecurity as our client base grows and regulation increases requires greater investment in infrastructure and higher amortisation charges.
- Improving the efficiency of our financial services processes by adopting new ways of working may incur unexpected costs.
- Implementing robotics and automation reduces risk and increases capacity by reducing manual processes, but this increases the investment required to ensure that we comply with regulations and keep our clients safe from potential cyber threats.
- Building new internal skills that include the application of design thinking and behavioural science is required to deliver enhanced client experiences, but will result in significant changes in the working environment for our people.

AWARDS

RECOGNITION FOR OUR ACHIEVEMENTS

A number of industry awards have recognised our focus on understanding the needs and expectations of our clients and providing innovative solutions. The most prominent awards include:

FiRe FINANCIAL REPORTING AWARD

WINNER 2018

- Best Integrated Report in East Africa

EUROMONEY AWARDS FOR EXCELLENCE 2018

Euromoney

- Best Investment Bank Kenya

Think BUSINESS BANKING AWARDS 2018

Think Business

- 1st Runners up- Best bank in Corporate Banking
- Best bank in Agriculture and Livestock Financing
- 2nd Runners up- Best bank in Internet banking
- Best Bank in Mortgage Finance

Global Investor

- Global Investor Survey 2018 winner

emeafinance AFRICAN BANKING AWARDS 2018

EMEA

- Best Local Investment Bank Kenya
- Best Foreign Investment Bank Kenya

GLOBAL FINANCE

Global Finance

- Safest Bank in Kenya
- Best FX Provider in Kenya
- Best Trade Finance Provider in Kenya
- Best Private Bank in Kenya

PERFORMANCE AGAINST STRATEGY

Understanding our clients

As we become more digitised and integrated, we are better able to understand our client's financial services needs and match them with personalised experiences and solutions. We have made progress in improving service delivery across multiple channels, including faster account origination and online lending.

ACHIEVED IN 2018

- Improved client service experience and complaint resolution process reflected in higher client satisfaction scores and fewer complaints.
- Embedded multidisciplinary client service, product, risk and IT teams embedded in operations to map, design and simplify client experiences.
- Re-engineered and digitised back-end processes to streamline and enhance them by automating repetitive tasks and reassigning employees to focus on client-facing value-adding tasks.
- Accelerating access to working capital and financing requirements evidenced by a 12% growth in loans.
- We completed landmark investment banking transactions.
- We continue to transform our branches into digital experience centers
- We have enabled digitised payment on taxes, bills, school fees.
- We completed financial fitness sessions for 13 Corporates.
- We understand our clients ecosystem and support them across the value chain.

LOOKING AHEAD

- Continue to simplify processes to respond more precisely to our clients' needs.
- Strategic partnerships with our clients and 3rd parties to support their growth aspirations.
- Collaboration among business units to leverage on the banking wide sector expertise.
- Leverage the ICBC and Liberty relationship to support the growth strategies of, for example, Chinese multinationals operating in Kenya, growing Stanbic Insurance agency.
- Complete financial fitness sessions for 13 Corporates.

CLIENT FOCUS

The Group's transformation into a client-centric, digital and integrated financial services organisation is heavily reliant on technology. Digitisation has had a significant impact in improving client experience, and the pace at which our business units and clients are leveraging technology continues to gain momentum.

Leveraging technology

Our IT strategy is aligned to the Group's three focus areas of client centricity, digitisation and to be an integrated group. To deliver these, we must ensure that:

- We offer banking that is always on and always secure.
- Our processes are streamlined.
- We use emerging technology like data analytics, Artificial Intelligence (AI) and robotics.
- Our people are equipped with the appropriate skills.

IT STRATEGIC PILLARS

Quality of service through brilliant basics	Achieving continuous improvements in the quality of service to clients in terms of availability, reliability and security.
Responsiveness to market	Leveraging innovative technology and new ways of working to achieve higher levels of agility, flexibility and responsiveness.
Affordability	Managing costs by driving a lean IT operation and by embedding commercial pragmatism.
Sustainability as the foundation of client excellence	Making Group IT an aspirational destination for IT professionals and embracing our diversity and social and ethical responsibility.

OUR DIGITAL JOURNEY RESPONDS TO THE FOLLOWING **CHANGES IN CLIENT BEHAVIOUR**

- Anywhere, anytime, always secure, always on 24/7
- Clients banking on **mobile**
- 80% services and transactions **mobile and online**
- Clients want **superior multi-channel delivery**
- **Instant** gratification
- **Seamless** payments and money transfers
- **New social norms**
- **Peer-2-peer** business models and co-creation

ACHIEVED IN 2018

- We continue to transform our branches into digital experience centers.
- We have enabled digitised payment on taxes, bills, school fees.
- Improved IT security capabilities.
- Accelerated the penetration and enhanced functionality of digital channels.
- New ways of working have increased predictable delivery.
- Digitised investment banking loan process.

LOOKING AHEAD

- Deepen existing client relationships in support of their growth journeys.
- Leverage data and advanced analytics to gain deep client insights and provide timely and relevant offerings.
- Continue to implement digitally enabled solutions that improve client convenience.
- Continue to provide our clients with the choice to interact with us digitally or through our branch networks.
- Overall system improvements across all the channels
- Harmonisation of duplicated information systems across the bank

CASE STUDY

UNIVERSAL FINANCIAL SERVICES ORGANISATION

KENPOLY SPECIALISES IN THE MANUFACTURE OF A WIDE RANGE OF ITEMS MAINLY FOR HOUSEHOLD, INDUSTRIAL AND AGRICULTURAL USE.

Kenpoly has modern moulding machines, in-house production, a strict quality inspection process and an innovative design team that ensures it has the most distinguished, quality and affordable products in the market. Their market reach is countrywide in addition to exports to Uganda, South Sudan, Democratic Republic of Congo, Rwanda, Burundi, Madagascar, Tanzania and Ethiopia.

Kenpoly's affiliate companies include **Blowplast Limited** which is the leading manufacturer of rigid packaging products in East Africa, **Subati Group** a grower and exporter of spray and single head roses and fresh herbs, **Central Business Park** which rents out modern warehouses in East Africa **Apptivate Africa Ltd**, offering a variety of quality of life services through I.T. platform to increase employee output.

Stanbic Bank strategy is to support the growth aspirations and strategy of the client as well as to develop deeper insight into our clients operating environment.

Our relationship

Kenpoly Group and Stanbic Bank have had a strong, growing and mutual relationship spanning over 20 years. The Bank's Client Centric approach to banking has led to a greater understanding of the client's industry and their specific needs, allowing the bank to address those needs by providing banking solutions that are relevant and useful to the client. Stanbic Bank strategy is to support the growth aspirations and strategy of the client as well as to develop deeper insight into our clients operating environment.

Providing the integrated bank to Kenpoly

Whilst the relationship between Kenpoly and Stanbic Bank begun as a Corporate and Investment Banking relationship, the client service team sought to have a deeper understanding of the operational environment of the client and to therefore provide solutions that are relevant across the entire value chain of the client.

For Corporate and Investment Banking, Stanbic Bank has been able to provide the below solutions

- **Payments and Collections solutions** - Stanbic is the primary payments and collections bank for Kenpoly. The Bank provides cash management solutions that allow the client to easily transact. The cash management solutions are offered across physical and digital channels.
- **Working capital financing** - The Bank has provided working capital facilities to the client based on the client's working capital cycle.
- **Digital Banking through Business Online**, which allows the client to transact on their own and "be your own banker". It also makes reconciliations on the accounts easier.
- **Investment Banking:** Term lending to finance capital expenditure that are long term in nature that allows the client to expand it's operations. Some of the recent term debt extended included; purchase of bare land for future expansion, construction loan to put up a new industrial building, pre-shipment and post shipment financing for new imported equipment.
- **Global Markets:** Foreign exchange (FX) hedging solutions aimed at assisting the client manage FX risk. Weekly and daily economic research and market updates on currency movement to facilitate FX planning.
- **Bancassurance:** Negotiating efficient Insurance covers and competitive rates for underlying client assets and business risks.
- **Tax payments through the KRA tax portal** that is integrated with Stanbic Bank providing real time tax payment and acknowledgement with KRA.
- **Corporate Pay solution** for Kenya Power electricity bills and NHIF payments for staff members.
- **Off taker financing:** Kenpoly and affiliate companies have introduced Stanbic to some of their key off takers and Stanbic has been able to come up with trade finance solutions which have enhanced trade between the two parties.

Kenpoly Vendors, Subcontractors and Buyers are banked across Corporate and Business Banking as well as Personal and Business Banking. Banking solutions provided include:

- Cash Management solutions that include payments and collection solution and bundled products solution for the Personal and Business clients that allows the client pay a flat fee for transactions done. We also offer Till2Bank solution for MPesa payments, Bulk Note Acceptors for cash payments.
- Working Capital solutions including issuance of payment guarantees and overdrafts
- Insurance solutions provided by the Bancassurance team
- Global Markets: Foreign exchange (FX) spot and hedging solutions aimed at assisting the client manage FX risk.

Employee proposition include Private Banking for the management of Kenpoly, Workplace Banking for the employees as well as a Wealth & Investment proposition for all staff.

Benefits to Kenpoly

Providing the integrated bank to Kenpoly has benefits that include:

- A one stop banking partner with a solid relationship which assures the client of support they require from a financial partner.
- A banking partner that not only understands the client's business but also understands the Industry in which the client operates in and is thus able to engage the client strategically.
- Lower transaction fees for the client as the transaction flows to between the client and its suppliers, dealers, employees, Kenya Revenue Authority, Kenya Power & Lighting Company and National Health Insurance Fund will be mostly within one bank.
- Speed of execution of transactions for the client.
- The client is able to provide competitive employee value proposition to allow for quality human capital resourcing.

Value to Stanbic Bank

The continuous engagements between Kenpoly and Stanbic Bank has allowed the Bank to have a deeper understanding of the client and to identify additional opportunities with the client's operating environment. We have had notable revenue growth through this initiative and intend to use the lessons we have learnt from this case to continue growing our business.

EMPLOYEE ENGAGEMENT "Building a team of champions"

How our people think and feel about their work correlates directly with how satisfied our clients are, and how successful we are in delivering our strategy and performance aspirations.

MEASURING OUR STRATEGIC PROGRESS

What success looks like

- We are considered a great place to work and our people feel deeply connected to our purpose and our clients.
- Our people are empowered to, and are recognised for, delivering against our strategic objectives and being client-centric in everything that they do.
- Our people make the most of every opportunity to embrace new ways of working and learn new skills to achieve their full potential.

How we measure progress

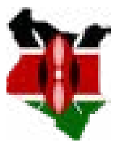
In line with global best practice, we use an employee net promoter score (eNPS) as an indicator of how likely an employee is to recommend the Group as a good place to work.

Our indicators

- **eNPS:** calculated by subtracting the percentage of detractors from the percentage of promoters. This value can range from -100 (if every employee is a detractor) to +100 (if every employee is a promoter). Although the eNPS score measures the distribution of promoters, insights gained from the responses of detractors and passives are also assessed for further action.
- **Employee turnover:** measures the percentage of employees who left our employ during the year.

How we performed

eNPS: Global benchmarks: Any score over +20 is great. Over +50 is outstanding.



32%
EMPLOYEE NET PROMOTER SCORE
2017:45

45%
EMPLOYEE NET PROMOTER SCORE
2017: 51

Employee turnover: the global financial industry benchmarks for overall and voluntary turnover in 2018 was 1.2% and 3.2% respectively.

9.2%
OVERALL EMPLOYEE TURNOVER RATE
2017: 9.2

5.1%
VOLUNTARY EMPLOYEE TURNOVER RATE
2017: 6.4

2.3%
VOLUNTARY REGRETTABLE EMPLOYEE TURNOVER RATE
2017: 1.4

The primary reason for employees leaving our employ is for better career opportunities

Employee diversity

KEY STAKEHOLDER CONCERNS

- Access to career advancement opportunities.
- Creating an environment where our employees are engaged and take care of their wellbeing.
- Reskilling employees to meet demands of rapidly evolving industry, with implications for job redundancy.
- Diversity and inclusion.
- Work life balance

Raised by:

Our people.

RELATED MATERIAL ISSUES

- Diversity and inclusion (with a particular focus on gender equity).
- Impact of digitisation and automation on workforce requirements.
- Attracting and retaining the right people with the right skills and capabilities.
- Enabling our people to be agile and adaptive to remain relevant in a rapidly evolving environment.
- Creating an environment in which our people are engaged and enabled to take care of their well-being.

An engaged team

OUR EMPLOYEE BASE

1 071
PERMANENT EMPLOYEES
2017: 1 113

41
CONTRACT EMPLOYEES
2017: 20

112
COMMISSION EARNERS
2017: 176

GENDER PARITY IN SENIOR MANAGEMENT AND BOARD

	Female	Male
Senior management	32	44
Board	4	6

DIFFERENTLY ABLED EMPLOYEES

2

AGE BREAKDOWN (%)

- **Below 30 years: 16%**
- **30-40 years: 61%**
- **Above 40 years: 23%**

MANAGEMENT/ NON-MANAGEMENT

- **Management: 33%**
- **Non-management: 67%**

LEARNING AND DEVELOPMENT

Training geared to improve personal and career life

E-Learning Training

- Personal: 29%
- Career: 39%
- Strategic trainings: 32%

Classroom Training

- Personal: 4%
- Career: 38%
- Strategic trainings: 58%

NEW HIRES

57

EXITS

99

PERFORMANCE AGAINST STRATEGY

Our focus is on the entire workplace ecosystem, driven by the personal needs and expectations of existing and prospective employees, technological advancements and broader societal and economic trends. A shift in culture and mindset to new ways of working is underway for people to truly embrace a constantly evolving and highly competitive world of work.

A multi-generational workforce, coupled with trends like accelerating digital advancements, predictive analytics and the introduction of robotics, AI and automation are impacting the future shape and skill sets of the workforce, prompting the reshaping of the employee experience in the Group in a deliberate way.

The human capital strategy supports the Group's three key focus areas with our performance management and reward practices aligned to focused delivery against these areas, measured by the strategic value drivers. This alignment ensures that we recognise and reward the contribution of our people accordingly.

Client centricity

Our people management practices are continually being aligned to ensure that our people are equipped with the right skills and knowledge to best serve the needs of our clients.

Digitisation

We are ensuring that our people have access to user-friendly digital solutions ranging from self-service capabilities to people management solutions enabled through integrated global systems. Initiatives are underway across the Group to introduce digital tools that will improve workplace productivity and employee access to connectivity and collaboration mechanisms. Tailored skills development programmes ensure the future readiness of employees for new roles in line with digital capability requirements.

Integrated group

To enable our people to deliver value to our clients in an integrated way, a range of culture programmes and operating model alignment initiatives have been introduced to support the required behavioural shifts and ensure that we have the right people and capabilities in place to achieve integration. We deploy new ways of working to ensure multidisciplinary, agile teams can respond rapidly to changing client and business demands.

Building a team of champions

Attracting and retaining deeply committed people with the right skills and capabilities in competitive environments: ensuring that we have the right people to deliver value to our clients, particularly given that fierce competition for highly specialised skills is intensifying.

Enabling our people to be agile and adaptive to remain relevant in a rapidly evolving and increasingly digital environment: encouraging and supporting employees to embrace new ways of working and develop new skills to ensure their future employability and 'employagility' as digitisation matures and new services and solutions are introduced to deliver a seamless client experience.

Leveraging diversity and ensuring local market expertise: increasing the representation of diverse demographics at every level to leverage diverse thinking that stimulates innovation so that we deliver client-centric solutions.

Creating an environment in which our people are engaged and enabled to take care of their wellbeing: what our employees think and how they feel about working at Stanbic directly affects client satisfaction and the delivery of the Group's strategy. It is therefore incumbent on us to deliver a culture, working environment and value proposition that is compelling to our employees.

Enhancing the employee experience

CHALLENGES ADDRESSED

KEY PRIORITIES

- Deliver consistent employee experiences that resonate with our people and enables the business to thrive.
- Ensure that our employees are deeply connected with our purpose and place the client at the centre of everything they do.
- Listen to our employees and enable them to share their insights in real-time to help co-create a conducive work environment.

ACHIEVED IN 2018

- **Growth and development through;**
  - Investment in employees development and career growth (2018 training cost): KShs 61 million
  - 51,145 hours of training in 2018. (Classroom - 34,512 and Online - 16,633)
  - 1,140 employees trained. (Instructor Lead - 845 and Online 295)
  - International assignments to develop new skills (9 employees)
  - Comprehensive wellness program.
    - **Health initiative:** The Bank provides wellness check-ups yearly for employees and their dependants.
    - **Medical:** The Group meets the cost of medical expenses for the permanent staff and their nuclear family. The Group pays the full premium of the medical cover which is provided by a private company. Optical, Dental and the standards of the cover were improved compared to the previous year.
    - **Pension scheme:** All permanent staff are eligible to join the Bank's Pension Fund Scheme.
    - **Nursing room** is accessible to expectant and nursing mothers.
    - **Break out rooms** are in each department, whereby employees take a break when having lunch or tea breaks.
    - **Counselling services:** ICAS (Counselling & Advisory Services) can be accessed by all employees and their immediate family.
    - **Group personal accident:** Cover for non-occupational injuries or death within and outside workplace.
    - **WIBA (Workers Injury & Benefits Act):** Cover for occupational injuries or death within the workplace.
  - Sports; as members of Kenya Bankers association (KBA), 220 members of staff participated in the interbank sports competition for 2018. We were ranked position 9 out of 33 Banks.
  - Team building events were organised for staff in the year.
- **Enabling environment to thrive;**
  - We continue to digitise and simplify processes to improve experience and functionality
  - Competitive compensation and recognition
- **Diversity, inclusion and delivering an integrated Group;**
  - We maintained our focus on identifying and developing diverse talent
  - Instituted gender and diversity programs for inclusivity
  - Created new roles for effective execution of strategy

LOOKING AHEAD

- Continue to create an enabling environment for people to thrive and deliver to full potential
- Continue to empower employees through investing in their development and offering career growth opportunities
- Provide learning solutions to enable employees to deliver on our client promises
- Optimise and further enhance the digitisation and use of automated human capital processes

RISK AND CONDUCT

"Doing the right business, the right way, boldly!"

Our licence to operate is a function of the trust our stakeholders place in us. Our ability to manage the risks inherent in our businesses and to ensure that our conduct reflects the highest standards of ethical and responsible business practice, underpin that trust.

MEASURING OUR STRATEGIC PROGRESS

What success looks like

- Doing the right business the right way, and exercising good judgement.
- Contributing to safe financial systems in the markets in which we operate.
- Resolute compliance with laws and regulations.
- Safeguarding our reputation and sustaining our business for the future.

Risk

How we measure progress

Our risk measures seek to balance our regulatory requirements, which indicate our ability to withstand financial stress and unexpected losses, and our shareholder expectations around risk-adjusted returns. We carefully manage our capital, liquidity and funding levels to support business growth, maintain depositor and creditor confidence, create value for our shareholders and other stakeholders, while also maintaining regulatory compliance.

Conduct

How we measure progress

Our compliance with laws and regulations is non-negotiable. Any contravention comes at a cost of possible damage to our reputation, fines or financial losses. We manage conduct risk in accordance with our conduct governance framework and are guided by our values, ethics and principles. We mitigate risk where possible, and address non-compliance with disciplinary processes and appropriate action. Each business unit and corporate function is responsible for the oversight and monitoring of conduct risk relevant to their business activities.

Our indicators

- **Core capital to total risk weighted assets:** a measure of solvency that assesses capital strength against our risk-weighted assets (RWA). Core capital consists primarily of retained earnings, profit for the year, share capital and share premium.
- **Core capital to total deposits liabilities:** a measure of solvency that assesses capital strength against our total deposits.
- **Total capital to total risk weighted assets:** a measure of solvency that assesses total capital strength against our risk-weighted assets (RWA). Total capital consists primarily of retained earnings, profit for the year, share capital and share premium and subordinated debt.
- **Liquidity ratio:** measures our ability to manage a sustained outflow of client funds and also meet our short term obligations.
- **Liquidity coverage ratio (LCR):** measures our ability to manage a sustained outflow of client funds in an acute stress event over a 30-day period.
- **Net stable funding ratio (NSFR):** the amount of available stable funding relative to the amount of required stable funding, in accordance with Basel III.

KEY STAKEHOLDER CONCERNS

- Protecting against cybercrime and fraud.
- Treating clients fairly and conduct of banks.
- Demonstrating the highest standards of ethics and integrity.
- Compliance with laws and regulations.
- Responsible credit provision.
- Management of credit risk.
- Safety and security of client data and assets.
- Ethical and transparent supplier and vendor relationships.
- Debt intervention mechanisms for low-income, financially distressed consumers.

Raised by:
Clients, regulators, legislators and national governments.

RELATED MATERIAL ISSUES

- Proactively responding to increased cybersecurity threats and protecting client information.
- Stability, security and speed of IT systems.
- Reputational and operational risk associated with third-parties, counterparties and suppliers.
- Card fraud.
- Constructive relationships with regulatory authorities.
- Responding to the pace, volume and scale of regulatory change.
- Supporting steps to combat financial crime, fraud and illicit financial flows.

2018 key priorities

- Ensure our risk appetite responds appropriately to changes in our operating environment and manage our exposures responsibly.
- Embed a culture of ethical behaviour and ensure that we keep doing the right business the right way.
- Ongoing investment in our capabilities to mitigate financial crime and cyber risks.

Trade-offs

- In managing our exposures responsibly in line with macroeconomic and socio-political realities, it is sometimes necessary to tighten our risk appetite in lending to vulnerable sectors and clients. This reduces the potential for losses but inhibits client growth and revenue generation.
- We manage the natural tension between client convenience and the speed with which we can fulfil their needs, and the parameters of our mature and continually evolving regulatory, supervisory and control environment.
- The rising cost of compliance, including the training of our people and adaptations to business systems to comply with new and emerging legislation, is always managed to ensure the reputational benefit of being a trusted organisation.

How we performed

Risk

We have proactively managed our risk environment ensuring that our mitigation strategies address the identified risks, including exposures to concentrations in all sectors. Our governance process is robust with a well-developed enterprise risk management (ERM) framework supported by focused and mandated committees attended by skilled and accountable experts. We have managed our risk within our approved risk appetite and are sufficiently capitalised.

14.6%
CORE CAPITAL / TOTAL RISK WEIGHTED ASSETS
(2017: 15.0)
MINIMUM STATUTORY RATIO:10.5%

17.4%
TOTAL CAPITAL / TOTAL RISK WEIGHTED ASSETS
(2017: 16.57)
MINIMUM STATUTORY RATIO: 14.5%

16.5%
CORE CAPITAL / TOTAL DEPOSIT LIABILITIES
(2017: 19.7)
MINIMUM STATUTORY RATIO: 8.0%

57.9%
LIQUIDITY RATIO
(2017: 52.3)
MINIMUM STATUTORY RATIO: 20.0%

177%
LCY LCR
(2017: 148)
TARGET: 105%

237%
FCY LCR
(2017: 147)
TARGET: 105%

169%
LCY NSFR
(2017: 154.3%)
TARGET: 102.5%

185%
FCY NSFR
(2017: 111.5%)
TARGET: 102.5%

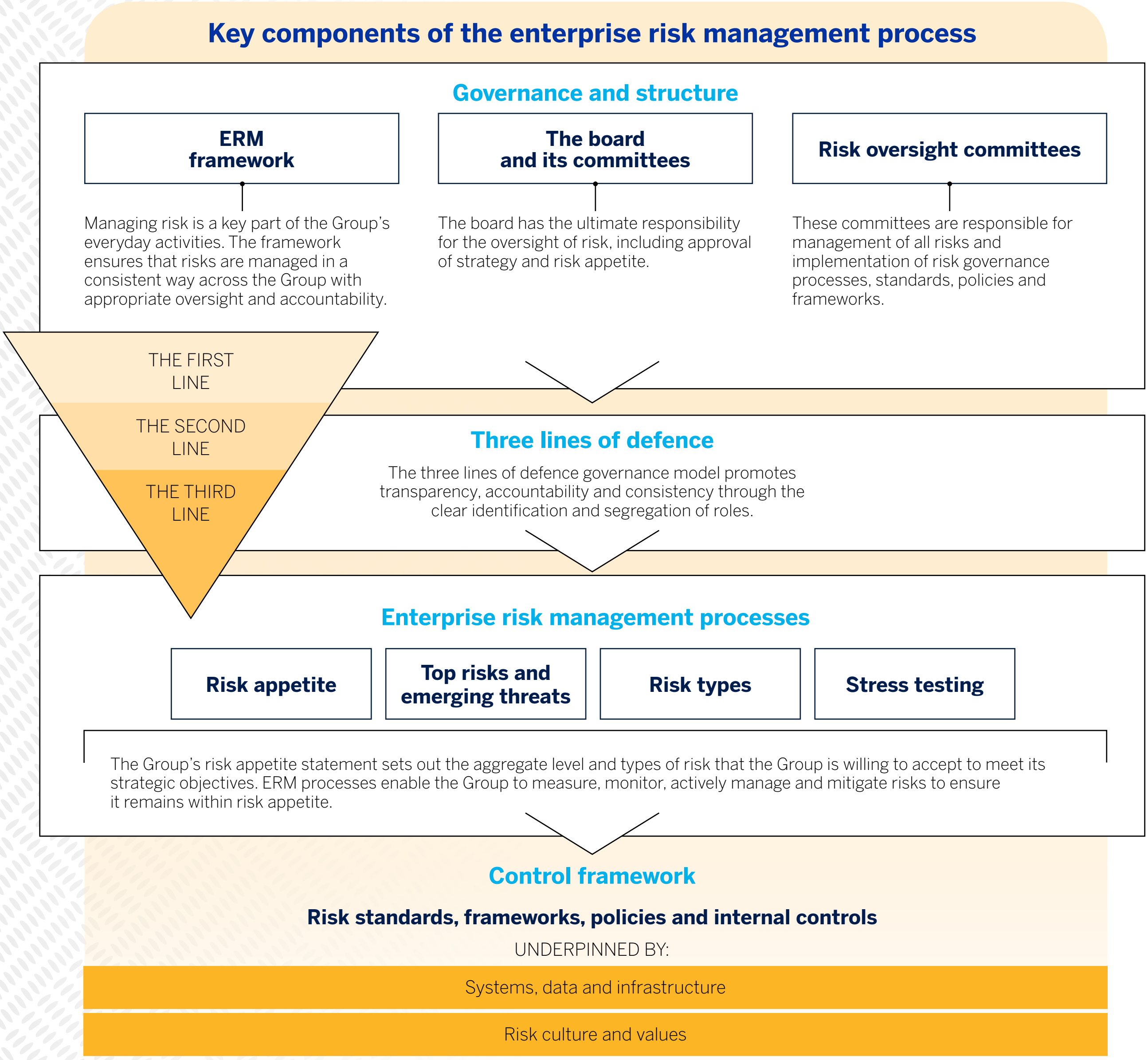
Conduct

We continually monitor our progress on managing conduct and culture through the established indicators and internal conduct risk management processes. Where deficiencies are identified, we take immediate mitigating and/or remedial action.

OUR FRAMEWORK FOR MANAGING RISK

Our well-developed Enterprise Risk Management (ERM) framework supports a consistent approach to risk management throughout the Group.

ENTERPRISE RISK MANAGEMENT APPROACH



The Group ERM governance framework sets out our approach to managing risk and capital. The framework consists of governance standards, frameworks and policies and is implemented by board and management governance committees with mandated and delegated authorities. We take a holistic and forward-looking view of the risks we face, continually assessing both current and emerging threats in our operating context.

Our top risks and emerging threats are monitored, managed and mitigated through the three lines of defence model. The business lines and corporate functions identify and manage risks within their ambit while the Group risk function provides necessary oversight and constructive challenge. Internal audit provides independent assurance on the effectiveness of the first and second lines of defence.

We continue to develop and mature our portfolio risk management and stress testing capability to determine the impact of current or emerging stress scenarios and our ability to withstand these risks, and to inform decision-making throughout the organisation. The results of our tests indicate that the organisation is well capitalised and able to handle current and emerging stress scenarios should they materialise.

OUR RISKS

Robust risk management continues to be a key pillar in execution of our strategy in an environment where the organisation remains exposed to local as well as global-economic, technological and regulatory changes.

A summary of our key risk types is set out below:

CREDIT RISK
The risk of loss arising from failure by counterparties to meet their financial or contractual obligations when due. The Bank's credit risk arises mainly from corporate and retail loans and advances as well as counterparty credit risk inherent in derivatives and securities financing contracts entered into with our clients and market counterparties.

COMPLIANCE RISK
The risk of legal or regulatory sanction, financial loss or damage to reputation the Group may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards of good practice applicable to its financial services activities.

FINANCIAL CRIME RISK
The risk of economic loss, reputational risk and regulatory sanction arising from an act or attempt to steal from or defraud the Group or its stakeholder and/or to manipulate or circumvent the established rules of the Group or legislative requirements applicable to the Group.

MARKET RISK
The risk of a change in the market value, actual or effective earnings or future cash flows of a portfolio of financial investments, including commodities, caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all these variables.

OPERATIONAL RISK
The risk of loss suffered as a result of the inadequacy of, or failure in, internal processes, people and/or systems or from external events.

BUSINESS RISK
The risk of earnings variability resulting in operating revenues not covering operating costs after excluding the effects of market risk, credit risk, structural interest rate risk and operational risk.

REPUTATIONAL RISK
The risk of potential or actual damage to the Group's image which may impair the profitability and/or the sustainability of its businesses.

FUNDING AND LIQUIDITY RISK
The risk that an entity or the Group, although solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

Read more about these risk types and additional information on risk on pages 58-63.

TOP RISKS AND EMERGING THREATS

We ensured that the top risks in 2018 received the attention and resources needed to be adequately mitigated.

Our top risks for 2018 were identified as:

TECHNOLOGY RISK is associated with the use, ownership, operation, involvement, influence and adoption of technology within the Group. It consists of technology-related events and conditions that could potentially impact the business, including technology changes, updates or alterations. A key consideration within technology risk is the Group's effective use of technology to achieve business objectives and be competitive.

CYBER RISK may lead to financial loss or disruption, destruction, unauthorised or erroneous use of information systems.

REGULATORY IMPACT RISK is the risk of reputational and financial losses due to the inability to comply with or keep abreast of regulatory requirements.

FRAUD RISK is the unlawful and intentional misrepresentation with the aim of unlawful gain, which causes actual prejudice or which is potentially prejudicial to another.

INFORMATION RISK is the risk of accidental or intentional unauthorised use, access, modification, disclosure, dissemination or destruction of information resources, which may compromise the confidentiality, integrity and availability of information and potentially harm the business.

PEOPLE RISK refers to the negative impacts associated with difficulties attracting and retaining skilled and committed people and failure to enable people to grow and remain relevant in a rapidly evolving world of work.

BUSINESS DISRUPTION RISK arises from critical system failures and/or business process failures impacting services to and/or provided by the Group to its stakeholders.

THIRD-PARTY RISK is introduced due to ineffective management of third-party relationships. The use of third-parties reduces management's direct control of activities and may introduce new or increase existing risks, specifically, operational, compliance, reputation, strategic, and credit risks.

CONDUCT RISK is the risk of harm being caused to the Group, its clients and markets due to inappropriate execution of business activities.

PERFORMANCE AGAINST STRATEGY

Doing the right business the right way

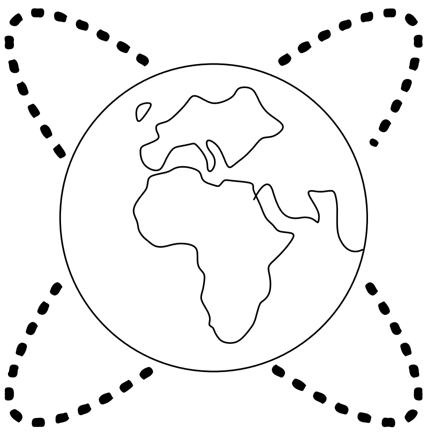
We manage our business and associated risks in a manner that balances the interests of our clients and other key stakeholders with the protection of the Group's long-term sustainability and the stability of the financial systems within which we operate. Our objective to do the right business the right way extends from our compliance with laws and regulations, including the enforcement of measures to combat financial crime, financing of terrorism or other fraudulent practices, to our ethical conduct as individuals and as a financial services organisation.

ACHIEVED IN 2018

- We invested in new ways of working to improve efficiency and service delivery
- Reviewed our risk appetite to support our clients
- Enhanced controls and relations with third parties to ensure sustainable and competitive service delivery
- Leveraged on data analytics to proactively manage risk
- Embedded a risk culture at all levels of the organisation to effectively manage risk and limit losses

LOOKING AHEAD

- Continue to regularly review and amend our risk appetite in response to changes in our operating environments and manage our exposures responsibly
- Continue to embed a culture of ethical behaviour and ensure that we keep doing the right business the right way
- Continue to manage cyber, information and conduct risk;
- Adoption of regulations and standards impacting the Financial Services Industry (e.g. Interest rate controls and IFRS-9 and their systemic impacts on the Financial Services Industry);
- IT systems stability that is associated with the growing reliance on digital channels for service provision;
- Outsourcing risk given reliance on third parties for the provision of infrastructure to run digital platforms;
- Managing systemic risks that arise from exposure to local and international banking systems including FinTechs;
- Concentration risk and the need to ensure an optimally diversified asset portfolio; and
- Leveraging information technology in areas of "big-data" and block-chain technologies to improve turn-around-time and automate risk management in areas such as, credit-application and behavioural risk scoring.



Our risk strategy instils conscious risk-taking as we pursue our targeted growth opportunities. A strong link between our strategy and our risk appetite underpins our profitability and sustainable growth. Our quantitative and qualitative risk appetite statement sets out the aggregate level and types of risk that we will tolerate to meet our strategic objectives. We regularly review our risk appetite in response to changes in our operating environments and we adopt fit-for-purpose operational risk practices that assist line management in understanding their residual risk and managing their risk profile within risk appetite levels.

We form relationships with our clients by understanding their needs and making responsible offers to them based on their risk profiles. These relationships enable us to build and maintain clients' trust; they form the foundation of our risk management. We regularly review and amend our risk appetite across segments and products, based on the insights of the Group risk function and our in-country risk committees. As a result, we are able to select quality clients or respond proactively to early signs of financial stress or market risk.

Group Financial Review

"The Kenyan shilling remained stable supported by weaker importer and corporate dollar demand and stronger inflows from the horticulture and tourism sectors ."

Abraham Ongenge
Chief Finance Officer

Operating environment

International markets began 2018 with marked buoyancy, occasioned by a pickup in global manufacturing and trade through 2017. This optimism peppered off towards the close of the year induced by trade disputes between the USA-China, weakened performance in European manufacturing, macro-economic stress in key emerging markets and financial stringency in several major economies, leading to a global growth rate of 3.6%. The US economy grew by 2.2% in 2018 and is expected to grow by 2.1% and 1.9% respectively in 2019 and 2020.

In the Eurozone uncertainty relating to global trade tensions and Brexit had a significant toll. The Eurozone's growth stood at 1.8% and is expected to increase marginally to 1.9% in 2019. China's economy grew 6.6% in 2018 amid sluggish domestic and foreign demand, marking the slowest annual expansion since 1990. Global economic growth is expected to slow down to 3.0% in 2019 and 2020. Protectionist policies and the rise in nationalism remain key risks to global growth.

Despite the negative effects of interest rate cap in the private sector credit growth, the Kenyan economy improved in 2018. This was boosted by a buoyant tourism sector, solid remittance inflows and government infrastructure spend. GDP grew by 5.7% as compared to 4.9% in 2017. Near-term GDP is expected to rise to 5.8% in 2019 and 6.0% in 2020 underpinned by recovery in agriculture, better business sentiment and easing of political uncertainty.

Headline inflation declined gradually through the year underpinned predominantly by lower food prices. Although oil prices took a sharp dive in October–December, the 8% VAT on petroleum products kept fuel costs elevated. Private sector credit growth fell from its peak of about 25 per cent in mid-2014 to 1.9 per cent in January 2018, closing the year at 2.4%, impacted by the retention of the interest rate capping law. However, credit growth to government averaged around 15%.

The Kenyan shilling remained stable supported by weaker importer and corporate dollar demand and stronger inflows from the horticulture and tourism sectors. The Monetary Policy Committee lowered its benchmark rate to 9% in line with market expectations. There was also heavy scrutiny in the sector by the Regulator in the fight against corruption and terrorism.

The banking sector continued to be negatively impacted by interest rate capping law, which entered its second year, with majority of the banks recording a decline in profits as they cannot adequately price for credit risk. In addition, IFRS 9 reporting also greatly impacted the reporting of credit impairments with banks expected to recognise credit delinquencies earlier in comparison to IAS 39. Notwithstanding, these challenges the Group had positive growth in relation to NII and NIR as both PBB and CIB did a commendable job in the year. Wealth also had a great first year with over 100% growth in profitability. This is attributed to Wealth clients placing more money into Kenya due to Tax amnesty on foreign income and assets. The clients considered Stanbic a safe bank to invest in.

The South Sudan economy continued on a downward trend. Real GDP contracted by an estimated 3.8% in 2018, following a contraction of 6.3% in 2017. Projections for 2019 and 2020 indicate growth contraction of 2.6% and 2.5% respectively. Key challenges include internal and external threats to peace, security and stability, human capacity weaknesses and dilapidated infrastructure. Inflation remained high at an estimated 104.1% in 2018 and the South Sudanese pound continued to depreciate further coupled by a severe shortage of foreign currency and an active parallel market. South Sudan is still considered a hyperinflationary economy. We continue to monitor the situation in South Sudan and respond appropriately to mitigate any risks identified.

FINANCIAL OUTCOME

Delivering sustainable returns to our shareholders depends on the extent to which our investments in satisfied clients, engaged employees and managing risk and conduct are effective and efficient. In turn, we need to ensure that we balance the capital we allocate to these strategic investments with competitive returns.

MEASURING OUR STRATEGIC PROGRESS

What success looks like

- We continue to demonstrate value creation for all our stakeholders by delivering headline earnings growth and driving ROE to the upper end of our 18% to 20% target range.
- We maintain the resilience of our balance sheet to support the execution of our Group strategy.

How we measure progress

By delivering positive results on our client focus, employee engagement and risk and conduct value drivers, we seek to improve our financial outcomes, thereby ensuring growth, resilience and returns. We measure our financial outcome through the following indicators.

- **Growth**
  - **Profit after tax (PAT):** show the profits we make, excluding profits or losses from non-recurring events. We seek to improve our profits each year by continuing to grow our revenue while managing our costs and risks.
  - **Cost-to-income ratio (CTI):** measures our efficiency in generating revenues relative to the costs we have incurred. We aim to reduce our CTI, making sure that the growth in our costs does not exceed the rate at which we grow our revenues. Containing our costs is key to growing profits and improving ROE.
  - **Credit loss ratio (CLR):** measures our impairment charges as a percentage of average loans and advances. We aim to maintain our CLR at an acceptable level in line with our risk appetite.
- **Resilience**
  - Our resilience is measured by LCR, NSFR and CET 1. More detail can be found in our risk and conduct section from page 37.
- **Returns**
  - Return on equity (ROE): shows how much profit we generate with the money shareholders have invested in us. ROE is the result of all the growth and resilience measures and, therefore, the ultimate measure of our effectiveness in executing our Group strategy.

How we performed

The Group reported a profit after tax of KShs 6.3 billion (2017: KShs 4.3 billion).

- Total revenue grew by 16% on account of strong balance sheet growth, increased trading revenue, growth in fees and commission on electronic banking and trade finance and successful closure of key deals in Investment Banking
- Low credit impairment losses attributed to improved asset quality of the performing book and proactive asset management
- The Group continues to focus on cost management
- The Board of Directors have declared a dividend of KShs 5.80 per share

KEY STAKEHOLDER CONCERNS

- Strengthening efficiency and return on equity.
- Responding to increased competition in challenging market conditions.
- Increased cost of risk.
- Margin compression.

Raised by:

Shareholders and investors, investment analysts.

RELATED MATERIAL ISSUES

- Returns on IT investment.
- Maintain resilience of our balance sheet.
- Improve efficiencies and manage the cost base.
- Sustainable revenue growth.
- Resolution of non-performing loans.

2018 key priorities

- Continue to deepen our progress in aligning processes to our value drivers to measure what matters most in delivering on our ROE target range of 18% to 20%.
- Continue to respond effectively to macroeconomic challenges.
- Maintain revenue growth by partnering with clients
- Reduce our CTI by driving revenue growth faster than cost growth.
- Maintain a resilient balance sheet, capital, liquidity and regulatory requirements
- Finalise the Group's adoption of IFRS 9, including the final reporting on the transition impact.

Trade-offs

To ensure that we can continue to attract the capital we need to fund the growth in our assets, we must provide an appropriate rate of return to our equity shareholders and debt funders, including depositors. This requires that we balance our ability to generate revenue with the costs incurred in doing so.

PERFORMANCE AGAINST STRATEGY

We allocate our resources and align our relationships to support the disciplined delivery of our strategy, while continuing to focus on growth, resilience and returns to deliver a compelling investment case.

LOOKING AHEAD

- Understand our clients better to deliver value.
- Focus on delivering sustainable returns to our shareholders.
- Grow client loans above industry growth rate.
- Continue to focus on cost discipline.
- Continue to do business the right way through responsible lending.
- Continue to be adequately capitalised and above regulatory requirements.
- Proactively manage risk in our business.
- Compressed margins as a result of interest .rate cap.

ACHIEVED IN 2018

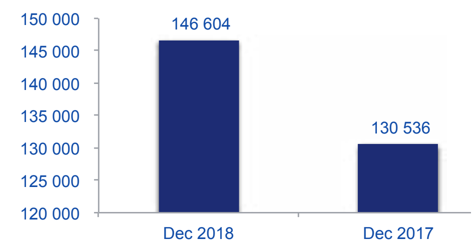
- Our value drivers have been further embedded in our business, allowing us to appropriately measure our progress and improve our ROE from 10% in the prior year to 14%.
- The Group's balance sheet remained resilient despite challenging macroeconomic conditions. The net asset per share as at 31 December 2018 was KShs 112 an increase of 4% from the prior year.
- Focussing on delivering value to our client base resulted in revenue growth of 16%
- The Group's CTI reduced by 7% in the current year. Continued efforts to reduce CTI and manage cost remain crucial across the Group.
- The Group was able to meet its capital, liquidity and regulatory requirements.
- The Group finalised the adoption of IFRS 9. The impact of IFRS 9 transition is highlighted in Note 2c (ii) of the financial statements.
- Increased shareholding by the parent company, Stanbic Africa Holdings Limited, from 60% to 69%.

MEASURING OUR FINANCIAL OUTCOME

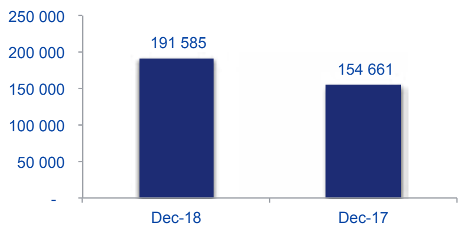
Balance sheet drivers

Growth in deposits and funding, and loans and advances supported the Group's Profit After Tax growth by a compound annual growth rate (CAGR) of 2%.(5 year CAGR)

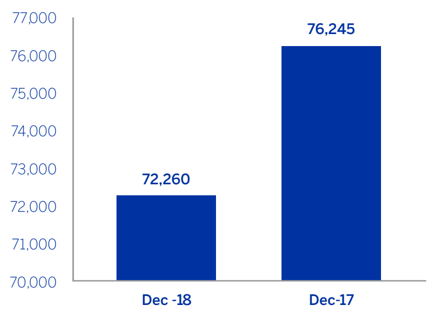
Net loans and advances (KShs millions)



Client deposits (KShs millions)

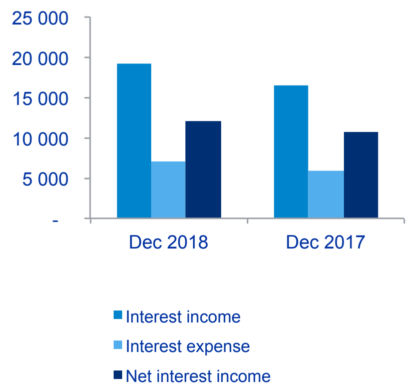


Financial Investments (KShs millions)



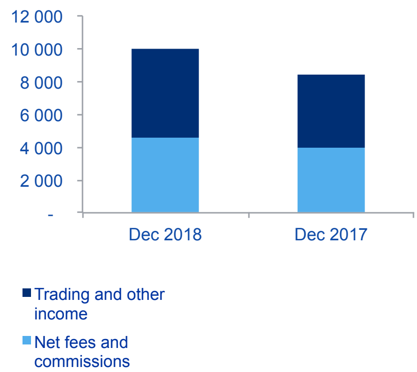
GROWTH

Net interest income (NII) (KShs millions)



NII increased year on year by 14% explained by growth in loans and advances partly offset by reduction in the Central Bank rate two times within the year.

Non-interest revenue (NIR) (KShs millions)



Net fees and commission income

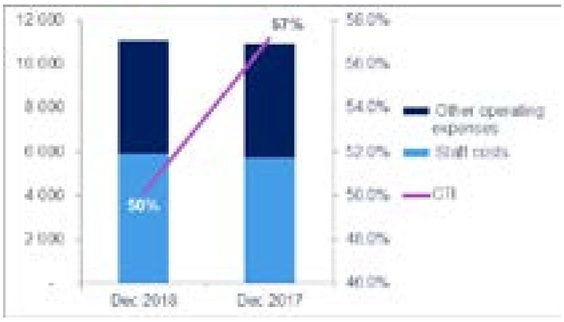
Increase in net fees and commission income explained by:

- Increase in trade finance revenues as letters of credit and guarantees grew by over 100%
- Key investment banking deals closed in the year
- Continued growth of electronic banking revenues
- Growth in market share in the equities market

Trading revenue

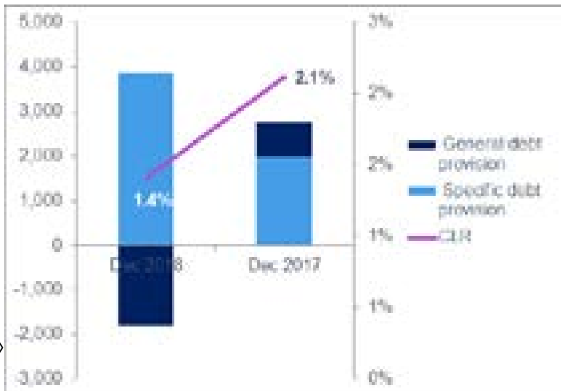
- Income from trading increased by 22% driven by mark to market gains on money market and fixed income trading desks. Foreign exchange income also increased by 13% supported by increase in client volumes by 15%

Operating expenses (KShs millions)



Decrease in cost to income as revenues grew at a higher rate than costs. Revenue increased by 16% compared to the growth in costs by 2%

Credit Impairments (KShs millions)



- Improved asset quality explains the reversal of General debt provisions partly offset by downgrade of some CIB clients to Non-performing loans
- We continue to assess the adequacy of provisions relating to NPLs based on various recovery milestones

Profit after Tax

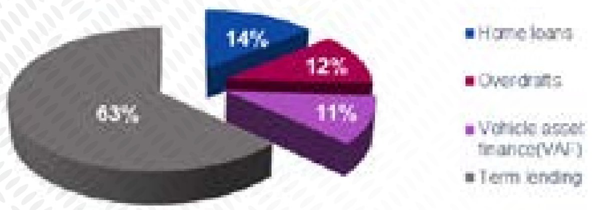
KShs 6 277 million

PAT grew by 46% supported by increased revenues, lower credit impairment charges and reduction in costs.

RESILIENCE

We continued to strengthen our balance sheet to propel future growth in key areas that have been identified for execution in our strategy. During the year under review, the Bank's total assets grew by 17% to KShs 291 billion as at close of 2018. The balance sheet growth was largely driven by growth in client loans and advances and client deposits.

Client loans per product (%)



Funding and liquidity

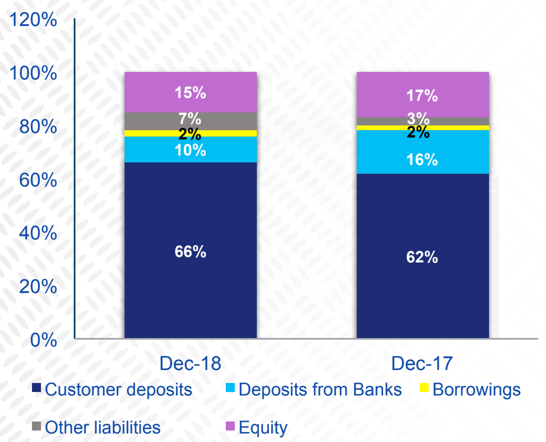
The Group's liquidity position remained strong and within approved risk appetite and tolerance limits.

The liquidity ratio at the end of the period was at 57.9%, exceeding the minimum regulatory requirement of 20%.

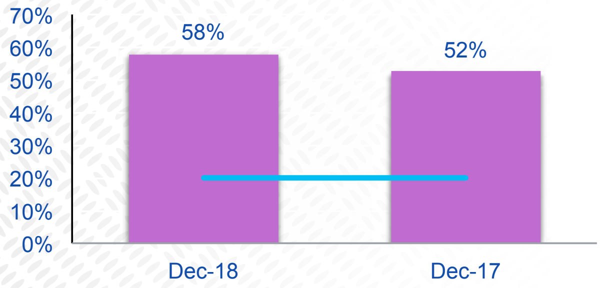
Assets are funded mainly from client deposits with 47% being PBB and 53% being CIB. Deposits from clients grew by 24% year-on-year.

During 2018 the Group raised USD 30 million of long term funding through subordinated debt compliant Tier II capital.

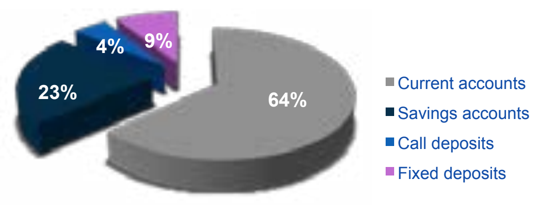
Funding



Liquidity ratio (Bank only)



Client deposits per product (%)

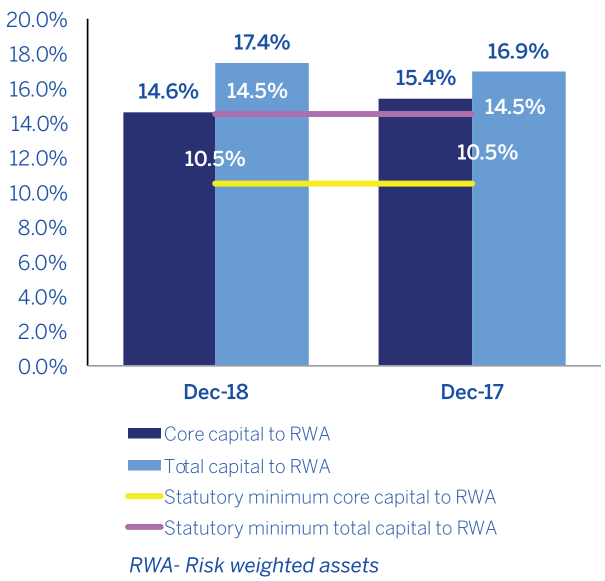


Capital management

The Group maintained strong capital adequacy ratios, The capital adequacy ratios for risk weighted assets against core capital and total capital was at 14.6% and 17.4% respectively. Those remain above the stipulated regulatory minimum of 10.5% and 14.5% respectively. The Group manages its capital levels to support business growth, maintain depositor and creditor confidence and create value for shareholders whilst ensuring regulatory compliance.

IFRS 9 became effective on 1 January 2018. The day one impact of implementing IFRS 9's expected credit loss impairment requirements reduced the capital ratio by approximately 50 bps. The credit impairments in the balance sheet increased by KShs 2.2 billion; an increase of 32% on IAS 39's balance sheet impairments (including interest in suspense). Details on IFRS 9 impact can be found on Note 2 c(i) of the financial statements.

Capital adequacy ratio (Bank only)



	2018	2017	2016	2015	2014	CAGR
	KShs million	KShs million	KShs million	KShs million	KShs million	%
Income statement						
Profit before tax	8,948	5,401	6,049	7,359	7,700	4%
Profit after tax	6,277	4,309	4,419	4,906	5,687	2%
Statement of financial position						
Shareholders' equity	44,623	42,956	40,141	38,365	36,895	5%
Total assets	290,570	248,739	214,683	208,452	180,999	13%
Loans and advances to clients	146,604	130,536	115,588	115,588	88,347	13%
Property and equipment	2,186	2,256	2,208	2,245	2,348	
Client deposits	191,585	154,661	119,328	119,328	95,839	19%
Returns and ratios						
Return on average equity	14.33%	10.40%	11.30%	13.00%	16.40%	
Return on total assets	2.33%	1.90%	2.10%	2.50%	3.10%	
Costs to income	50.20%	57.20%	57.90%	51.20%	50.20%	

KEY ACCOUNTING CONCEPTS

IFRS 9 Financial Instruments – impact on our 2018 results

The Group has adopted IFRS 9 Financial Instruments (IFRS 9), which replaced IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) from 1 January 2018. IFRS 9 has introduced changes to the classification and measurement of financial assets and liabilities as well as new impairment requirements, particularly how to account for expected credit losses resulting in the earlier recognition of credit impairments.

The Group elected not to restate its comparative financial statements when adopting IFRS 9 on 1 January 2018, and the accounting adjustment relating to the transition from IAS 39 to IFRS 9 (the transition impact) was accounted for in the Group's opening 1 January 2018 reserves.

Transition impact of IFRS 9 on 1 January 2018

-50 bps
COMMON EQUITY TIER 1 RATIO
16.0% (IAS 39: 16.5%)

-3.6%
GROUP'S RESERVES
KShs 1.56 billion

-32%
IMPAIRMENT PROVISIONS (PRE-TAX)
KShs 2.24 billion

IFRS 9-related adjustments

In addition to the transition impact shown above, the following two IFRS 9 related accounting changes had a significant impact on the classification between line items in our income statement for the year. While these changes have had no impact on profit after tax, they do have an impact on certain ratios, making year on year comparisons difficult due to the accounting treatment being different in the two reporting periods.

IFRS 9 requires that interest be suspended earlier than under IAS 39.

When a financial asset is classified into stage 3, interest must be suspended in terms of IFRS 9. This may however, occur earlier than under IAS 39. There was no impact in our financial statements.

Interest in suspense is recognised against credit impairment charges.

Following a clarification from the IFRS Interpretations Committee in December 2018, interest in suspense (IIS) on cured financial assets is required to be recognised as a reduction in credit impairment charges. Previously, IIS on cured financial assets was recognised in interest income. The IIS on cured financial assets has reduced credit impairment charges by KShsh 330 million for 2018.

WHAT IS INTEREST IN SUSPENSE?

IIS is the contractual interest which accrues on financial assets, which are non-performing and therefore classified as stage 3, in accordance with IFRS 9. The interest on these financial assets is suspended and only recognised in the income statement when the financial asset cures, being when it moves back into the performing category as certain conditions are met, in accordance with IFRS 9.

The table below illustrates the effect of the above adjustments on our Group ratios:

	2018 KShs million	IFRS 9-related accounting impact KShs million	2018 adjusted KShs million	2017 KShs million	2018 vs 2017 %	2018 adjusted vs 2017 %
Net interest income	**11,800**	330	**12,130**	10,644	11%	14%
Non-interest revenue	**9,964**		**9,964**	8,420	18%	18%
Total income	**21,764**	330	**22,094**	19,064	14%	16%
Credit impairment changes	**(1,734)**	(330)	**(2,064)**	(2,761)	-37%	-25%
Operating expenses	**11,082)**		**(11,082)**	(10,902)	2%	2%
Profit before tax	**8,948**	-	**8,948**	5,401		
Cost-to-income ratio (%)	**-51**		**-50%**	-57%		

IFRS 16 Leases

This standard will replace the existing standard IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (client) and the lessor (supplier).

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet/statement of financial position.

The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Group has formed an IFRS 16 working group and detailed project plan, identifying key responsibilities and milestones of the project. The Group is in the process of determining the estimated impact as well as discussing the system requirements to accommodate IFRS 16's principles. The new standard became effective on 1 January 2019. The Group has substantial lease investments in its branches locations and ATM sites. The Group impact is estimated to be a right of use asset valued at the present value of lease payments of KShs 1.1 billion and an equivalent lease liability of the same amount.

There will be a resulting change in reporting lease expenses in the statement of profit or loss. Currently all lease rentals of operating leases are shown as an operating expense. Under the new model, the lease expense will be reported under both depreciation and interest expense.

SOCIAL ECONOMIC AND ENVIRONMENTAL (SEE) IMPACT

In line with our purpose, we believe that financial services done well – with conscience and conscientiousness – can improve lives by addressing the pertinent issues that face the regions we operate in.

MEASURING OUR STRATEGIC PROGRESS

SEE shared value

We understand shared value quite simply: In order for us to continue as a successful and sustainable business we must measure value beyond financial outcomes.

Our SEE framework

Economic

Stanbic Holdings drives economic growth through creating social and environmental value, which also leads to more innovative and profitable ways of doing business thereby being a catalyst for economic change.

Environmental

Stanbic Holdings success depends on creating value for the environment through conscious and responsible lending.

Social

This is the value Stanbic Holdings creates for society, both internally with our people and externally with other stakeholders, such as clients, governments to make life better.

What is our 'SEE impact' all about?

Our success is intrinsically linked to the societies in which we operate and is a crucial component of our business strategy. We play an important role in society and SEE is about how we best understand and strategically maximise our value creation impact in the region. As financial intermediaries, it is our purpose to drive sustainable growth and empower our stakeholders through being a catalyst for economic change. SEE helps us understand if we are achieving our purpose, building trust among our clients and our other stakeholders. Managing our SEE value driver helps us to:

- Identify business opportunities arising from societal, economic and environmental challenges.
- Weigh-up commercial versus societal impacts and make appropriate decisions on this basis – delivering what matters to our clients while enhancing the trust, reputation and sustainability of the Group.
- Provide a balanced and objective account of our impacts to our diverse stakeholders.
- Raise awareness across the Group of the SEE impacts – positive and negative – that arise from our business activities.

SEE IMPACT

Financial inclusion
- Improving access and affordability – convenient digital products and services, accessible even without a bank account.
- Rethinking security and collateral requirements for loans.
- Providing consumer education to enable people to manage their finances more effectively.
- Helping our clients save, invest and plan for the future, according to their individual needs.

Job creation and enterprise development
- Helping small businesses access the tools and resources they need to become viable and sustainable.
- Providing financial products designed to meet the needs of SMEs and entrepreneurs.

Infrastructure
Working with the government and development institutions to structure appropriate funding instruments and mobilise funding for crucial developmental infrastructure:
- Roads
- Energy

Trade and investment
- Facilitating trade and investment, particularly in the Africa-China corridor in conjunction with ICBC.
- Improve access to trade finance.

Education and skills development
- Supporting early childhood development.
- Supporting improved access to education and improved educational outcomes.
- Improving access to student finance.
- Supporting access to work opportunities and skills development.

Employee development and training
- Building and retaining skills in our countries of operation.

What success looks like
- Generating economic value in a way that produces value for society.
- Understanding our direct and indirect impacts on the societies, economies and environments in which we operate, predominantly through financing, and making more informed, responsible decisions as a result.

Trade-offs
- Implementing new solutions that improve access to finance for small businesses and entrepreneurs to enhance their growth and potential to create jobs, while managing the default risk.
- Balancing the challenges posed by climate change, and the need to facilitate access to affordable energy to support economic growth and poverty alleviation.
- Finding ways to restructure debt for sectors impacted by climate change in a way that maintains the integrity of our loan book and the viability of our clients' businesses.

KEY STAKEHOLDER CONCERNS
- Accelerating inclusive economic growth, job creation, financial inclusion and transformation.
- Supporting small business.
- Improving access to energy while managing potential environmental and social impacts.

Raised by:
Legislators, national governments, political parties and civil society groups.

RELATED MATERIAL ISSUES
- Contribute to job creation and enterprise development.
- Deepen financial inclusion with appropriate digital offerings.
- Balancing energy needs with the negative impact of climate change.
- Adaptation to and mitigation of climate change.

Financial inclusion

What we are doing

- Helping clients purchase a home.
- Partnering with fintech companies to develop digital solutions that extend access to secure, affordable and reliable banking services, some accessible without a bank account.
- Educating people on our financial products and services, and how to use them cost-effectively.
- Consumer education programmes in Kenya and South Sudan.

Challenges addressed

- Reliance of the low-income segment on cash and expensive service channels.
- Low levels of awareness around insurance and pension products.

Alignment to United Nations Sustainable Development Goals (SDG):

SDG 8.10 –Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

- We partnered with Kenya Mortgage Refinance Company (KMRC) to support the government agenda of affordable housing.
- Assisted clients to purchase 1,900 homes.

Job creation and enterprise development

What we are doing

- Helping small businesses access the tools and resources required to become sustainable. This includes working space, capacity building, access to new market opportunities and coaching and mentoring.
- Providing financial products that meet the needs of SMEs and entrepreneurs, particularly products that address SME cash flow and working capital challenges.

Challenges addressed

- Unemployment and job creation.
- Challenges accessing finance given the high default risk associated with lending to SMEs.
- Small business needs for convenient, real-time payment and account management solutions.

Alignment to United Nations Sustainable Development Goals (SDG):

SDG 9.3 –Increase the access of small enterprises to financial services, including affordable credit, and their integration into value chains and markets

- Supported around 500 Uber Chap Chap drivers in collaboration with CMC Motors, a Suzuki franchise holder to purchase their own fuel-efficient 800cc Suzuki Altos vehicles. Loans are advanced to drivers with high driver ratings, supporting entrepreneurship and safer mobility.
- Continue to partner with M-KOPA to provide “pay-as-you-go”household solar systems.
- SME accelerator programme that partners with SMEs whose focus is on green economy.
- Enterprise Direct connects over 28,000 SMEs to us via digital platforms.
- SME accelerator programme aimed at growing‘finance ready’ SMEs.
- Biz Connect: KShs 13.8 million invested and 240 clients trained on entrepreneurial skill in partnership with Strathmore Business School.

M-KOPA Solar, is the global leader in "pay-as-you-Go" household solar systems, providing much needed energy to off-grid clients on affordable payment plans. These solar systems allow over 600,000 low-income households in remote or underdeveloped areas to access clean energy for lighting and powering electronics.

Stanbic Bank Kenya Limited was appointed as the lead arranger and book-runner to arrange receivables based financing of USD 40 million for M-KOPA Kenya and USD15million M-KOPA Uganda, both in local currency. This funding will assist the M-KOPA Solar to provide power and related appliances to a target 1 million clients in East Africa by 2020. Through the facility, a significant number of consumers, who are largely outside of the formal economy, will also create a credit history that should enable them to access further banking facilities in their personal capacity.

The M-KOPA Solar systems are reversing the negative effects of using kerosene for lighting and also improving the standards of living of consumers with small businesses who generate more revenues by being able to stay open longer into the night. Access to electricity and decent lighting also enables children to improve their performance in school due to the ability to study at home after School. With electricity, the consumers can use electronic such as mobile phones, TVs and Radio, effectively crossing them over into the digital age.

Infrastructure

What we are doing

- Working with the government, development finance institutions and other commercial banks to mobilise funding and structure appropriate infrastructure funding instruments.
- Placing increasing focus on renewable energy projects.

Challenges addressed

- Lack of capacity to finance large-scale infrastructure projects.
- Rising electricity prices and unstable supply.

Alignment to United Nations Sustainable Development Goals (SDG):

SDG 7 – Access to affordable, reliable, sustainable and modern energy for all.

SDG 9 – Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

SDG 15 – Conserve and restore the use of terrestrial ecosystems, halt deforestation, reduce the loss of natural habitats and biodiversity.

- We continue to support various infrastructural and energy development projects in Kenya.

Trade and investment

What we are doing

- Facilitating trade and investment, particularly in the Africa-China corridor, working with our strategic partner, ICBC.
- Improve access to trade finance.

Challenges addressed

- Increasing investment flows in Kenya to drive economic growth and job creation.

Alignment to United Nations Sustainable Development Goals (SDG):

SDG 8 – Promotion of sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all.

- Accelerated access to trade finance solutions as evidence by growth in letters of credit and guarantees.

Education and skills development

What we are doing

- Improving access to quality education, from early childhood development through to tertiary education.
- Providing first time work experience and learning opportunities.

Challenges addressed

- Student access to funding.
- Lack of experience being a barrier to entry into the workplace.

Alignment to United Nations Sustainable Development Goals (SDG):

SDG 4 – Inclusive and equitable quality education and the promotion of lifelong learning opportunities for all.

- KShs 2 million invested in education in 2018 through Palmhouse Foundation and SOS Children's Village.
- 32 beneficiaries of secondary education under our partnership with Palmhouse Foundation.
- Sponsorship of 20 children in the SOS Children's Village.
- Capacity building for the regulator in South Sudan; Our branch in South Sudan has taken the lead in building institutional capacity in South Sudan in the areas of compliance, financial and global markets through training of the regulator and driving access to markets.

Employee development and training

What we are doing

- Building and retaining skills to support a strong succession pipeline of future leaders and develop critical skills, while helping our people reach their full potential and advance their careers.

Challenges addressed

- Fierce competition for specialised skills.

Alignment to United Nations Sustainable Development Goals (SDG):

SDG 4 – Inclusive and equitable quality education and the promotion of lifelong learning opportunities for all.

- Exchange programs and cross departmental rotations for staff.
- 11 International assignments.
- Employee engagements with the Chief Executive.
- Future skills training.
- Assignment of employees to strategic pillar work streams
- Inclusion of our employees in empoering clients through financial clinics.

M-KOPA and Stanbic Bank lighting up East Africa and Improving financial access through innovative structures

In 2017 Stanbic Bank Kenya ("Stanbic") was mandated by M-KOPA Group ("M-KOPA") to raise USD55m in local currency for M-KOPA's Kenyan and Ugandan subsidiaries. This landmark deal would see M-KOPA, which is the global leader in "pay-as-you-go" household solar systems, providing much needed energy to off-grid customers on affordable payment plans.

Not only was this the first solar-home-system deal that the bank concluded, but it required us to be innovative in the funding structure to meet the needs of a company that had only been incorporated in 2010. As the company did not necessarily meet the conventional corporate borrowing metrics, we developed a funding structure which took into account the highly cash generative nature of the business evidenced through mobile money payments. Since then this model has been used by other solar-home-system providers in raising their own funding.

What attracted us to this company was that we were able to work with them on their vision to change people's lives by providing power and related appliances to a target 1 million customers in East Africa by 2020. At the time we were mandated on the deal in 2017, M-KOPA had distributed 500,000 units and as at early 2019 they were already at 750,000 units and expanding rapidly.

These solar systems allow low-income households in remote or underdeveloped areas to access clean energy for lighting and powering electronics through combining mobile money payments, Global System for Mobile communication ("GSM"), sensor technology. Access to electricity and decent lighting also enables children to improve their performance in school due to the ability to study at home after school. With electricity, the consumers can use electronic appliances such as mobile phones, TVs and radios, effectively crossing them over into the digital age. Based on the fact that on average, each household has 5 members, the M-KOPA product is estimated to be impacting over 3.5 million people in East Africa.

M-KOPA's impact on the environment has been significant. Through the provision of their products, kerosene use for lighting has dropped in East Africa. A study shows that M-KOPA customers now enjoy over 75 million hours of kerosene-free lighting per month (based upon 125 hours of solar-powered lighting per M-KOPA household, per month) and they will save over 780,000 tonnes of CO_2 over four years (based on 1.3 tonnes of tonnes of CO_2 reduced per M-KOPA Solar system). It is further calculated that customers save USD10 per month by displacing toxic kerosene with the M-KOPA system, with projected savings of US$450 over the next four years (based upon US$750 saved per household over 4 years using M-KOPA Solar instead of buying kerosene). With tuckshops staying open longer and owners of the systems providing phone charging services, additional household income generated per month has been calculated to be an average of US$65 per month.

In partnering with M-KOPA, not only is Stanbic contributing to the environment and social impact noted above but the bank is also enabling a significant number of consumers, who are largely outside of the formal economy, to create a credit history that should enable them to access further banking facilities in their personal capacity.

This landmark deal won us a Finance Award in the category of Best Local Currency Syndicated Loan for 2017.

Stanbic Bank Foundation

In 2018, the Central Bank of Kenya approved the establishment of Stanbic Bank Foundation and the recommended design for the foundation is now as follows:

Foundation operational focus

- SME Development/Accelerator - This will be the core operational focus of the Foundation and it is designed to be an SME accelerator programme aimed at growing 'finance ready' SMEs. The SME support programme will support SMEs to enable them to access formal finance.
- Health (Cancer Screening programme to launch in 2020)
- Foundation grant funding - The Foundation will, in addition, have a grant-making component to enable the funding of alternative initiatives in line with the vision and mission of the Foundation. This includes legacy CSI initiatives, and responses to pressing ad hoc needs such as a national emergency.

Corporate Social Responsibility activities

Education

Palmhouse Foundation Sponsorship and Mentorship Programme

It has been eight years since we partnered with Palmhouse Foundation to sponsor bright and needy students through their four years of secondary school education. Currently, 16 students are enrolled in various secondary schools across the country with 32 having successfully completed their secondary education since the inception of the program. Four other students will be sitting for the Kenya Certificate of Secondary Education at the end of this year. Throughout the year, our employees are constantly involved in the mentoring of these students during the school holidays and are involved in the selection process. The annual scholarships are valued at KShs 1.28 million for the 4 students for four years of secondary education.

SOS Children's Villages

The SOS Village in Buruburu Nairobi continued to benefit from Stanbic Group as it renewed its sponsorship of two houses for another year. The sponsorship caters for the education and upkeep of 20 children of different ages throughout the year to the tune of KShs 1.8 million. SOS Children's Villages is the largest child welfare organisation in Kenya that takes action for orphaned and abandoned children. SOS Children's Villages are driven by the vision of providing "a loving home to every child." Stanbic Group sponsors two homes catering for 20 children.

Other projects that benefitted from Stanbic Group Corporate Social Investments in 2018 were:

- WEMA fundraising
- Safaricom Foundation fundraiser
- Gikomba Fire - In response to a fire that gutted the largest informal market in Kenya on 10 July 2018, we donated sewing machines and provided material support to the victims of the fire to the tune of KShs 1.2 million.
- Stanbic Group fielded a touch rugby team composed of staff for a corporate tournament to raise funds for building computer labs across the 47 counties. The support was to the tune of KShs 250,000.

Entrepreneurship and Financial Literacy

Bizconnect

8 sessions of the Bizconnect Financial Literacy training across the country in Mombasa, Kisumu, Eldoret, Meru/Nanyuki, Nakuru and Nairobi. The Stanbic Bank BizConnect Program is provided in partnership with Strathmore Business School and is aimed at equipping the Group's enterprise banking clients with the business decision-making and execution skills they need to excel as multifaceted business leaders.

A total of 240 participants were trained in the eight regions namely; Nairobi cohort I, Mombasa, Nairobi cohort II, Eldoret, Kisumu, Meru, Thika and Nairobi cohort III and costed KShs 13.8 million. The Enterprise Banking team are actively involved in putting together the training sessions together with the training provider – Strathmore Business School.

The programme has impacted about 500 enterprise banking clients to-date.

Group CSI activities

BuruBuru Branch – the branch staff visited the SOS Village in Nairobi that houses orphaned children and spent a half a day with the girls at the home. They donated reusable sanitary pads worth KShs 100,000.

Head office staff – Stanbic staff spent a morning taking care of the HIV/AIDS orphaned children at New Life Home Trust and donated KShs 250,000 towards their 'Sponsor a Crib' initiatives that provides cribs for newborns.

Operations Department – the Operations team visited Nyumbani Children's home in Karen Nairobi and spent half a day with the kids helping in feeding them and spending quality time with the children. They presented medicine worth KShs 278,000.

Lion Place Branch – the branch staff visited Kanyiha Primary School for a mentoring session that culminated in a donation KShs 157,100 towards the purchase of a water tank for the school for harvesting rain water.

Meru Branch – the Meru branch staff spent an afternoon mentoring girls at Karamugi Girls Secondary School and thereafter donated laboratory equipment worth KShs 100,000.

The Hub Branch – the branch staff visited Nyumbani Children's Home and spent time with the children feeding them and made a cash donation of KShs 175,000.

Sponsorships

Mwamba Rugby Football club

Stanbic Bank renewed its shirt sponsor for Mwamba Rugby Football Club for another year. The club was founded in 1977 with the aim of promoting rugby among indigenous Kenyans. With the popularity of rugby sevens in Kenya and the fact that the club produces majority of the national sevens rugby team, this is a partnership that we hope will entrench the brand amongst ordinary Kenyans.

Kenya National 7 Circuit

We are the title sponsors of the Stanbic Bank's National 7's circuit, a property of the Kenya Rugby Union.

Eldoret Marathon

We were platinum sponsors for Eldoret Marathon. Eldoret is famously known as "Home of Champions".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Risk Management

Introduction

The Group's governance structures are informed by Kenyan, South Sudanese and South African regulatory requirements and the Standard Bank Group Risk framework and architecture, which support the management of risk across the enterprise. The Board of Directors is ultimately responsible for the level of risk taken by the Group. The Group's approach to risk management is based on set governance standards and processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting.

The section below sets out how the Bank (a significant subsidiary of the Group) manages risk.

To support the governance structures and processes Stanbic Bank relies on the following for the identification, assessment, measurement, monitoring, managing and reporting of risks and the effective management of capital:

1. Risk governance standards for the major risk types to ensure a standardised approach across business units for the management of risk across the risk life cycle from identification, monitoring, management and reporting.
2. Governance frameworks that cover multiple risk types (e.g. Technology Risk, Information Risk, Fraud Risk) or an oversight function which is not risk or compliance related (e.g. capital management).
3. Policies and procedures, implemented and independently monitored by the risk management team: to ensure that exposures are within agreed risk appetite parameters.
4. Regular and detailed risk reporting to enable the management and/or identification of emerging risks evident from visible trends.
5. Clear segregation of duties and responsibilities to avoid conflict of interest, ensure independence and objectivity and minimise operational risk.

(a) Enterprise Risk management framework

The Bank's approach to managing risk is set out in the risk governance framework that has two components:

1. Governance committees at a Board and management level.
2. Governance documents such as standards, frameworks and policies.

Roles in risk management

Board of Directors

Stanbic's Board of Directors has the ultimate responsibility for risk management. This mandate includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented. The Board has delegated its risk-related responsibilities primarily to these five committees: The Board Risk Committee (BRC), Board Audit Committee (BAC), Board Credit Committee (BCC), the Risk and Conduct Committee (RCC) and Credit Risk Management Committee (CRMC), with each committee focusing on different aspects of risk management.

Board Risk Committee and Board Credit Committee

The two Board sub-committees responsible for risk are the Board Risk Committee (BRC) and the Board Credit Committee (BCC), which report to the Board of Directors through their committee chairmen. The Bank's Board risk management committees provide independent oversight of risk, compliance and capital management across the Bank:

1. Determining the Bank's risk appetite as set out in the risk appetite framework and risk appetite statement (RAS).
2. Monitoring the current and future risk profile of the Bank to confirm that it is managed within risk appetite.
3. Evaluating the results of stress tests and providing oversight of the adequacy and effectiveness of the Bank's risk governance framework.
4. Approving governance standards, frameworks and policies in terms of the risk governance framework.
5. Reviewing reports on the implementation of the IT governance framework and updates on significant IT investments.
6. Evaluating and approving significant IT outsourcing arrangements.
7. Promoting a risk awareness culture within the Bank.
8. Reporting to the Board any matters within its remit where action or improvement is needed and making recommendations as to the steps to be taken.

The Board Audit Committee (BAC)

The BAC reviews the Bank's financial position and makes recommendations to the Board on all financial matters, financial risks, internal financial controls, fraud and, to the extent they impact financial reporting, IT risks. In relation to risk and capital management, the BAC plays a role in assessing the adequacy and operating effectiveness of the Bank's internal financial controls.

Internal Audit

Internal Audit is mandated by the Board Audit Committee to provide independent and objective assurance and advisory services designed to add value and improve Group operations. The role of the audit function is therefore to assist the Board to:

1. Discharge governance responsibilities.
2. Protect the assets, reputation and sustainability of the organisation; and
3. Establish and maintain robust governance and risk management processes and a sound internal control environment.

Internal Audit remains independent and has fully discharged its mandate and responsibilities. Issues raised in various audit reviews, are reported to both management for remediation and to the Board Audit Committee for oversight. A tracking system is in place to ensure remedial actions for all issues identified during the audit process are tracked to completion and completion can be independently validated.

Disclosure of the actual control breaks, remedial actions and timelines are confidential to the Standard Bank Group and therefore circulation is restricted.

Management committees

Executive management has responsibility for all material risk types that have been delegated by either BRC or BCC to assist the Board subcommittees fulfill their mandates.

The Risk and Conduct Committee (RCC) and Credit Risk Management Committee (CRMC) are management committees responsible for risk management within the Bank.

Risk appetite and stress testing committee: The primary governance committee overseeing risk appetite and stress testing is the Stress testing and Risk appetite committee chaired by Head of Risk and is a subcommittee of the Bank's Executive Committee (ExCo). This committee ensures there is a fit-for-purpose stress testing for both business and regulatory purposes at legal entity and business line levels.

Business lines

Business lines are the owners of the risk and manage the risks on a day to day basis.

Risk governance documents

These documents set out the requirements for identification, assessment, measurement, monitoring, management and reporting of risk; for effective oversight of risk compliance and management of capital. Governance standards and policies are approved by the relevant Board sub-committee.

(b) Risk management approach

The Bank uses the three lines of defence model which promotes transparency, accountability and consistency through the clear identification and segregation of roles.

First line of defence

This is made up of management of business and operational units and has responsibility for measuring, assessing and controlling risks through the day-to-day activities of the business within the governance framework.

Second line of defence

This provides an independent oversight and consists of the finance function, risk management function, legal function, compliance function and governance and assurance functions excluding internal audit. These units implement governance standards, framework and policies for each material risk type to which the Bank is exposed and report to management and Board governance committees. Compliance with the standards and frameworks is ensured through annual self-assessments by the second line of defence and reviews by Internal Audit.

Third line of defence

Internal Audit (IA) is the third line of defence and operates under a mandate from Board Audit Committee. The mandate is to provide independent and objective assurance of first and second lines of defence; IA has authority to independently determine the scope and extent of work to be performed and reports to Board Audit Committee.

(c) Approach to risk appetite and stress testing

Risk appetite and stress testing comprise of the following key components:

i. Risk appetite

Risk appetite is an expression of the amount or type of risk that the Bank is generally willing to take in pursuit of its financial and strategic objectives, reflecting its capacity to sustain losses and continue to meet its obligations as they fall due, under both normal and a range of stress conditions. The metric is referred to as the risk appetite trigger. Risk appetite could be exceeded either as a result of an adverse economic event more severe than that envisaged under the range of stress conditions (passive), or as a result of a decision to increase the risk appetite to accommodate market, client or portfolio requirements.

ii. Risk tolerance

Risk tolerance is the maximum amount or type of risk the Bank is prepared to tolerate above risk appetite for short periods of time on the understanding that management action is taken to get back within risk appetite. The metric is referred to as the risk tolerance limit.

iii. Risk capacity

Risk capacity is the maximum amount of risk the Bank is able to support within its available financial resources.

Risk profile

Risk profile is the amount or type of risk the Bank is currently exposed to (current risk profile) or will be exposed to under both expected and stressed economic conditions (forward risk profile).

Risk appetite setting and management framework

Stanbic's risk appetite governance framework provides guidance on the following:

a. The approach to setting risk appetite triggers and risk tolerance limits

b. Responsibilities for monitoring risk profile

c. The escalation and resolution process where breaches occur

Executive management is responsible for recommending the Risk Appetite Statement (RAS), which is ultimately approved by the Board.

Process

The Bank's risk appetite governance framework provides guidance on the following:

a. The approach to setting risk appetite triggers and risk tolerance limits

b. Responsibilities for monitoring risk profile

c. The escalation and resolution process where breaches occur

Risk Appetite Statement (RAS) and dimensions

The Qualitative Risk Appetite Statement serves as a guide for embedding the risk appetite policy across the entity and to support strategic and operational decision-making. Our business model is based on trust and integrity as perceived by our stakeholders, specifically our clients.

The qualitative dimension consists of a series of tolerance statements that are not standardised but indicate the intention of the business in achieving its objective. The following are the considerations covered in this year's policy:

Risk Management (continued)

- **Capital position:** We aim to have a strong capital adequacy position measured by regulatory and economic capital adequacy ratios. Capital levels are managed to support business growth, maintain depositor and creditor confidence, create value for shareholders and ensure regulatory compliance.
- **Liquidity and funding management**: Our approach to liquidity risk management is governed by prudence and is in accordance with the applicable laws, regulations and takes into account the competitive environment in which each the Bank operates. Stanbic Bank Kenya Limited manages liquidity risk on a self-sufficient basis.
- **Earnings volatility:** We aim to have sustainable and well diversified earning streams in order to minimise earnings volatility through business cycles.
- **Reputation:** We have no appetite for compromising our legitimacy or for knowingly engaging in any business, activity or relationship which, in the absence of taking mitigating actions, could result in foreseeable reputational risk or damage to Stanbic Bank Kenya and Standard Bank Group.
- **Conduct:** We have no appetite for wilful conduct failures, inappropriate market conduct or knowingly causing a breach of regulatory requirements. We strive to meet clients' expectations for efficient and fair engagements by doing the right business the right way, thereby upholding the trust of our clients.

Stress testing

Stanbic Bank carries out regular stress tests to facilitate a forward-looking view in the management of risk and business performance, this process involves identification of possible events and scenarios or changes in economic conditions that could have an adverse impact on the Bank's risk profile. Executive management considers the outcomes of stress testing on earnings and capital adequacy in determining an appropriate risk appetite, to ensure that these remain above the Group's minimum capital requirements. Management reviews the outcomes of stress tests and, where necessary, determines appropriate mitigating actions to minimise and manage the risks induced by potential stresses. Examples of potential mitigating actions include reviewing and tightening risk limits, limiting exposures as well as hedging exposure to some risk.

Classification of risk

Credit risk

Risk description

Credit risk is the risk of loss arising from failure by counterparties to meet their financial or contractual obligations when due. The Bank's credit risk arises mainly from corporate and retail loans and advances as well as counterparty credit risk inherent in derivatives and securities financing contracts entered into with our clients and market counterparties.

Classifications of credit risk

- Counterparty risk: The risk of credit loss to the Bank as a result of failure by a counterparty to meet its financial and/or contractual obligations to the Bank as and when they fall due. Counterparty risk includes primary, pre-settlement, issuer and settlement risk; and
- Concentration risk: The risk of loss to the Bank resulting from the adverse effect of changes in market conditions on built-up exposures to a specific counterparty or counterparty-group, an industry, market, product, financial instrument, type of security, geography or maturity/tenor.

Focus areas in 2019

Stanbic Bank is focused on optimisation of IFRS-9, management of credit risk that arise from changing regulations (for example interest rate controls, new collateral and recovery guidelines) and recovery of distressed assets.

Operational risk

Risk description

Operational Risk is the risk of loss arising from the inadequacy of, or failure in, internal processes, people and/or systems or from external events. This includes but is not limited to Information Technology and Information Technology Change risk, Legal risk, Financial crime risk, Compliance risk, Tax risk and Environmental risk. In addition, Physical Assets Risk, Human Capital Risk, Accounting and Financial Risk also form the extended operational risk taxonomy. This definition excludes business risk, strategic risk and reputational risk; the reputational effects of operational risk events are however considered for management information.

Categories of Operational Risk:

- Process risk; the risk of loss suffered as a result of failed or inadequate processes. This includes the design and operation of the control framework.
- People risk; the risk of loss arising from issues related to the personnel within the Bank.
- Systems risk; the risk of loss suffered as a result of failed or inadequate systems, security breaches, inadequate systems investment, development, implementation, support and capacity.
- External event risk; the risk of loss suffered as a result of external events. This is generally limited to events that impact the operating capability of the Group (i.e. it does not include events that impact the areas of market risk, credit risk, or country risk etc.). It also includes risks arising from suppliers, outsourcing and external system failures.

Risk tolerance

The Bank has adopted fit-for-purpose operational risk practices that assist business line management in understanding their inherent risks and reducing their risk profile in line with the Bank's risk tolerance while maximising operational performance and efficiency. Management uses the output of risk identification and assessment as an input into the decision-making process. Management action on operational risk will normally include one or more of the following treatments:

- Risk avoidance: The risk is avoided by deciding not to start or continue with the activity giving rise to the risk.
- Risk mitigation: Risk is lowered by increasing controls.
- Risk transfer: Another party agrees to carry or share part of the risk (for example Insurance). In addition, the Bank continues to maintain a comprehensive insurance programme to cover losses from fraud, theft, professional liability claims and damage to physical assets.
- Risk acceptance: Accepting those risks that cannot be avoided.

Stanbic is willing to tolerate operational risk inherent in executing its business strategy provided that these risks are managed. The Bank's overall appetite for operational risk is set at an overall level by the Board of directors. Senior management ensures that this appetite is translated into sufficiently meaningful and detailed expressions. The Bank monitors a number of operational risk metrics which are measured and reported to the appropriate governance committees. These include operational losses (as an amount and as a percentage of gross income), the profile of internal controls based on audit performance, and the effectiveness of the closure of actions required to mitigate residual risk arising out of risk and control self-assessments (RCSAs).

Specialist Operational Risk Types

Given the broad and diverse nature of operational risk, the Bank recognises specialist operational risks that call for enhanced and direct oversight. In this regard the Bank recognises outsourcing risk, business resilience, financial crime risk and information technology and security (including cyber risk) as operational risk types calling for special attention. For these specialised areas, the Bank has developed specific governance standards (or equivalent documents) that specify an extra set of minimum standards aimed at that specific risk type.

Outsourcing Risk

Whereas the Bank recognises that outsourcing arrangements are an accepted practice, the Bank acknowledges that the consequence of an outsourced arrangement is that whilst the associated activities may be outsourced, the management of the risks related to these activities remains the accountability of the Bank. In addition to the original risks associated with the activities, the Bank also addresses the risks posed by the contractual relationship with the third party service provider.

Given this background, the Bank has in place a framework and policy on managing outsourcing risk which serve to ensure that there is alignment of the outsourcing arrangements with the Bank's business objectives, potential risks addressed, costs and benefits evaluated, responsibilities clearly understood, and regulatory requirements complied with.

The Bank also uses the new and amended business, products or services process in order to address the identification and assessment of risks associated with new and/or amended products, services and outsourcing arrangements.

Business continuity management (BCM)

The ability of the Bank to ensure the resilience and continuity of its critical business functions despite serious disruptive incidents or disasters and to ensure the recovery of such critical functions to an operational state within acceptable timeframes is key to its financial success.

Business Resilience is a specialist operational risk discipline enabled by three capabilities, which are integrated in a single framework to provide an agile, cohesive and coordinated suite of point-in-time response and recovery interventions to counter the financial and reputational impacts of worst case operational disruptions. The three Business Resilience capabilities are:

- **Emergency Management** - concerned with effective response to incidents impacting life safety of employees, contractors, clients and visitors. Typically such incidents often have facilities or security implications;
- **Crisis Management** – concerned with effective crisis leadership and communications to stakeholders to manage the financial and reputational impacts ensuing from an operational disruption;
- **Business Continuity** which includes IT service continuity – concerned with the recovery and continuation of business services, functions and processes in the aftermath of a disruption.

The Bank has implemented business resilience and continuity plans to ensure its ability to operate on an on-going basis and limit losses in the event of severe business disruptions and has in place a holistic management process that identifies potential impacts that threaten an organisation, provides a framework for building resilience and the effective response that safeguards the interests of its key stakeholders, reputation, brand and value creating activities.

The Bank continues to regularly perform business continuity capability tests and conducts crisis simulations to ensure business continuity strategies and plans remain relevant.

Information and Technology Risk & Cyber Risk

Information Risk is defined as the risk of accidental or intentional unauthorised use, access, modification, disclosure or destruction of information resources, which would compromise the Confidentiality, Integrity and Availability of information assets. Management of Information Risk involves definition, design and implementation of processes and methodologies to protect print, electronic, or any other form of confidential and sensitive information or data belonging to the Bank or our clients.

In this regard, the Bank has adopted a formal Information Risk Governance Standard (IRGS) which outlines high level policy objectives and commitment to implement good Information Risk Management and Information Security practices.

The Bank has also formally adopted and rolled out specific Information Security policies and technical standards to ensure a robust control environment. The policies and standards further ensure adequate and consistent governance for the identification, assessment, monitoring, managing and reporting of the continually evolving risk landscape covering technology, cyber, business continuity and data privacy risks.

Cyber risk has become a real risk within the financial industry with more sophisticated attacks being meted on Banks by exploiting vulnerabilities within the Banks network and core Banking systems to facilitate fraud or disrupt business operations. The Bank is proactively managing this risk through a Cyber Resilience framework – a multi-layered strategy that encompasses people, process and technology to allow the Bank to prepare, protect, detect, respond and recover from any cyber security incident in a prioritised and cost-effective way.

Operational Risk Management

The rapid advancement of Information Technology and digitisation has brought about drastic changes in the way Banks operate and serve the clients. With Information Technology growing in scope and complexity, there come additional risks that the Bank must continuously monitor, understand and respond to.

As part of the broader initiatives, the Bank's risk management approach as relates to Information and Technology risk includes:

- An effective and robust Governance Framework
- End-to-End scope/view of Bank network and assets
- Thorough risk assessment, threat modelling and scenario analysis
- Proactive Cyber and Technology Incidents Response Planning
- Dedicated Information Security and Cyber Security Resources

Financial crime and control

Risk description

Financial Crime Risk is the risk of economic loss, reputational risk and regulatory sanction arising from an act or attempt to steal from or defraud the Group or its stakeholder and/or to manipulate or circumvent the established rules of the Group or legislative requirements applicable to the Group.

Risk Management (continued)

FCC Management

The Bank's Financial Crime Control (FCC) unit is mandated by the BAC to support the Bank by providing financial crime control capability & thought leadership across the Bank, enabling the mitigation of financial crime risk, enabling the Bank to maintain the impact of financial crime within acceptable risk parameters, whilst adhering to financial, compliance and regulatory requirements, to foster the confidence and trust of our clients and stakeholders and to keep our Bank and our clients money and assets safe.

The Bank maintains a zero-tolerance approach towards fraud and dishonesty. The Financial Crime Control team, with the other functions within operational risk maintains close working ties with other risk functions, specifically compliance, legal risk and credit risk, as well as other functions such as information technology, human capital and finance.

Market risk

Risk description

Market risk is the risk of loss from changes in market prices and rates (including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations among them, and their levels of volatility.

Risk examples include change in market value, actual or effective earnings or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

Mitigation of market risk exposures as a result of trading activities are contained within the Bank's Corporate and Investment Banking (CIB) trading operations. The Board grants general authority to take on market risk exposure to the Bank's Assets and Liabilities Committee (ALCO). Market risk management process is required to measure, monitor and control market risk exposures.

Reporting on market risk

Market Risk has reporting procedures that highlight for attention within Market Risk or by management all forms of exposures i.e. limit breaches or other reports that will periodically be required to submit to different stakeholders e.g. Local ALCO, Local Board, Internal Capital Adequacy Assessment stakeholders, Shareholders (Annual financial statements); Rating agencies; Central Bank of Kenya and other regulators.

Liquidity risk

Overview and definition

Liquidity risk is defined as the risk that the Bank, although balance-sheet solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so on materially disadvantageous terms.

At an operating level, a distinction is made between funding liquidity risk and market liquidity risk:

- Funding liquidity risk is the risk that the Bank will not be able to effectively meet both expected and unexpected current and future cash flow and collateral requirements without negatively affecting the daily operations or financial condition of the Bank. The risk that the counterparties who provide the Bank with short-term funding, will withdraw or not roll-over that funding. It aims at a well-diversified, reliable, cost efficient funding structure supporting the Bank's business mix and strategy.
- Market risk liquidity is the risk that the Bank cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption, and incurring losses as a result. The risk of a generalised disruption in asset markets that make normally-liquid assets illiquid and the potential loss through the forced-sale of assets resulting in proceeds being below their fair market value.

Liquidity risk is difficult to predict and can rapidly escalate. A liquidity crisis could have negative effects, the most severe being the failure of a Bank. These could include sharp falls in profits, asset sales at forced-sale prices that disrupt financial markets and sudden changes in the volume and terms of Bank loans, which might reduce activity in the wider economy. The Bank's liquidity policies provide for very conservative liquidity management parameters to ensure that the Bank has adequate liquidity for normal and stress situations.

Governance

It is the responsibility of the Board and EXCO to maintain adequate levels of liquidity in accordance with regulatory requirements, international best practice and internally set risk appetite. The ALCO is responsible for ensuring compliance with liquidity risk policies.

As part of a comprehensive liquidity management process, the Bank distinguishes between tactical, strategic and contingent liquidity risk. These three risk management categories are governed by a comprehensive internal governance framework to identify measure and manage exposure to liquidity risk. Combining each of these risk management categories allows for effective liquidity risk monitoring.

These principles are aligned with international best practice and are designed to support the business strategies by ensuring liquidity at all times, across market cycles, and through periods of financial stress. These principles are monitored on a daily basis; a liquidity dashboard has also been developed and is monitored on an ongoing basis to identify early warning signs of a liquidity crisis.

Management, monitoring, and risk appetite

As part of a comprehensive liquidity management process, the Group distinguishes between tactical, structural and contingent liquidity risk. A comprehensive internal governance framework to identify, measure and manage exposure to liquidity risk governs these three risk management categories. These risk management categories allow for effective liquidity risk monitoring.

These principles are aligned with international best practice standards and are designed to support the business strategies by ensuring liquidity at all times, across market cycles, and through periods of financial stress. These principles are monitored on a daily basis; a liquidity dashboard has also been developed and is monitored on an ongoing basis to identify early warning signs of a liquidity crisis. The detailed principles are contained in the Liquidity Risk Standard and related policies.

Risk management categories

Tactical (shorter-term) liquidity risk management	Structural (long-term) liquidity risk management	Contingency liquidity risk management
• Manage intra-day liquidity positions • Monitor interbank and repo shortage levels • Monitor daily cash flow requirements • Manage short-term cash flows • Manage daily foreign currency liquidity • Set deposit rates in accordance with structural and contingent liquidity requirements as informed by ALCO	• Ensure a structurally sound balance sheet • Identify and manage structural liquidity mismatches • Determine and apply behavioral profiling • Manage long-term cash flows • Preserve a diversified funding base • Inform term funding requirements • Assess foreign currency liquidity exposures • Establish liquidity risk appetite • Ensure appropriate transfer pricing of liquidity costs • NSFR readiness by January 2018	• Monitor and manage early warning liquidity indicators • Establish and maintain contingency funding plans • Undertake regular liquidity stress testing and scenario analysis • Convene liquidity crisis management committees, if needed • Set liquidity buffer levels in accordance with anticipated stress events • Advise on the diversification of liquidity buffer portfolios • Ensure compliance with internal stress metrics

Strategic Liquidity Management

Internal Net Stable Funding Ratio (NSFR)

In order to maintain structural resilience over longer-term time horizons, the Bank calculates, tracks and reports an internal Net Stable Funding Ratio (NSFR). The ratio is obtained by dividing the available amount of stable funding by the required amount of stable funding.

Available stable funding (ASF) is defined as total liabilities and equity contractually and behaviourally profiled in the >6 months' time band obtained from the structural liquidity mismatch, including off balance sheet items

Required stable funding (RSF) is defined as assets (including off-balance sheet positions) contractually and behaviourally profiled in the >6 months' time band obtained from the structural liquidity mismatch.

Tolerance limit: The Bank must have sufficient ASF to meet the minimum RSF. Therefore, expressed as a ratio, the term liquidity risk tolerance limit is set as ASF / RSF = 100%.

Appetite trigger: The Bank must have at least 2.5% surplus capacity of ASF to meet the minimum RSF. Therefore, expressed as a ratio, the term liquidity risk appetite trigger is set as AFS / RSF = 102.5%.

Structural maturity mismatch risk appetite triggers

The mismatch approach measures a Bank's liquidity by assessing the mismatch between its inflow and outflow of funds within different time bands on a maturity ladder. The structural liquidity mismatch is based on behaviourally-adjusted cash flows which factors a probability of maturity into the various time bands. Detailed assumptions and reasoning applied in compiling the structural liquidity mismatch are provided in the profiling methods for liquidity risk document.

Contingent Liquidity Management

Contingency plans are designed to protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. Contingency plans include early warning indicators based on the Early Warning Indicator Framework (EWIS). These indicators incorporate qualitative and quantitative measures, both Bank specific and market related, that could lead to a severe financial stress which stems from risks such as:

- Capital or liquidity stress and poor financial performance
- IT, operational and market conduct incidents
- Breach of regulatory requirements
- Country financial stability, poor market confidence and weak economic environment

Early warning indicators and triggers

In 2017 the Bank adopted the Early Warning Indicator System (EWIS), an extension of the internally developed Liquidity Early Warning Indicator System (LEWIS). This system enables the monitoring of the evolution/ trends of several indicators that tend to exhibit unusual behaviour in periods preceding a severe financial stress event. When an indicator exceeds a certain threshold, this is interpreted as a warning "signal" that a severe financial stress event may occur within a certain timeframe.

The aim of monitoring early warning indicators is to enable adequate actions to be taken preceding a severe financial stress to restore business as usual (BAU) as soon as possible and allowing the Bank to steer away from severe stress at an early stage. These actions range from BAU risk management mitigating actions, central financial resource management actions, pro-active business model/subsidiary support reviews and active management of threat to the Bank reputation. The early warning indicators have been calibrated to ensure that responses are appropriate to the level of stress, thus avoiding unnecessary overreaction or negative publicity that could aggravate the problem. On-going reporting, as well as communication to key stakeholders such as regulators and board members is also included.

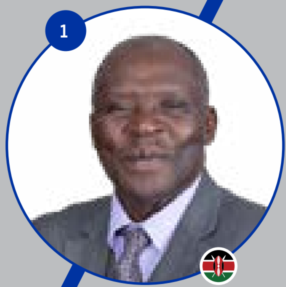
The EWIS Framework its related trigger and escalation process form part of the Banks, contingent funding plan.

Mitigating actions

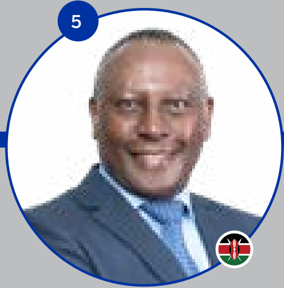
Potential management actions in advance to adverse stresses are characterised as short-term, or medium or longer term in nature. Short term actions considered by the Bank's management are summarised in the contingency plan and include:

- aggressive deposit marketing and pricing;
- realisable by forced sale – surplus liquid assets;
- utilisation of available interBank funding;
- secured funding (committed facilities); and
- recalling/maturing call loans and deposits

Board of Directors







1. MR FRED N. OJIAMBO, MBS, SC, 69
Chairman
Appointed 2010

2. MR GREG BRACKENRIDGE, 61
Chief Executive
Appointed 2010

3. KITILI MBATHI, 60
Non-Executive Director
Appointed 2008

4. CHRISTOPHER J. BLANDFORD –NEWSON, 54
Non-Executive Director
Appointed 2014

5. EDWARD W. NJOROGE, CBS, 66
Non-Executive Director
Appointed 2010

NATIONALITIES

8

1

1

AGE

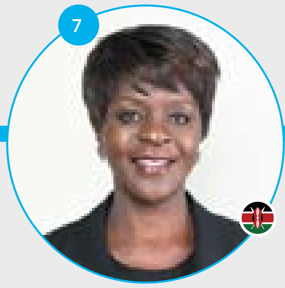
1 Between 40 – 50 years

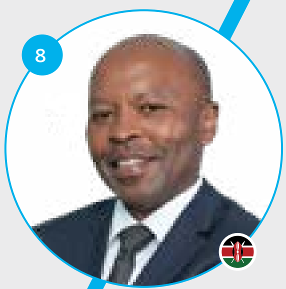
3 Between 50 – 60 years

6 Older than 60 years

GENDER

4 / 6 /





6. ROSE W. KIMOTHO, 63
Non-Executive Director
Appointed 2008

7. RUTH T. NGOBI, 58
Non-Executive Director
Appointed 2011

8. PETER NDERITU GETHI, 53
Non-Executive Director
Appointed 2013

9. ROSE BOSIBORI OSORO, 47
Non-Executive Director
Appointed 2017

10. DORCAS FLORENCE KOMBO, 65
Non-Executive Director
Appointed 2018

LILLIAN MBINDYO
Company Secretary

TENURE OF NON-EXECUTIVE DIRECTORS

<3 years	3 – 6 years	6 – 9 years	>9 years
2	2	4	2

For more information on the Directors profiles, refer to pages 66-67.

Directors profiles

Mr Fred N. Ojiambo, MBS, SC, 69
Chairman
Appointed 2010

Mr Fred N Ojiambo was appointed as a Non-Executive Director of Stanbic Holdings Plc on 9 April 2010 and as Chairman of the Board on 28 May 2010. Mr Ojiambo is also the Chairman of the Board of Stanbic Bank Kenya Limited. Mr Ojiambo is a lawyer and holds a Bachelor of Laws, (LLB) (Hons) Degree from the University of Nairobi, as well as a post-graduate diploma in Advocacy (Council of Legal Education), from the Kenya School of Law. He has had a long career in private practice and his experience was recognised with an award of Senior Counsel in 2007. Mr. Ojiambo sits on various boards of companies and corporations, including Bata Shoe Company Limited, The International Leadership University, Windle International – Kenya (formerly Windle Trust Kenya), Windle International and Rafiki Orthopaedic Limited, among others. He is also a member and former Chairman of the Law Society of Kenya, a member of the International Bar Association and the Commonwealth Law Association, and is a Senior Partner in the legal firm of Messrs. Kaplan & Stratton Advocates.

Mr Greg Brackenridge, 61
Chief Executive
Appointed 2010

Mr Greg Brackenridge was appointed as a Non-Executive Director of the Company on 9 April 2010 and thereafter as the Chief Executive on 28 July, 2016. Mr Brackenridge previously served as the Chief Executive of Stanbic Bank Kenya Limited (the Bank) from 29 March 2010 until 2 March 2015. He has remained on the Board of the Bank as a Non-Executive Director.

In addition, Mr Brackenridge is the Regional Chief Executive, East Africa, for the Standard Bank Group, responsible for operations in Kenya, Ethiopia, South Sudan, Tanzania and Uganda. He has extensive banking experience having first joined the group in 1992 since which date then he has held various senior executive positions in West Africa, South Africa and Zimbabwe. Mr Brackenridge is an Associate of the Institute of Bankers.

Kitili Mbathi, 60
Non-Executive Director
Appointed 2008

Mr Kitili Mbathi has served as a Director of Stanbic Holdings Plc since 2008 and was Chief Executive of the Company until 29 January, 2016. He was the Regional Chief Executive of Stanbic Bank Kenya Limited until May, 2015, at which time he took up the role of Regional Director, East Africa, until January, 2016, when he resigned as an employee of Standard Bank Group. Mr Mbathi is also a Non-Executive Director of Stanbic Bank Kenya Ltd, SBG Securities Ltd and Stanbic Insurance Agency Ltd. In addition, he is a member of the University of Nairobi Council. Mr Mbathi has also served as Director- General of the Kenya Wildlife Service. He holds a Bachelor of Arts Degree (Economics and Political Science) from the University of Michigan, Ann Arbor, Michigan, USA, and a Masters of Banking and Finance for Development from Instituto Finafrica in Milan, Italy. He has vast experience in banking which was acquired when serving in various banking institutions. He has also served as Investment Secretary in the Ministry of Finance & Planning – Government of Kenya.

Christopher J. Blandford –Newson, 54
Non-Executive Director
Appointed 2014

Mr Christopher Newson was appointed to the Board of Stanbic Holdings Plc on 26 June 2014 as a Non-Executive Director. He is also a Director on the Board of Stanbic Bank Kenya Ltd. Mr Newson is a Chartered Accountant and was the Chief Executive of Standard Bank Africa until September, 2015. He has over 23 years of experience in Investment and Commercial Banking, and has particular expertise gained in relation to Sub-Saharan Africa, with the last nine years being at the chief executive level. Mr Newson also joined Investec Asset Management as their Director Private Markets in 2016.

Edward W. Njoroge, CBS, 66
Non-Executive Director
Appointed 2010

Mr Edward W Njoroge was appointed as a Non-Executive Director of Stanbic Holdings Ltd on 9 April, 2010. He graduated with a Bachelor of Science Degree from Makerere University and a Masters in Business Administration (Leadership and Sustainability) from Cumbria University. He was appointed on 26 March 2003 as Director (Executive) and the Managing Director of Kenya Electricity Generating Company Limited (now retired). He started his career with Twiga Chemical Industries in 1975. He then held a senior position with Akile Associates Limited before moving to Affiliated Business Contacts (ABCON) Group in 1977. His other directorships include Stanbic Bank Kenya Ltd, Britam General Insurance Company Limited, Aquatech Industries Limited, Nerifa Holdings Limited, and ABCON. He is also the Chairman of Telkom Kenya and Aureos East Africa Fund, and was the former Chairman of the Nairobi Securities Exchange Ltd. (now Plc.)

Rose W. Kimotho, 63
Non-Executive Director
Appointed 2008

Ms Rose W Kimotho was appointed as a Non-Executive Director of Stanbic Holdings Plc on 31 May, 2008. Ms Kimotho is the Managing Director of Three Stones Limited, a Company that operates a digital television channel. Prior to launching Three Stones, Ms Kimotho was founder and Managing Director of Regional Reach Limited, which company launched the first local language FM station in Kenya as well as Kenya's first 24-hour news and information television channel. Until she ventured into entrepreneurship in 1994, Rose was General Manager and member of the Board of Directors of McCann-Erickson (K) Ltd. She is the former chairman of The Marketing Society of Kenya and The Media Owners Association as well as the former Chief Trade Judge at the Nairobi International Show. In addition to being a Non-Executive Director of Stanbic Holdings Plc, she serves on the boards Stanbic Bank Kenya Limited, Population Services International (PSI) Kenya, a Trustee of Rhino Ark and a member of the Task Force on Press Law appointed by the Attorney General to make recommendations on laws governing the media. She also joined the Board of Cytonn Investments Management Ltd in 2016. Ms Kimotho holds a diploma in journalism from University of Nairobi, a Management Diploma from Columbia University Graduate School and a Marketing Certificate from the Marketing Society of Kenya.

Ruth T Ngobi, 58
Non-Executive Director
Appointed 2011

Ms Ruth T Ngobi has been a Non-Executive Director of the Board of Stanbic Holdings Plc since 1 February, 2011. She is a lawyer of over twenty-nine years standing, having been admitted as an advocate of the High Court of Kenya in 1985. She holds a Bachelor of Laws Degree from University of Kent in Canterbury and a Master of Laws Degree from University of Cambridge, both in the United Kingdom. Ms Ngobi worked with Unilever Kenya Limited for 15 years as Legal Counsel and Company Secretary, before joining British American Tobacco Kenya Limited in 2002 as Area Legal Counsel. She is the founder of Cosec Solutions Limited, a company that provides company secretarial services and corporate governance solutions. Ms Ngobi is also a Non-Executive Director on the Board of Stanbic Bank Kenya Limited.

Peter Nderitu Gethi, 53
Non-Executive Director
Appointed 2013

Mr Peter Gethi was appointed to the Board of Stanbic Holdings Plc on 18 January, 2013 as a Non-Executive Director. He is a qualified Consultant Agronomist and brings to the Board a wealth of agribusiness and management experience, expected to help the bank subsidiary of the Company achieve its strategic goals. He holds a Bachelor of Science degree in Agricultural Economics from the University of London. Mr Gethi is a Board member of Liberty Life Assurance Limited and Heritage Insurance (K) Limited since 2009 and is currently serving as the Chairman of both companies since 2011. He is also a Non-Executive Director on the Boards of Stanbic Bank Kenya Limited and SBG Securities Limited. Mr Gethi holds several other directorships including on the Board of Nebange Ltd.

Rose Bosibori Osoro, 47
Non-Executive Director
Appointed 2017

CPA Rose Bosibori Osoro was appointed to the Board of Stanbic Holdings Plc as a Non-Executive Director on 25 September,2017. CPA Osoro is a Certified Public Accountant and holds a Masters of Business Administration from the University of Nairobi. She has a long career in public service and has worked as a Commissioner with the Commission in Revenue Allocation. CPA Osoro has served in various boards in public sector and academia, including as the Vice Chairperson for the Kenyan Institute of Management Council. She is a member of the Institute of Certified Public Accountants of Kenya, Association of Women Accountants of Kenya and Kenya Institute of Management. She also serves as a Non-Executive Director of Stanbic Bank Kenya Limited.

Dorcas Florence Kombo, 65
Non-Executive Director
Appointed 2018

CPA Dorcas F. Kombo was appointed as a Non-Executive Director of Stanbic Holdings Plc on 12 January,2018. CPA Kombo is currently a Management Consultant and has extensive experience in restructuring both public and private organisations across Africa. She is a Fellow, Association of Chartered Certified Accountants, an Associate for the Institute of Certified Public Accountants of Kenya and a Member of the Institute of Certified Public Secretaries of Kenya. She currently serves on the boards of Stanbic Bank Kenya Limited and Telkom Kenya Limited as a Non-Executive Director and previously served in a similar capacity on the Board of Kenya Electricity Generating Company Limited (KENGEN). CPA Kombo was one of the first African Women to qualify as a Chartered Accountant in Kenya and has since had an illustrious professional career in both audit and management consultancy.

Corporate governance overview

CREATING AND PROTECTING VALUE

Our governance philosophy

Our approach to corporate governance promotes strategic decision-making that balances short, medium and long term outcomes to reconcile the interests of the Group, stakeholders and society in creating sustainable value.

Our corporate governance framework enables the Board to oversee strategic direction, financial and non-financial goals, resource allocation and risk appetite, and to hold executive management accountable for strategy execution. The Board also ensures that executive management sets the tone for good governance, based on the Group's values, and that it is integrated in the way the Group operates at all levels.

Our approach to governance extends beyond compliance. The Board believes that good governance creates shared value by underpinning responsive thinking and protects it by ensuring responsible behaviour – deepening competitive advantage through enhanced accountability, effective leadership, robust risk management, clear performance management and greater transparency.

We create value by ensuring our governance underpins responsive thinking

CLIENT FOCUS	+ EMPLOYEE ENGAGEMENT	+ RISK AND CONDUCT	= FINANCIAL OUTCOME	SEE IMPACT
Our Board has the relevant and diverse experience and expertise to support the Group's strategy through effective strategic counsel for market relevance, innovation and digitisation.	Our experienced executive leadership, with the appropriate depth and skills, is empowered to appropriately lead our people in achieving our strategy.	Trust is the basis on which we compete. Our strong relationships with stakeholders and our transparency enhances our credibility, ensuring our competitiveness and strengthening relationships aligned to our strategy. This enables the Board to identify and respond to opportunities and risks effectively.	We ensure the effective allocation of our resources and align our relationships to achieve our strategy and our related performance aspirations.	We invest in sustainable markets, creating and identifying commercial opportunities in supporting social responsibility.

Achieving our governance outcomes

In line with this ambition, the King Report on Corporate Governance (King Code IV); the Prudential Guidelines and Non-Operating Holding Company Guidelines as prescribed by the Central Bank of Kenya; the Companies Act 2015; the Corporate Governance Code for Issuers of Securities to the Public; and the Capital Markets Listing Regulations, have formed the cornerstone of our approach to governance. We support the overarching goals of these guidelines being the creation of:

- ETHICAL CULTURE
- GOOD PERFORMANCE
- EFFECTIVE CONTROL
- LEGITIMACY

Stanbic Holdings Holdings Plc: An Overview

Stanbic Holdings Plc (the Company) is a non-operating holding company which is listed on the Nairobi Securities Exchange. The Company and its subsidiaries (together referred as "the Group") are committed to complying with legislation, regulations and codes of best practice as pertain to them, while seeking to maintain the highest standards of governance, including transparency and accountability. Whilst the Group continues to nurture a strong culture of governance and responsible risk management in line with the Group's risk appetite and governance framework, the Group is constantly monitoring its practices to ensure that they are the best fit for the Group and serve to enhance business and community objectives.

The Company understands that good corporate governance is fundamental to earning the trust of our stakeholders, itself critical to sustaining the Group's success while preserving shareholder value. In line with this philosophy, the Board is committed towards adopting and implementing sound governance practices.

The Group's governance framework enables the Board to fulfil its role of providing oversight and strategic counsel, while ensuring conformity with regulatory requirements and acceptable risk tolerance parameters.

Codes and Regulations

The Group complies with all applicable legislation, regulations, standards and codes, with the Board continually monitoring regulatory compliance.

Shareholders' Responsibilities

The shareholders' role is to appoint the Company's Board of Directors and the external auditor. This role is extended to holding the Board accountable and responsible for efficient and effective corporate governance.

Board of Directors

Maintaining effective control

The Board has overall responsibility for governance across the Group and retains effective control through the board-approved governance framework which enables delegation of authority with clearly defined mandates and authorities while retaining its accountability.

Separation of roles and responsibilities

The role of chairman is separate from that of the Group Chief Executive. There is a clear division of responsibilities ensuring that no single director has unfettered powers in the decision-making process. Executive Directors and the Group's prescribed officers attend board meetings, increasing the contact between the Board and management.

OUR LEADERSHIP

Board of Directors

Our Directors have deep experience and diverse skills, which collectively ensure that the Board operates effectively to protect and create value in the design and delivery of the Group's strategy and in the execution of its duties. Non-executive directors bring diverse perspectives to Board deliberation and constructively challenge management. The Board comprises of ten Directors – nine Non-Executive Directors and one Executive Director.

Board Composition and Evaluation

There are currently ten directors on the Board, consisting of nine Non-Executive Directors and one position of Executive Director.

The Company's Board of Directors remains steadfast in implementing governance practices where substance prevails over form. This provides direction for subsidiary entities, which structure their respective governance frameworks according to Group standards.

The governance framework allows the Board of Directors to consider conformance and performance, enabling them to balance their responsibility for oversight with their role as strategic counsel.

The Board understands that sound governance practices are fundamental to earning the trust of stakeholders, which is critical to sustaining performance and preserving shareholder value. The Board members' collective experience and expertise provide a balanced mix of attributes for it to fulfil its duties and responsibilities.

All the entities in the Group have boards of directors. The directors of these boards monitor the affairs of the entities. Board committees have been established, where necessary, to assist the various boards in fulfilling stated objectives. All the committees have their terms, roles and responsibilities set out in their individual agreed and approved mandates, which are reviewed annually to ensure they remain relevant.

Skills and experience

No	Competencies	Chairman	Greg Brackenridge	Edward Njoroge	Ruth Ngobi	Rose Kimotho	Peter Gethi	Chris Newson	Kitili Mbathi	Rose Osoro	Dorcas Kombo
1	Financial Services/Insurance/Asset Management		●				○	●	●		
2	Customer/Marketing		●	●		●		●	●		
3	Sub-Saharan Africa Experience	●	●	●	●	●	●	●	●	●	●
4	People/Organisational Development	●	●	●	●	●	●	●	●	●	●
5	Capital/Risk Management		●	●				●	●		
6	Accounting/Auditing		○					●	●	●	●
7	IT/IT Governance		○					○	○		
8	Governance Leadership	●	●	●	●	●	●	●	●	●	●
9	Large Corporate/Industrial		●	●			●	●	●	●	●
10	Regulation/Public Policy		●	○				●	●	●	○
11	Legal	●	○		●			○	○		
12	Remuneration	●	●	●	●	●	●	●	●		●
13	Global Capital Markets		●	○				●	○		
14	Directors Age	69	61	66	58	63	53	54	60	47	65
15	Directors Tenure	9	9	9	8	11	6	5	11	1	1

● Primary Skill
○ Secondary Skill

Strategy

The boards of the Company's subsidiaries consider, review and approve the strategies for their individual entities at annual meetings with Executive Management. The boards ensure that strategy is aligned with the Group's values and monitors strategy implementation and performance targets in relation to the Group's risk profile. The boards are collectively responsible for the long-term success of the Group and are accountable to shareholders for financial and operational performance.

Directors' Appointment

The Company's Directors are nominated by the Nominations Committee, which is chaired by the Chairman of the Board. Apart from a candidate's experience, skills, availability and fit, the Committee also considers other directorships and commitments of the individual to ensure that they will have sufficient capacity to discharge their roles properly. Candidates must also satisfactorily meet the fit and proper test criteria, as required by the Central Bank of Kenya (CBK) Prudential Guidelines and by the South Africa Reserve Bank (SARB) regulations. The Committee also considers appropriate demographic, age and gender diversity in its assessment.

Suitable candidate profiles are submitted to the Board for consideration and appointment in accordance with the Company's Articles of Association. A director appointed by the Board holds office until the next Annual General Meeting (AGM) at which time the director will retire and will be eligible for election as a director by the shareholders. The appointments comply with the requirements of the Companies Act, the CBK Non-operating Holding Company Guidelines, the Capital Markets Act of the Republic of Kenya and the SARB regulations.

Induction and Ongoing Education

Induction of new directors and ongoing education of directors is the responsibility of the Company Secretary. The Group's Code of Ethics and an induction programme is provided to new directors on their appointment.

To ensure maximum participation in ongoing director training, themes for training are scheduled in advance and form part of the Board annual calendar approved during the fourth quarter of the prior year. In 2018, the Board had four trainings namely:

1. Board Effectiveness Training
2. Market Risk Training
3. Remuneration Training
4. Data Management Training

Directors are advised of new laws and regulations and changing risks to the Organisation on an ongoing basis.

Board Evaluation

The Chairman is responsible for ensuring that the Group has an effective Board. Supported by the Company Secretary, he ensures that the Board's effectiveness is reviewed annually, through a detailed assessment of the effectiveness of the Board collectively, and assessment of the contribution of each member, through peer evaluations. The results of the assessments are then discussed by the Board. The Chairman may provide further constructive feedback separately to each director, derived from the results of the peer evaluations, regarding their contribution to the Board.

Going concern

The Board has reviewed the facts and assumptions on which it has relied upon and based on this information, continues to view the Company as a going concern for the foreseeable future.

Remuneration

Stanbic Holdings Plc remunerates its Directors at levels that are fair and reasonable in a competitive market, taking into account the skills, knowledge, and experience required in the Board. The Board is guided by the Board Remuneration Policy.

The amount paid to directors is included in Note 40 (g) which represents the total remuneration paid to the Directors for the year under review.

The Board's remuneration for the year under review will be approved by the shareholders of the Company at the 2019 Annual General Meeting.

Corporate Social Investment

Being based in Kenya, the Group understands the challenges and benefits of doing business in the country and owes its existence to the people and societies within which it operates. The Group is committed therefore not only to the promotion of the economic development but also to the strengthening of social and environmental well-being.

The Group concentrates its social investment expenditure in defined focus areas, to make the greatest impact.

The Company sought and obtained shareholder approval at the last Annual General Meeting to incorporate a subsidiary company, to be registered as a company limited by guarantee. The sole purpose of the subsidiary company is to be a foundation to implement and oversee corporate social investment programmes. Accordingly, Stanbic Kenya Foundation has now been officially incorporated as a subsidiary of Stanbic Bank Kenya Limited, having received all regulatory approvals required.

Shareholder Relations

The Board of Directors recognises the importance of continued interaction and provision of information to shareholders; and endeavours to do so through a detailed annual report. The Annual General Meeting is also considered a crucial time for interaction with the Company's shareholders and the Board encourages all the shareholders to attend and participate in this meeting.

The Board also acknowledges the importance of considering the interests of all its stakeholders and this informs its decision-making process. The Board has implemented the Stakeholder Engagement Guidelines to guide the Company's engagement with its stakeholders.

Conflict Management

The Board of Directors acknowledge the importance of healthy conflict in an effective functioning board. The Board is also conscious that there may be instances of disputes between Directors which will need to be timeously resolved for the good of the Board and the Company. For this reason, the Board has implemented a Board Dispute Resolution Policy.

Board Meetings

The Company is headed by a Board of Directors, which has ultimate accountability for the management and strategic guidance of the Company and assumes the primary responsibility of fostering the sustainability of the Group's businesses. The Board has the overall responsibility for the establishment and oversight of the Group's risk management framework.

Performance against financial and corporate governance objectives is monitored by the Board through Management's quarterly reporting. The implementation of the Group's strategic objectives is conducted by the individual subsidiary companies, through various established Board and Management committees. The Board meets at least once every quarter. Additional meetings are held whenever deemed necessary. Directors are provided with comprehensive Board documentation at least seven days prior to each of the scheduled meetings.

Attendance at Board meetings during the year under review is set out in the following table:

STANBIC HOLDINGS PLC BOARD ATTENDANCE FOR 2018					
	DIRECTOR'S NAME	Q1, FEBRUARY 21, 2018	Q2, MAY 3, 2018	Q3, AUGUST 9, 2018	Q4, NOVEMBER 22, 2018
1	Fred Ojiambo	P	P	P	P
2	Greg Brackenridge	P	P	P	P
3	Christopher Newson	P	P	P	P
4	Kitili Mbathi	P	P	P	P
5	Rose Kimotho	P	P	P	P
6	Edward Njoroge	P	P	P	P
7	Ruth T. Ngobi	P	P	P	P
8	Peter Gethi	P	P	P	P
9	Rose Osoro	P	P	P	P
10	Dorcas Kombo	P	P	P	P

P = Present

Report by the Board Audit Committee

During the year, the Committee reviewed all the matters delegated to it by the Board under the BAC mandate and as required by the law. The matters considered by the Committee included the following:

a) External Audit matters:

- Approved the reappointment of PricewaterhouseCoopers (PwC) as external auditors for the financial year ended 31 December 2018, in accordance with all applicable legal requirements
- Approved the External Auditor's terms of engagement, the audit plan and audit fees
- Reviewed the audit process and evaluated the effectiveness of the audit
- Obtained assurance from the External Auditor that independence was not impaired
- Confirmed that no significant irregularities were identified and reported by the external auditor
- Received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof.
- Over the course of the year, met with the External Auditor in two formal exclusive meetings

b) The consolidated financial statements:

- Confirmed the going concern basis for the preparation of the interim and annual financial statements
- Examined and reviewed the interim and annual financial statements prior to submission and approval by the Board
- Ensured that the annual financial statements fairly represented the financial position of the Company at the end of the financial year, as well as the results of operations and cash flows for the financial year and considered
- Ensured that the annual financial statements conform with International Financial Reporting Standards (IFRS)
- Considered accounting treatments, significant unusual transactions and accounting judgements
- Considered the adequacy and effectiveness of the accounting policies adopted by the Company and all proposed changes in accounting policies and practices and changes thereto
- Reviewed the effectiveness of financial management and the quality of internal accounting control systems and reports produced by financial management
- Reviewed and discussed the External Auditor's audit report
- Considered and made recommendations to the Board on the interim and final dividend payments to shareholders.

c) Internal control, internal audit and financial crime control:

- Reviewed and approved the annual Internal Audit 2018 Audit Plan and evaluated the independence and effectiveness of the Internal Audit department
- Considered Internal Audit reports on the systems and internal controls, including internal financial controls and maintenance of effective internal control systems, of the Company's operating subsidiary companies
- Reviewed significant issues raised by the internal audit process; and the adequacy of agreed corrective action plans in response to such findings by Management
- Assessed the adequacy of the performance of the Internal Audit function and adequacy of the available internal audit resources and found them to be satisfactory
- Received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof
- Considered internal audit reports for the subsidiary companies
- Discussed significant financial crime matters and control weaknesses identified
- Over the course of the year, met with the Internal Auditors in two formal exclusive meetings
- Reviewed any significant legal and tax matters that could have a material impact on the financial statements.

Based on the above, the Committee formed the opinion that, as at 31 December 2018, there were no material breakdowns in internal control, including internal financial controls, resulting in any material loss to the Company.

Independence of the External Auditors

The Committee is satisfied that PricewaterhouseCoopers is independent of the Company. This conclusion was arrived at, inter alia, after taking into account the following factors:

- the representations made by PricewaterhouseCoopers to the Committee
- the Auditors do not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefits from the Company
- the Auditor's independence was not impaired by any consultancy, advisory or other work undertaken by the Auditors
- the Auditor's independence was not prejudiced as a result of any previous appointment as auditor.

The Board Audit Committee reviewed the annual report and recommended it to the Board for approval.

Stanbic Holdings Plc Board Audit Committee - Attendance statistics 2018

	DIRECTOR'S NAME	Q1	Q3
1	Ruth T. Ngobi	P	N/A
2	Christopher Newson	P	P
3	Kitili Mbathi	P	P
4	Rose Kimotho	N/A	P
5	Dorcas Kombo	N/A	P

P = Present; N/A = Not Applicable

Report from the Board Nominations Committee

The role of the Board Nominations Committee is to assist the Board in discharging their obligations by being responsible for the appointment, succession planning and development of the Company's Directors.

During the year ended 31 December 2018 the Committee considered the following:

a) Determined and evaluated the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the Company

b) Reviewed the Board's composition and structure to ensure it is able it to fulfil the obligations of the Board mandate

c) Established a Board directorship continuity plan

d) Analysed the existing skills on the Board and skill gaps in line with the Company's strategy

e) Considered a potential candidate for the Board to fill a skill gap

f) Reviewed the evaluation questions to be completed by the Board for its annual Board evaluation

g) Reviewed and made a recommendation to the Board on the Board remuneration for 2019

h) Reviewed and endorsed the amendments to the Board Remuneration Policy for submission to the Board for approval

i) Reviewed and endorsed the Board's Diversity Policy for submission to the Board for approval

j) Reviewed and endorsed the Board's Dispute Resolution Policy for submission to the Board for approval

The Committee composition in 2018 consisted of three members, namely: two Independent Non-Executive Directors and the Chief Executive of Stanbic Holdings PLC.

During the year, the Committee carried out its duties in accordance to its Mandate. The Committee held two meetings during the year in compliance with the stipulated minimum. The attendance was as follows:

	NAME	Q1, FEBRUARY 7, 2018	Q4, OCTOBER 31, 2018
1	Fred N. Ojiambo (Chairman)	P	P
2	Greg Brackenridge	P	P
3	Ruth Ngobi	P	P

P = Present

Remuneration overview

Fees for Non- executive directors

In determining the fees for non-executive directors, all of whom are also members of Board committees. The Board also considers market conditions and reviews comparative remuneration offered by other peer Banks. Non-executive directors receive fixed fees for service on Boards and Board committees. There are no contractual arrangements for compensation for loss of office for either executives or non-executive directors. Non-executive directors do not receive annual incentive awards, nor do they participate in any of the Group's long-term incentive schemes. The Nominations Committee reviews the fees paid to non-executive directors annually and makes recommendations to the Board for endorsement and submission to shareholders for approval.

Additional information is provided on pages 82-83 of the financial statements.

Remuneration for Executive directors

Strategy

The Board considers the execution of the Group strategy and the ability to show demonstrable progress against key milestones to be an integral part of the performance measurement and reward for executive directors. The chief executive officer (CEO) articulated three strategic focus areas for the Group as part of the evolving strategy. These were:

- **Client:** to cultivate a client-centric culture within the Group
- **Digital:** to transition the Group to a fully digital platform creating significant competitor advantage
- **Universal financial services organisation:** to deliver seamless, consistent products and services to our client across our franchise. The success of these strategic focus areas is measured by client experience scores, employee engagement metrics, risk and conduct measures, financial outcomes and social, environmental and economic impact on the communities in which we do business. Each of the strategic value drivers has a quantitative metric against which success can be measured. Again, excellent progress has been made.

Remuneration methodology

In assessing the performance of the executive directors, The Board has been mindful of its responsibilities to all our stakeholders, especially our shareholders as articulated in the remuneration philosophy.

The methodology used to size incentive pools is a combination of a top-down approach that provides overall guidance to business units and countries; a bottom-up approach based on executives assessments of the performance of their teams; and careful consideration of shareholder interests and stakeholder concerns.

Our policy avoids a short-term bonus-centric culture but rewards sustainable performance on a through-the-cycle basis. Critically, this includes a three- to five-year growth analysis to ensure shareholder returns are appropriately aligned with executive and employee reward. The committee reviews performance to ensure that earnings are not the result of one year's work but rather the planned outcome of work done in the past years.

Additional information is provided on pages 82-83 of the financial statements.

Because of you / We were chosen.

Think Business Banking Awards 2018

Best Bank in Agriculture & Livestock Financing

Best Bank in Mortgage Finance

Best Bank in Internet Banking, 2nd Runner up

Best Bank in Corporate Banking, 1st Runner up

At Stanbic Bank we believe winning will always be about you. It's your dreams that spur us forward to ensure that when you work hard to move forward we work harder to make the journey fulfilling. At the 2018 Think Business Awards we stood tall lifted by your trust in us.

Thank you to all our Clients, Partners and Staff, together we made this possible.

Stanbic Bank Moving Forward™

A member of Standard Bank Group

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Annual Financial Statements

Corporate information

Chairman:	Fred N. Ojiambo, MBS, SC
Chief Executive:	Greg Brackenridge*
Chief Executive of Stanbic Bank Kenya Limited:	Charles Mudiwa***
Non-Executive Directors:	Kitili Mbathi Rose W. Kimotho Edward W. Njoroge Ruth T. Ngobi Peter N. Gethi Christopher J. Blandford – Newson** Rose B. Osoro Dorcas Kombo * South African ** South African and British *** Zimbabwean
Company Secretary:	Lillian N. Mbindyo P.O. Box 72833 00200 Nairobi
Auditor:	PricewaterhouseCoopers PwC Tower Waiyaki Way/Chiromo Road P.O. Box 43963 00100 Nairobi
Registered Office:	Stanbic Bank Centre Chiromo Road, Westlands P.O. Box 72833 00200 Nairobi
Principal Bankers:	Stanbic Bank Kenya Limited Chiromo Road, Westlands P.O. Box 30550 00100 Nairobi, GPO

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of Stanbic Holdings Plc (the "Group" or the "Company").

Principal activities

The Group is engaged in the business of banking, insurance agency and stock broking and is licensed under the Banking Act and Capital Markets Act. The Company is listed on the Nairobi Securities Exchange.

Business review and financial performance

The Group has exposure to various risks from its operations. These are -:

a) Credit risk

b) Liquidity risk

c) Market risk

d) Operational risk

These are explained in more detail on Note 4 of the financial statements.

The Group reported an improvement in earnings because of improved client revenues, increased trading revenues and a lower impairment charge during the year. The Group mobilised technology to enhance client experience and improve operational efficiency. The balance sheet continued to show strong growth as the Group focused on creating value and delightful experiences for its clients.

During the year, the Group refined its strategy to remain relevant in its role as a financial services provider while delivering superior stakeholder value.

Some of the major highlights were-:

a) The profit after tax was KShs 6.3 billion (2017:KShs 4.3 billion);

b) Net interest income grew to KShs 12.1 billion compared to KShs 10.6 billion over the same period in 2017 due to a 12% growth in client loans and advances. In addition, the growth in transactional accounts resulted in lower cost of funds;

c) Non interest revenue reported a strong performance as the Group leveraged on technology to improve its clients' banking experience and successful closure of key deals in Investment Banking;

d) Loan loss provisions decreased during the year as the Group continues to focus on proactive arrears management; and

e) The Group continued to focus on client acquisition as evidenced in the growth of client deposits by 24% during the year.The growth was largely on current accounts and savings accounts which grew by 13% and 62% respectively.

South Sudan economy continued to suffer from the ongoing political instability and the effects of a hyper inflationary environment. Despite this, the Group's South Sudan branch remained profitable with strong growth on client deposits. The Group continues to be proactive in its risk management and prudent on costs. The onground activities continue to be transactional and liability led.

The Group expects to sustain its performance in the year 2019 by focusing on growing its target clients in Corporate and Investment Banking and scaling up Personal and Business banking. The Group will continue to proactively monitor some of our clients currently in distress and assess the level of impairment charges held for these exposures.

Dividends

In the current year, the Directors' paid an interim dividend of KShs 2.25 (2017: KShs 1.25) per ordinary share amounting to KShs 889 million (2017: KShs 494 million).

Subject to the approval of the shareholders at the Annual General Meeting to be held on 9 May 2019, the Directors recommend payment of a final dividend of KShs 3.55 (2017: KShs 4.00) per ordinary share equivalent to a total sum of KShs 1,403 million (2017: KShs 1,581 million). The total dividend for the year, therefore, will be KShs 5.80 (2017: KShs 5.25) for every ordinary share amounting to KShs 2,292 million (2017: KShs 2,075 million).

Share capital

The total number of authorised shares as at 31 December 2018 was 473,684,211 (2017: 473,684,211), ordinary shares of KShs 5 each, with 395,321,638 shares being issued and fully paid up.

Directors

The Directors who held office during the year and to the date of this report are set out on pages 64-65.

Events subsequent to the end of the reporting period

There are no material events that have occurred between the end of the reporting period and the date of this report.

Management by third parties

There is no aspect of the business of the Group that has been managed by a third person or a company in which a director has had an interest during the year.

Disclosures to auditor

The Directors confirm that with respect to each Director at the time of approval of this report:

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

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

Terms of appointment of auditor

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 721 of the Kenyan Companies Act, 2015.

The Directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

Approval of financial statements

The financial statements were approved by the Board of Directors on 28 February 2019.

By Order of the Board,

L.N. Mbindyo

Company Secretary

28 February 2019

Statement of Directors' responsibilities

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

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

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

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

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

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

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

Approved by the Board of Directors on **28 February 2019** and signed on its behalf by:

Chairman

Fred N. Ojiambo, MBS, SC

Director

Kitili Mbathi

Chief Executive

Greg Brackenridge

Directors' remuneration report

Information not subject to audit

The Company's Board Remuneration Policy

The Company's Board remuneration policy is designed to create value for shareholders, clients, our employees and communities while retaining and motivating an effective Board of Directors.

In determining the remuneration fee for Non-Executive Directors, the Board will ensure that regular surveys are conducted on the remuneration of Non-Executive Directors on the boards of peer listed companies. The level of remuneration and compensation for Non-Executive Directors (NEDs) must be set to attract independent NEDs who, together with the Board as a whole, encompass a varied range of relevant skills and experience to determine the Company's strategy and oversee implementation. The NEDs are paid an annual fee and sitting allowance for meetings attended. The remuneration for NEDs is reviewed on an annual basis for approval by the shareholders of the Company at the annual general meeting. A schedule of the remuneration to be paid is submitted to the Remuneration Committee for Standard Bank Group on annual basis. The NEDs are to be appropriately reimbursed for expenses such as travel and subsistence incurred in the performance of their duties.

Disclosure of the Board's remuneration is made in the annual financial report of the Company in the Board Remuneration Report as guided by law.

The chairman of the Board is paid a taxable retainer of KShs 100,000 per quarter and a sitting allowance of KShs 180,000. The other members of the Board are paid a taxable retainer of KShs 75,000 per quarter and a sitting allowance of KShs 120,000. The Board's retainer and sitting allowances are paid for every meeting attended.

The chairman of the Board Audit Committee is paid KShs 150,000 and the committee members are paid KShs 100,000 for every meeting attended.

The members of the Board can access loans and guarantees at the prevailing market rates.

Contract of service

In accordance with the Kenyan Companies Act, 2015, the Company's Articles of Association and as outlined in the letters of appointment for Directors, a third of Non-Executive Directors retire by rotation at every annual general meeting and if eligible, may offer themselves for re-election by shareholders.

The Chief Executive was appointed in accordance to the Company's Articles of Association, paragraph 144, which states that;

- The Board may from time to time appoint one or more of its body to any executive office in the management of the Company as the Board shall determine, for such period and upon such terms as it thinks fit and, subject to the provisions of any agreement entered into in any particular case, may revoke such appointment.

Statement of Voting on the Directors Remuneration Report at the Previous Annual General Meeting

During the Annual General Meeting held on 12 June 2018, the shareholders approved the payments of Directors Fees for the year ended 31 December 2017.

At the Annual General Meeting to be held on 09 May 2019, approval will be sought from shareholders to pay Director Fees for the financial year ended 31 December 2018.

Information subject to audit

Year ended 31 December 2018

Name	Category	Retainer	Sitting allowance	Total Company	Total Group subsidiaries	Total Group
Fred Ojiambo	Chairman Non - Executive	400,000	900,000	**1,300,000**	4,297,008	**5,597,008**
*Greg Brackenridge	Chief Executive	-	-	**-**	-	**-**
Kitili Mbathi	Non - Executive	300,000	840,000	**1,140,000**	5,351,232	**6,491,232**
Christopher Newson	Non - Executive	225,000	660,000	**885,000**	3,709,424	**4,594,424**
Edward W. Njoroge	Non - Executive	300,000	600,000	**900,000**	3,215,232	**4,115,232**
Rose Kimotho	Non - Executive	300,000	600,000	**900,000**	3,911,232	**4,811,232**
Ruth T. Ngobi	Non - Executive	300,000	720,000	**1,020,000**	4,619,232	**5,639,232**
Peter Nderitu Gethi	Non - Executive	300,000	600,000	**900,000**	5,103,232	**6,003,232**
Rose Osoro	Non - Executive	300,000	720,000	**1,020,000**	2,731,232	**3,751,232**
Dorcas Kombo	Non - Executive	300,000	720,000	**1,020,000**	2,731,232	**3,751,232**
Total		**2,725,000**	**6,360,000**	**9,085,000**	**35,669,056**	**44,754,056**

Year ended 31 December 2017

Name	Category	Retainer	Sitting allowance	Total Company	Total Group subsidiaries	Total Group
Fred Ojiambo	Chairman Non - Executive	400,000	900,000	**1,300,000**	4,666,000	**5,966,000**
*Greg Brackenridge	Chief Executive	-	-	**-**	-	**-**
Michael Blades	Non - Executive	-	-	**-**	5,932,500	**5,932,500**
Kitili Mbathi	Non - Executive	300,000	840,000	**1,140,000**	4,651,420	**5,791,420**
Christopher Newson	Non - Executive	150,000	540,000	**690,000**	4,415,420	**5,105,420**
Edward W. Njoroge	Non - Executive	300,000	600,000	**900,000**	2,615,420	**3,515,420**
Rose Kimotho	Non - Executive	300,000	600,000	**900,000**	3,279,420	**4,179,420**
Ruth T. Ngobi	Non - Executive	300,000	840,000	**1,140,000**	4,179,420	**5,319,420**
Peter Nderitu Gethi	Non - Executive	300,000	600,000	**900,000**	3,740,420	**4,640,420**
Rose Osoro	Non - Executive	75,000	120,000	**195,000**	594,855	**789,855**
Total		**2,125,000**	**5,040,000**	**7,165,000**	**34,074,875**	**41,239,875**

*In line with Standard Bank Group's transfer pricing policy, Greg Brackenridge's function is a group oversight role and therefore the majority shareholder, Standard Bank of South Africa Limited, bears all his employment costs and benefits. Those costs and benefits are not recharged to Stanbic Holdings Plc

By Order of the Board,

L.N. Mbindyo

Company Secretary

28 February 2019

Independent auditor's report to the Shareholders of Stanbic Holdings Plc

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Stanbic Holdings Plc (the Company) and its subsidiaries (together, the Group) set out on pages 88 to 203, which comprise the consolidated and company statement of financial position at 31 December 2018 and the consolidated and company statement of profit or loss, consolidated and company statement of other comprehensive income, consolidated statement of changes in equity, company statement of changes in equity and consolidated and company statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of Stanbic Holdings Plc give a true and fair view of the financial position of the Group and the Company at 31 December 2018 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

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Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Noberts B Okundi K Saiti

Independent auditor's report to the Shareholders of Stanbic Holdings Plc (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the matter
Credit risk and provision for expected credit losses on financial assets The Group implemented IFRS 9 on 1 January 2018. The standard requires the Group to recognise expected credit losses (ECLs) on financial instruments. As explained in note 3.11 of these financial statements, determining ECL is complex, judgmental and involves estimation uncertainty. IFRS 9 requires the Directors to measure ECLs on a forward looking basis reflecting a range of future economic conditions. Changes to the assumptions and estimates used by management could generate significant fluctuations in the Group's financial performance, and materially impact the valuation of the Group's portfolio of financial assets. The ECL determination process for both business segments of the Group as well as the impact of adoption of IFRS is detailed in Notes 3.11 and 2 (c) respectively of these financial statements. Auditing the Group's ECL as computed was deemed an area of most significance to our audit due to the inherent subjectivity of the assumptions and judgment made by management in: (a) estimation of default events that may happen during the lifetime of the instruments, and the probability weighting thereof; (b) application of qualitative information in determining staging of exposures; and (c) application of complex modelling assumptions used to build the models that calculate ECL, completeness and accuracy of data used to calculate the ECL and the accuracy and adequacy of the financial statement disclosures.	We obtained an understanding of the Group's IFRS 9 implementation process including the governance processes thereof through discussions with management and review of related documentation. We reviewed and assessed management's accounting policies over key IFRS 9 concepts especially significant increase in credit risk (SICR), default definition, forecasting of forward looking macro-economic factors, and weighting of expected loss scenarios. For a sample of contracts, we tested the identification of financial assets that have experienced SICR or met the Group's default definition criteria for purposes of staging. This was done through selecting a sample of facilities, and examining documentation and credit performance to form an independent judgment as to whether the staging of such facilities was in line with the Group's policy. For stage 3 facilities, we selected a sample of financial assets and examined the reasonableness of the expected future recoverable amounts as assessed by management to support the calculation of the ECL thereon. We assessed the assumptions and compared estimates to both internal and external evidence, where available. Where impairment was calculated using a model (stages 1 & 2), we tested the basis and operation of those models and the data and assumptions used. Our audit procedures included: - Comparison of the principal assumptions made with our own knowledge of other practices and actual experience. - Testing the operation of the models used to calculate the impairment including, in some cases, developing independent expectations and comparing results. - Assessed overlays made by management over and above the formulaic computed ECLs. - Reviewed management's ECL related disclosures especially on areas with the highest estimation levels.
Potential exposure arising from a material guarantee contract As disclosed in Note 41(a) of the financial statements, the Group is party to a material guarantee contract whereby the contracting parties have had performance disagreements. This exposes the Group to a potential payout, subject to progression and /or finalisation of ongoing dispute resolution mechanisms. The amounts involved can be potentially significant, and the application of IAS 37: *Provisions, Contingent Liabilities and Contingent Assets* to estimate the expected outflow, if any, of any liability to be recognised is inherently subjective. Furthermore, even where a liability is not recognised or is partly recognised for possible significant outflows but there is more than a remote likelihood of an adverse outcome, the related disclosure is key to understanding the risks and potential effect to the Group's financial statements. The final outcome, once the matters are resolved, could be materially different from management's estimation and hence this is considered a key audit matter.	We enquired of the directors and management of the progress of the matter and their assessment as to its potential to crystallise to a liability for the Group. We also reviewed documentation available including contract terms, minutes of meetings and legal opinions, to evaluate the basis and reasonableness of provisions made. We reviewed the disclosures made in the financial statements regarding the matter to assess whether they detail the potential liabilities and the significant uncertainties that exist.

Independent auditor's report to the Shareholders of Stanbic Holdings Plc (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the matter
Goodwill impairment assessment As described in Note 3.8 and 2.9 of the financial statements, the Directors assess the impairment of goodwill arising from acquisitions at the cash generating unit level using value-in-use calculations. We focused on the goodwill impairment assessment because the value-in-use calculations involve significant judgements and estimates about the future results of the cash generating units and the applicable discount rates. 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. Goodwill is allocated to Stanbic Bank's two cash generating units – CIB and PBB, that represent the lowest level at which financial performance is monitored.	We evaluated the composition of management's future cash flow forecasts and the underlying assumptions based on the historical performance of the business, industry-specific reports and the macro economic outlook. We assessed the projected cash flows against the approved strategic and business plan of the cash generating unit. We assessed the reasonableness of the forecast cash flows based on recent actual performance and the approved short-term financial budgets of the business. We also assessed management's assumptions in relation to the: - Long term growth rates by comparing them to economic and industry forecasts - Pre-tax discount rate by assessing the cost of capital for the company and comparable organisations, as well as considering country specific factors We assessed the sensitivity of the parameters in the calculations and determined that the calculations were most sensitive to assumptions for gross margin and the pre-tax discount rates as disclosed in Note 29 of the financial statements.

Other information

The other information comprises Corporate Information, Report of the Directors, Statement of Directors' Responsibilities and Directors' Remuneration Report which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Integrated Report which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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

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

When we read the rest of the other information in the Annual Integrated Report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditor's report to the Shareholders of Stanbic Holdings Plc (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other matters prescribed by the Kenyan Companies Act, 2015

Report of the Directors

In our opinion the information given in the Report of the Directors on pages 79 to 80 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 82 to 83 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

1 March 2019

CPA Kang'e Saiti, Practising certificate No. 1652
Signing partner responsible for the independent audit

Consolidated and company statement of profit or loss

		GROUP		COMPANY	
		Year ended 31 December		Year ended 31 December	
	Note	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Interest income	6	19,247,721	16,608,234	16,214	4,901
Interest expense	7	(7,118,076)	(5,963,953)	-	-
Net interest income		12,129,645	10,644,281	16,214	4,901
Credit impairment losses	23 (d)	(2,064,462)	(2,761,325)	-	-
Net income after credit impairment losses		10,065,183	7,882,956	16,214	4,901
Fees and commission revenue	8	4,997,605	4,348,008	-	-
Fees and commission expense	9	(442,225)	(401,215)	-	-
Net fees and commission income		4,555,380	3,946,793	-	-
Trading revenue	10	5,350,670	3,827,033	-	-
Net income from financial instruments at fair value through profit and loss	11	40,938	576,477	-	-
Other income	12	16,841	69,805	2,500,016	1,900,274
Other gains and losses on financial instruments[1]	21 (b)	891	-	-	-
Net trading and other income		5,409,340	4,473,315	2,500,016	1,900,274
Total income		20,029,903	16,303,064	2,516,230	1,905,175
Employee benefits expense	13	(5,894,324)	(5,735,195)	-	-
Depreciation and amortisation expense	14	(667,536)	(612,933)	-	-
Other operating expenses		(4,424,078)	(4,268,006)	(26,866)	(26,421)
Finance costs	15	(96,208)	(285,682)	(860)	(524)
Total operating expenses		(11,082,146)	(10,901,816)	(27,726)	(26,945)
Profit before income tax		8,947,757	5,401,248	2,488,504	1,878,230
Income tax expense	16	(2,670,591)	(1,091,754)	(4,938)	(1,339)
Profit for the year		6,277,166	4,309,494	2,483,566	1,876,891
Earnings per share					
Basic and diluted (KShs per share)	17	15.88	10.90	6.28	4.75

[1] The Group, as permitted by IFRS 9, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policy elections, IFRS 9 transition on Note 2 for more detail.

The notes set out on pages 94 to 203 form an integral part of these financial statements

Consolidated and company statement of comprehensive income

		GROUP		COMPANY	
		Year ended 31 December		Year ended 31 December	
	Note	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Profit for the year		6,277,166	4,309,494	2,483,566	1,876,891
Other comprehensive income for the year, net of income tax					
Currency translation difference for foreign operations		(270,472)	74,400	-	-
Net change in fair value movements on available-for-sale financial assets-IAS 39[1]	21 (b)	-	298,645	-	-
Net change in debt financial assets measured at fair value through other comprehensive income (OCI) - IFRS 9[1]	21 (b)	(320,469)	-	-	-
Net gain on financial assets measured at FVOCI	21 (b)	(891)	-	-	-
Total other comprehensive income for the year, net of income tax		(591,832)	373,045	-	-
Total comprehensive income for the year		5,685,334	4,682,539	2,483,566	1,876,891

[1] The Group, as permitted by IFRS 9, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policy elections, IFRS 9 transition on Note 2 for more detail.

The notes set out on pages 94 to 203 form an integral part of these financial statements

Consolidated and company statement of financial position

		GROUP		COMPANY	
		As at 31 December		As at 31 December	
	Note	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Assets					
Cash and balances with Central Bank of Kenya	19	22,061,875	8,044,783	-	-
Financial investments – Held for trading	20 (a)	31,202,035	29,806,020	-	-
Financial investments – (FVOCI/available-for-sale)	21	17,857,417	40,994,672	-	-
Financial investments – (amortised cost/held to maturity)	22	23,200,956	5,444,178	-	-
Derivative assets	31	1,515,466	2,391,101	-	-
Loans and advances to banks	23 (a)	28,380,593	12,743,630	130,867	111,803
Loans and advances to customers	23 (b)	146,604,117	130,535,814	-	-
Other assets and prepayments	24	3,727,559	3,220,570	-	-
Investment in subsidiaries and other investments	25	17,500	17,500	18,217,512	18,217,512
Property and equipment	26	2,186,370	2,256,275	-	-
Prepaid operating leases	27	47,994	50,947	-	-
Other intangible assets	28	1,250,731	1,356,050	-	-
Intangible assets - goodwill	29	9,349,759	9,349,759	-	-
Current tax asset	35	-	83,026	15,713	18,054
Deferred tax asset	36	3,167,882	2,444,394	38	203
Total assets		290,570,254	248,738,719	18,364,130	18,347,572
Equity and liabilities					
Liabilities					
Derivative liabilities	31	1,881,658	2,427,563	-	-
Financial liabilities – Held for trading	20 (b)	10,040,568	362,630	-	-
Deposits from banks	32 (a)	27,909,239	38,707,135	-	-
Deposits from customers	32 (b)	191,584,675	154,660,772	-	-
Borrowings	33	7,064,013	3,989,243	-	-
Other liabilities and accrued expenses	34	6,426,698	5,596,830	109,553	105,801
Current tax liability	35	1,039,983	-	-	-
Deferred tax liability	36	-	38,859	-	-
Total liabilities		245,946,834	205,783,032	109,553	105,801
Equity					
Ordinary share capital	30 (b)	1,976,608	1,976,608	1,976,608	1,976,608
Ordinary share premium	30 (c)	16,897,389	16,897,389	16,897,389	16,897,389
Other reserves	42	(83,175)	(448,316)	-	-
Revenue reserves		24,429,206	22,948,720	(2,022,812)	(2,213,513)
Proposed dividend	18	1,403,392	1,581,286	1,403,392	1,581,287
Total shareholders' equity		44,623,420	42,955,687	18,254,577	18,241,771
Total equity and liabilities		290,570,254	248,738,719	18,364,130	18,347,572

The financial statements on pages 88 to 203 were approved for issue by the Board of Directors on 28 February 2019 and signed on its behalf by:

Chairman ....
Fred N. Ojiambo, MBS, SC

Chief Executive ....
Greg Brackenridge

Director ....
Kitili Mbathi

Company Secretary ....
Lillian Mbindyo

The notes set out on pages 94 to 203 form an integral part of these financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Note	Share Capital Kshs'000	Share Premium Kshs'000	Other Reserves Kshs'000	Revenue reserves Kshs'000	Proposed Dividend Kshs'000	Total Equity Kshs'000
At 1 January 2018		**1,976,608**	**16,897,389**	**(448,317)**	**22,948,721**	**1,581,286**	**42,955,687**
Impact of initial application of IFRS 9[1]	2	-	-	(73)	(1,565,568)	-	**(1,565,641)**
		1,976,608	**16,897,389**	**(448,390)**	**21,383,153**	**1,581,286**	**41,390,046**
Profit for the year		-	-	-	6,277,166	-	**6,277,166**
Other comprehensive income, net of tax		-	-	(591,832)	-	-	**(591,832)**
Transfer of statutory credit risk reserve		-	-	938,245	(938,245)	-	**-**
Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group							
Dividend payment	18	-	-	-	(889,475)	(1,581,286)	**(2,470,761)**
Proposed dividend	18	-	-	-	(1,403,392)	1,403,392	**-**
Equity-settled share-based payment transactions	43	-	-	18,801	-	-	**18,801**
Total transactions with owners of the Group		**-**	**-**	**18,801**	**(2,292,867)**	**(177,894)**	**(2,451,960)**
At 31 December 2018		**1,976,608**	**16,897,389**	**(83,176)**	**24,429,207**	**1,403,392**	**44,623,420**

[1] Refer to the accounting policy elections, IFRS 9 transition on note 2 for more detail on the IFRS 9 transition.

For the year ended 31 December 2017

	Note	Share Capital Kshs'000	Share Premium Kshs'000	Other Reserves Kshs'000	Revenue reserves Kshs'000	Proposed Dividend Kshs'000	Total Equity Kshs'000
At 1 January 2017		**1,976,608**	**16,897,389**	**(758,058)**	**20,649,216**	**1,375,719**	**40,140,874**
Profit for the year		-	-	-	4,309,494	-	**4,309,494**
Other comprehensive income, net of tax		-	-	373,045	-	-	**373,045**
Transfer of statutory credit risk reserve		-	-	(65,449)	65,449		**-**
Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group							
Interim dividend payment	18	-	-	-	(494,152)	(1,375,719)	**(1,869,871)**
Proposed dividend	18	-	-	-	(1,581,286)	1,581,286	**-**
Share based payment reserve	43	-	-	2,145	-	-	**2,145**
Total transactions with owners of the Group		**-**	**-**	**2,145**	**(2,075,438)**	**205,567**	**(1,867,726)**
At 31 December 2017		**1,976,608**	**16,897,389**	**(448,317)**	**22,948,721**	**1,581,286**	**42,955,687**

The notes set out on pages 94 to 203 form an integral part of these financial statements

Company statement of changes in equity

Year ended 31 December 2018		Attributable to equity holders				
	Note	Share Capital KShs'000	Share Premium KShs'000	Revenue Reserves KShs'000	Proposed Dividend KShs'000	Total Equity KShs'000
At 1 January 2018		1,976,608	16,897,389	(2,213,513)	1,581,287	18,241,771
Profit for the year		-	-	2,483,566	-	2,483,566
Other Comprehensive income, net of tax		-	-	-	-	-
Contribution and distributions to owners						
Dividends to equity holders - dividend paid	18	-	-	(889,474)	(1,581,287)	(2,470,760)
Dividends to equity holders - proposed dividend	18	-	-	(1,403,392)	1,403,392	-
Total contributions by and distributions to owners		-	-	(2,292,866)	(177,895)	(2,470,760)
At 31 December 2018		1,976,608	16,897,389	(2,022,813)	1,403,392	18,254,577

Year ended 31 December 2017		Attributable to equity holders				
	Note	Share Capital KShs'000	Share Premium KShs'000	Revenue Reserves KShs'000	Proposed Dividend KShs'000	Total Equity KShs'000
At 1 January 2017		1,976,608	16,897,389	(2,014,965)	1,375,719	18,234,751
Profit for the year		-	-	1,876,891	-	1,876,891
Other Comprehensive income, net of tax						
Contribution and distributions to owners						
Dividends to equity holders - dividend paid	18	-	-	(494,153)	(1,375,719)	(1,869,871)
Dividends to equity holders - proposed dividend	18	-	-	(1,581,287)	1,581,287	-
Total contributions by and distributions to owners		-	-	(2,075,440)	205,568	(1,869,871)
At 31 December 2017		1,976,608	16,897,389	(2,213,514)	1,581,287	18,241,771

The notes set out on pages 94 to 203 form an integral part of these financial statements

Consolidated and company statement of cashflows

		Group		Company	
	Note	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Cash flows from operating activities	37 (a)	9,959,878	5,461,758	2,488,504	1,878,230
Income tax paid	35 (a)	(1,577,646)	(3,483,127)	(2,432)	(736)
Cash flows from operating activities before changes in operating assets and liabilities		**8,382,232**	**1,978,631**	**2,486,072**	**1,877,494**
Changes in operating assets and liabilities:					
Loans and advances to customers		(18,304,930)	(14,948,087)	-	-
Financial assets – FVOCI/ Available-for-sale		23,739,044	(17,099,802)	-	-
Financial assets – fair value through profit or loss		7,425,131	-		
Deposits held for regulatory purposes (Restricted cash)		(6,127,940)	1,718,913	-	-
Other assets and prepayments		(506,989)	596,916	-	-
Deposits with banks		(8,917,831)	255,634	-	-
Other liabilities and accrued expenses		829,868	(792,253)	3,753	45,692
Customer deposits		36,923,903	35,332,553	-	-
Trading liabilities		9,677,938	(3,505,088)	-	-
Net cash generated from operating activities		**53,120,427**	**3,537,417**	**2,489,825**	**1,923,186**
Cash flows from investing activities:					
Financial assets – at amortised cost/ Held to maturity		(17,756,778)	-	-	-
Additions to property and equipment	26	(362,603)	(457,254)	-	-
Additions to intangible assets	28	(145,907)	(453,913)	-	-
Proceeds from sale of property and equipment		7,745	2,560	-	-
Investment in subsidiary	25(a)	-	-	-	(42,174)
Other investments	25(b)	-	(17,500)	-	-
Net cash used in investing activities		**(18,257,543)**	**(926,107)**	**-**	**(42,174)**
Cash flows from financing activities:					
Dividends paid	18	(2,470,761)	(1,869,871)	(2,470,761)	(1,869,871)
Increase of borrowings	33	3,074,770	3,104	-	-
Net cash received from/(used in) financing activities		**604,009**	**(1,866,767)**	**(2,470,761)**	**(1,869,871)**
Net increase in cash and cash equivalents		**35,466,893**	**744,543**	**19,064**	**11,141**
Effect of exchange rate changes		(282,950)	125,906	-	-
Cash and cash equivalents at start of year		25,856,454	24,986,005	111,803	100,662
Cash and cash equivalents at end of year	37 (b)	**61,040,397**	**25,856,454**	**130,867**	**111,803**

The notes set out on pages 94 to 203 form an integral part of these financial statements

Notes

1 General information

Stanbic Holdings Plc is incorporated in Kenya under the Companies Act as a limited liability company, and is domiciled in Kenya. The address of its registered office is:

Stanbic Bank Centre
Chiromo Road, Westlands
P.O. Box 72833
00200 Nairobi GPO

The Company's shares are listed on the Nairobi Securities Exchange (NSE).

The financial statements for the year ended 31 December 2018 were approved for issue by the Board of Directors on 28 February 2019. Neither the entity's owners nor others have the power to amend the financial statements after issue.

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

2 Summary of significant accounting policies

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

a) Basis of preparation

Stanbic Holdings Plc ("the Company") and its subsidiaries ("the Group"), annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) standards applicable to companies reporting under IFRS.

Basis of measurement

The measurement basis used is the historical cost basis except for the following material items in the statement of financial position:

a) Available-for-sale/ Fair value through other comprehensive income (FVOCI) financial assets, financial assets and liabilities at fair value through profit or loss and liabilities for cash-settled and equity-settled share-based payment arrangements (accounting policy note 2.6)

The following principle accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies shown in brackets:

b) purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy note 2.6);

c) property and equipment and intangible assets are accounted for using the cost model except for revaluation of buildings that arose from the merger between CFC Bank and Stanbic Bank in 2008 (accounting policy note 2.8 and 2.9);

d) the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy note 2.7); and

e) hyperinflation - The South Sudan economy has been considered to be hyperinflationary. Accordingly, the results, cash flows and financial position, have been expressed in terms of the measuring unit prevailing at the reporting date (accounting policy note 2.22).

Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

b) Functional and presentation currency

The annual financial statements are presented in Kenya Shillings (KShs) which is the functional and presentation currency of the Group. All amounts are stated in thousands of shillings (KShs 000), unless indicated otherwise. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates which is South Sudan Pound (SSP) for South Sudan operations and Kenya Shillings (KShs) for Kenya operations.

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures

(i) Adoption of new and amended standards

The Group has not applied the following new and revised standard and interpretations that have been published but are not yet effective for the year beginning 1 January 2018.

IFRIC 23 - This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This Interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively. The new interpretation is effective on 1 January 2019 and earlier application is permitted. There was no uncertainty over tax treatment and therefore the impact of IFRIC 23 is not significant.

IFRS 16- Leases This standard will replace the existing standard IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (client) and the lessor (supplier).

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet.

The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 has not changed substantially in terms of this standard as a result a lessor continues to classify its leases as operating leases or finance leases and accounts for these as it currently done in terms of IAS 17. In addition, the standard requires lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.

The Group has formed an IFRS 16 working group and detailed project plan, identifying key responsibilities and milestones of the project. The Group is in the process of determining the estimated impact as well as discussing the system requirements to accommodate IFRS 16's principles. The new standard is effective on 1 January 2019 and earlier application is permitted.The impact is estimated to be a right of use asset of KShs 1.1 billion and a lease liability of the same amount.

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)-The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017 The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017 The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

(ii) Adoption of new and amended standards effective for the current period

Certain new accounting standards and interpretations have been published for 31 December 2018 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

IFRS 15 Revenue from Contracts with Customers, with effect from 1 January 2018, replaces the existing revenue standards and the related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five step analysis to determine the amount and timing of revenue recognition. The Group adopted IFRS 15 on 1 January 2018 and, as permitted by IFRS 15, did not restate its comparative financial results. The standard does not apply to revenue associated with financial instruments, and therefore does not impact the majority of the Group's revenue. The Group identified and reviewed its contracts with customers that are within the scope of IFRS 15 and concluded that adoption of this standard did not materially impact the Group's revenue recognition. As such no transition adjustments were deemed necessary.

Notes continued

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

(ii) Adoption of new and amended standards effective for the current period (continued)

IFRIC 22 Foreign Currency Transactions and Advance Consideration provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. Management has performed an assessment of IFRIC 22 and the impact is not significant.

IFRS 2 (amendment) Share-based Payment: The amendments are intended to eliminate diversity in practice in three main areas of the classification and measurement of share- based payment transactions are:

- the effects of vesting conditions on the measurement of a cash-settled share based payment transaction
- the classification of a share-based payment transaction with net settlement features for withholding tax obligations the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment was applied prospectively on its effective date of I January 2018. Management has performed an assessment of IFRS 2 the impact is not significant.

IFRS 9 Financial instruments- The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which has resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any part of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also been applied only to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7, ***"Financial Instruments: Disclosures"***

For more detail on IFRS 9 accounting policies see note 2.6

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

(ii) Adoption of new and amended standards effective for the current period (continued)

IFRS 9 key financial impacts

Table 1: Impact on the Group's extracted statement of financial position on 1 January 2018:-

		IFRS 9 transition adjustment at 1 January 2018			
	IAS 39 at 31 December 2017	IFRS 9 ECL	IFRS 9 classification and measurements	Total	IFRS 9 at 1 January 2018
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets					
Financial investments	76,244,870	(17,849)	-	(17,849)	76,227,021
Loans and advances	143,279,444	(2,046,450)	-	(2,046,450)	141,232,994
Other financial and non-financial assets	26,770,011	-	-	-	26,770,011
Deferred tax[1]	2,444,394	670,988	-	670,988	3,115,382
Total assets	**248,738,719**	**(1,393,310)**	**-**	**(1,393,310)**	**247,345,409**
Equity and liabilities					
Equity					
Ordinary share capital	(1,976,608)	-	-	-	**(1,976,608)**
Ordinary share premium	(16,897,389)	-	-	-	**(16,897,389)**
Other reserves	448,316	73	-	73	**448,389**
Revenue reserves	(24,530,005)	1,565,568	-	1,565,568	**(22,964,437)**
Total equity	**(42,955,687)**	**1,565,641**	**-**	**1,565,641**	**(41,390,046)**
Liabilities					
Other liabilities[2]	(5,596,830)	(172,331)	-	(172,331)	**(5,769,161)**
All other liabilities	(200,186,202)	-	-	-	**(200,186,202)**
Total liabilities	**(205,783,032)**	**(172,331)**	**-**	**(172,331)**	**(205,955,363)**
Total equity and liabilities	**(248,738,719)**	**1,393,310**	**-**	**1,393,310**	**(247,345,409)**

[1] Materially relates to the recognition of additional deferred tax assets following the recognition of the IFRS 9 ECL transition adjustment.

[2] Materially relates to the recognition of ECL on off-balance sheet letters of credit, bankers acceptances and guarantees.

Notes continued

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

(ii) Adoption of new and amended standards effective for the current period (continued)

IFRS 9 key financial impacts (continued)

Table 2: Impact on the Group's extracted statement of changes in equity on 1 January 2018:-

	IAS 39 at 31 December 2017	IFRS 9 transition adjustment at 1 January 2018	IFRS 9 at 1 January 2018
	KShs'000	KShs'000	KShs'000
Ordinary share capital and share premium	(18,873,997)	-	**(18,873,997)**
Other reserves[1]	448,316	73	**448,389**
Revenue reserves[2]	(24,530,005)	1,565,568	**(22,964,437)**
Total ordinary shareholder's equity	**(42,955,687)**	**1,565,641**	**(41,390,046)**

[1] This relates to release in the statutory reserve.

[2] The change in the retained earnings relates to IFRS 9's classification and measurement and ECL changes.

Table 3: Impact on financial instrument classification (excluding impact of IFRS 9 ECL):-

		IFRS 9 transition adjustment at 1 January 2018				
	IAS 39 at 31 December 2017	Held-for-trading	Designated at fair value	Fair value through profit or loss - default	Amortised cost	Fair value through OCI
	KShs	KShs	KShs	KShs	KShs	KShs
Financial assets						
Cash and bank balances[1]	8,044,783	-	-	5,926,991	2,117,792	-
Held-for-trading	29,806,020	29,806,020	-	-	-	-
Available-for-sale	40,994,672	-	-	-	9,510,024	31,484,648
Held to maturity	5,444,178	-	-	-	5,444,178	-
Loans and receivables	143,279,444	-	-	-	143,279,444	-
Derivative assets	2,391,101	-	-	2,391,101	-	-
Other investments	17,500	-	-	17,500	-	-
Other assets	2,757,209	-	-	-	2,757,209	-
Total financial assets	**229,960,198**	**29,806,020**	**-**	**8,335,592**	**163,108,647**	**31,484,648**

[1] Cash and balances with central banks was in terms of IAS 39 classified as loans and receivables. Coins and bank notes and the reserving requirements held with the central bank have been classified as at fair value through profit or loss - default as the contractual terms do not give rise on specified dates to cash flows that represent solely payments of principal and interest on the principal amount outstanding.

The Group applied IFRS 9's classification and measurement requirements based on the facts and circumstances at 1 January 2018 in determining the transition adjustment. As at 1 January 2018, the Group determined the classification of financial assets on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. An assessment of the instrument's contractual terms was performed to determine whether the terms give rise on specified dates to cash flows that are solely payments of principal and interest of the principal amount outstanding (referred to as SPPI) and whether there is an accounting mismatch.

Equity financial assets are assessed to be designated as at fair value through profit or loss based on the facts and circumstances as at 1 January 2018.

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

(ii) Adoption of new and amended standards effective for the current period (continued)

IFRS 9 key financial impacts (continued)

Financial liabilities

From a classification perspective, with the exception of what is noted below, both IAS 39 and IFRS 9 have the same requirements for the classification of financial liabilities. From a recognition of gains and losses perspective, the amount of the change in fair value that is attributable to changes in the credit risk of financial liabilities that have been designated at fair value through profit and loss shall, in terms of IFRS 9, be recognised in OCI with the remaining amount of the change in the fair value of the financial liability being presented in profit or loss. The gains and losses presented in OCI are not subsequently recognised in profit or loss. Where, however, presenting the changes in the fair value of the liability due to changes in credit risk in OCI would create or enlarge an accounting mismatch in profit or loss, IFRS 9 permits the gains and losses due to changes in the credit risk of that liability to be recognised in profit or loss.

Notes continued

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

(ii) Adoption of new and amended standards effective for the current period (continued)

IFRS 9 key financial impacts (continued)

Table 4: The transition from IAS 39 to IFRS 9's impairment requirements by segment and asset class:-

	IAS 39 – 31 December 2017					IFRS 9 – 1 January 2018				IFRS 9 – transition adjustment		
	Performing portfolio provision	Specific debt provision	Total IAS 39 provision (excluding IIS)	IIS	Total IAS 39 provision (including IIS)	Stage 1	Stage 2	Stage 3	Total IFRS 9 provision (including IIS)	Gross	Tax	Net
KShs'000 (in thousand)	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Personal & Business Banking	378,864	1,632,282	2,011,146	503,267	2,514,413	307,880	1,260,333	1,632,282	3,703,762	1,189,349	356,804	832,545
Loans and advances measured at amortised cost	**378,864**	**1,632,282**	**2,011,146**	**503,267**	**2,514,413**	**298,147**	**1,260,333**	**1,632,282**	**3,694,029**	**1,179,616**	**353,885**	**825,731**
Mortgage loans	122,694	250,748	373,442	208,988	582,430	15,476	178,453	250,748	653,665	71,235	21,371	49,864
Vehicle and asset finance	89,734	727,413	817,147	149,453	966,600	103,558	279,476	727,413	1,259,900	293,300	87,990	205,310
Card debtors	7,733	18,207	25,940	-	25,940	14,820	20,891	18,207	53,918	27,978	8,393	19,585
Other loans and advances	158,703	635,914	794,617	144,827	939,444	164,293	781,513	635,914	1,726,547	787,103	236,131	550,972
Off-balance sheet exposures	-	-	-	-	-	9,733	-	-	9,733	9,733	2,919	6,814
Corporate & Investment Banking	1,641,541	1,611,318	3,252,859	1,160,705	4,413,564	488,801	2,139,318	1,672,020	5,460,844	1,047,280	314,184	733,096
Loans and advances measured at amortised cost	**1,641,541**	**1,611,318**	**3,252,859**	**1,160,705**	**4,413,564**	**405,035**	**2,103,336**	**1,611,321**	**5,280,397**	**866,833**	**260,050**	606,783
Corporate	1,580,002	1,585,580	3,165,582	1,160,705	4,326,287	343,496	2,103,272	1,582,544	5,190,017	863,730	259,119	604,611
Bank	61,539	25,738	87,277	-	87,277	61,539	64	28,777	90,380	3,103	931	2,172
Debt financial investments measured at fair value through OCI	-	-	-	-	-	**2,859**	-	-	**2,859**	**2,859**	**858**	**2,001**
Sovereign	-	-	-	-	-	2,859	-	-	2,859	2,859	858	2,001
Debt financial investments measured at amortised cost	-	-	-	-	-	**11,791**	**3,199**	-	**14,990**	**14,990**	**4,497**	**10,493**
Corporate	-	-	-	-	-	528	-	-	528	528	158	370
Sovereign	-	-	-	-	-	11,263	3,199	-	14,462	14,462	4,339	10,123
Off-balance sheet exposures	-	-	-	-	-	**69,116**	**32,783**	**60,699**	**162,598**	**162,598**	**48,779**	**113,819**
Total	2,020,405	3,243,600	5,264,005	1,663,972	6,927,977	796,681	3,399,651	3,304,302	9,164,606	2,236,629	670,988	1,565,641

2 Summary of significant accounting policies (continued)

2.1 Consolidation

(i) Subsidiaries

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying of the acquirer's previously held equity interest in the acquiree is re-measured to its fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2 Translation of foreign currencies

(i) Functional and presentation currency

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the Functional Currency'), which is also the presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the respective Functional Currencies of bank entities at exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss (except when recognised in OCI as part of qualifying cash flow hedges and net investment hedges).

Notes continued

2 Summary of significant accounting policies (continued)

2.2 Translation of foreign currencies (continued)

(ii) Transactions and balances (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items. Foreign exchange gains and losses on equities (debt) classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI (profit or loss) whereas the exchange differences on equities and debt that are classified as held at fair value through profit or loss are reported as part of the fair value gain or loss in profit or loss.

(iii) Foreign operations

The results and financial position of our operations in South Sudan, which is a hyperinflationary economic environment and has a Functional Currency different from the Group's presentation currency, are translated into Group's presentation currency as follows:

- income and expenses are translated at average exchange rates for the month, to the extent that such average rates approximate actual rates for the transactions; and

- all resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the foreign currency translation reserve.

On the partial disposal of a foreign operation, a proportionate share of the balance of the foreign currency translation reserve is transferred to the non-controlling interests. For all other partial disposals of a foreign operation, the proportionate share of the balance of the foreign currency translation reserve is reclassified to profit or loss.

On disposal (where a change in ownership occurs and control is lost) of a foreign operation, the relevant amount in the foreign currency translation reserve is reclassified to profit or loss at the time at which the profit or loss on disposal of the foreign operation is recognised.

These gains and losses are recognised in profit or loss either on disposal of a foreign operation or partial disposal (a reduction in ownership interest in a foreign operation other than a disposal) of an associate or joint venture that includes a foreign operation. In the case of a partial disposal of a foreign operation, the proportionate share of the cumulative amount of the exchange differences recognised in OCI is reclassified to the non-controlling interests in that foreign operation.

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 are translated at the closing rate. Exchange differences are recognised in OCI.

2.3 Net interest income

Interest income and expense (with the exception of those borrowing costs that are capitalised – refer to accounting policy 2.9 – Capitalisation of borrowing costs) are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss which are included under trading income and:

a) purchased or originated credit impaired (POCI) for which the original credit adjusted effective interest rate is applied to the amortised cost of the financial asset; and

b) financial assets that are not "POCI" that have subsequently become impaired for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of expected credit losses) in subsequent reporting periods.

Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial assets or, where appropriate,a shorter period to the net carrying amount of the financial asset or liability.

Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Dividends received on preference share investments classified as debt form part of the Group's lending activities and are included in interest income.

2.4 Non-interest revenue

a) Net fee and commission revenue

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the Group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income.

The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

2 Summary of significant accounting policies (continued)

2.4 Non-interest revenue (continued)

a) Net fee and commission revenue (continued)

Fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.

b) Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

c) Other revenue

Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, dividends relating to those financial instruments, and remeasurement gains and losses from contingent consideration on disposals and purchases.

d) Revenue sharing agreements with related companies

Revenue sharing agreements with related companies includes the allocation of revenue from transfer pricing agreements between the group's legal entities. The service payer makes payment to service sellers for services rendered. All agreements of a revenue sharing nature are presented in the income statement as follows:

- The service payer of the agreement recognises, to the extent the charge is less than revenue from the agreement, the charge to the service sellers within the income statement line item revenue sharing agreements with related companies. To the extent that the revenue allocation to service sellers within the group is greater than the available revenue from the agreement, the charge above the available revenue is recognised within other operating expenses.
- The service seller of the agreements recognises, to the extent the allocation is made out of available revenue of the service payer, the revenue from the service payer within the income statement line item revenue sharing agreements with related companies. To the extent the revenue is not received from the service payer's available revenue, such revenue is recognised as a fee and commission revenue.

2.5 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted balances with central banks, Treasury and other eligible bills and amounts due from banks on demand or with an original maturity of three months or less. These are subject to insignificant risk of changes in their fair value.

Notes continued

2 Summary of significant accounting policies (continued)

2.6 Financial instruments

(i) Initial recognition and measurement

(IFRS 9 and IAS 39)

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the Bank commits to purchase (sell) the instruments (trade date accounting).

(i) Initial recognition and measurement (continued)

IFRS 9 - accounting policies for financial instruments (continued)

Financial assets

Nature	
Amortised cost	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): • held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and • The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.
Fair value through OCI	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): • Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and • The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default. Equity financial assets which are not held for trading and are irrevocably elected (on an instrument-by-instrument basis) to be presented at fair value through OCI.
Held for trading	Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form 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.
Designated at fair value through profit or loss	Financial assets are designated to be measured at fair value to eliminate or significantly reduce an accounting mismatch that would otherwise arise.
Fair value through profit or loss - default	Financial assets that are not classified into one of the above mentioned financial asset categories.

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

IFRS 9 - accounting policies for financial instruments (continued)

Financial assets (continued)

(ii) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classifications as follows:

Amortised cost	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges.
	Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through OCI	Debt instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other gains and losses on financial instruments within non-interest revenue. Interest income on a debt financial asset is recognised in interest income in terms of the effective interest rate method. Dividends received on equity instruments are recognised in other revenue within non-interest income.
Held for trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.
Fair value through profit or loss - default	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.

Impairment of financial assets

Expected credit losses (ECL) are recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a Significant Increase in Credit Risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Notes continued

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

IFRS 9 - accounting policies for financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: • Default • significant financial difficulty of borrower and/or modification • probability of bankruptcy or financial reorganisation • disappearance of an active market due to financial difficulties.

The key components of the impairment methodology are described as follows:

Significant increase in credit risk	At each reporting date the Group assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.
Default	The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets: • significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower); • a breach of contract, such as default or delinquency in interest and/or principal payments; • disappearance of active market due to financial difficulties; • it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; • where the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Bank would not otherwise consider; • Exposures which are overdue for more than 90 days are also considered to be in default.
Forward-looking information	Forward-looking information is incorporated into the Group's impairment methodology calculations and in theGroup's assessment of SICR. The Group includes all forward looking information which is reasonable and available without undue cost or effort. The information will typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.
Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

IFRS 9 - accounting policies for financial instruments (continued)

Financial assets (continued)

ECLs are recognised within the statement of financial position as follows:

Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.
Off-balance sheet exposures (excluding loan commitments)	Recognised as a provision within other liabilities.
Financial assets measured at fair value through OCI	Recognised in the fair value reserve within equity. The carrying value of the financial asset is recognised in the statement of financial position at fair value.

Reclassification

Reclassifications of debt financial as sets are permitted when, and only when, the Group changes its business model or managing financial assets, in which case all affected financial assets are reclassified. Reclassifications are accounted for prospectively from the date of reclassification as follows:

- Financial assets that are reclassified from amortised cost to fair value are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments;
- The fair value of a financial asset that is reclassified from fair value to amortised cost becomes the financial asset's new carrying value;
- Financial assets that are reclassified from amortised cost to fair value through OCI are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in OCI;
- The fair value of a financial asset that is reclassified from fair value through OCI to amortised cost becomes the financial asset's new carrying value with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying value;
- The carrying value of financial assets that are reclassified from fair value through profit or loss to fair value through OCI remains at fair value;
- The carrying value of financial assets that are reclassified from fair value through OCI to fair value through profit or loss remains at fair value, with the cumulative fair value adjustment in OCI being recognised in the income statement at the date of reclassification.

Financial liabilities

Nature	
Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form 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.
Designated at fair value through profit or loss	Financial liabilities are designated to be measured at fair value in the following instances to eliminate or significantly reduce an accounting mismatch that would otherwise arise where; • the financial liabilities are managed and their performance evaluated and reported on a fair value basis • the financial liability contains one or more embedded derivatives that significantly modify the financial liabilty's cash flows.
Amortised cost	All other financial liabilities not included in the above categories.

Notes continued

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

IFRS 9 - accounting policies for financial instruments (continued)

Financial liabilities (continued)

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in the other gains and losses on financial instruments as part of non-interest revenue. Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue.
Amortised cost	Amortised cost using the effective interest method recognised in interest expense.

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

	DERECOGNITION	MODIFICATION
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by theGroup is recognised as a separate asset or liability.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes.
	The Group enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.	
	When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.	If the terms are not substantially different for financial assets or financial liabilities, the Group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).
	In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

IFRS 9 - accounting policies for financial instruments (continued)

Derecognition and modification of financial assets and liabilities (continued)

A financial guarantee contract is a contract that requires the Group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of the:

- ECL calculated for the financial guarantee
- unamortised premium

IAS 39 - Accounting Policies for financial instruments

The IAS 39 related accounting policies below are provided because financial instruments comparative balances were recognised and measured under this standard.

Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classifications as follows:

(a) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intention and ability to hold to maturity. This excludes:

1) those that the Group upon initial recognition designates at fair value through profit or loss;

2) those the Group designates as available for sale; and

3) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost, using the effective interest method, less any impairment losses.

(b) Held-for-trading assets and liabilities

Held-for-trading assets and liabilities include those financial assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term, those forming 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, and commodities that are acquired principally by the Group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. Derivatives are always categorised as held-for-trading.

Subsequent to initial recognition, the financial instruments' fair values are remeasured at each reporting date. All gains and losses, including interest and dividends arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue with the exception of derivatives that are designated and effective as hedging instruments (refer to note 2.6(c))

(c) Financial assets and liabilities designated at fair value through profit or loss

The Group designates certain financial assets and liabilities, other than those classified as held-for-trading, as at fair value through profit or loss when:

- this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. Under this criterion, the main classes of financial instruments designated by the Group are loans and advances to banks and customers and financial investments. The designation significantly reduces measurement inconsistencies that would have otherwise arisen. For example, where the related derivatives were treated as held-for-trading and the underlying financial instruments were carried at amortised cost. This category also includes financial assets used to match investment contracts;
- groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the Group's key management personnel on a fair-value basis. Under this criterion, certain private equity, and other investment portfolios have been designated at fair value through profit or loss; or
- financial instruments containing one or more embedded derivatives that significantly modify the instruments' cash flows. Subsequent to initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (interest expense) for all debt financial assets (financial liabilities) and in other revenue within non-interest revenue for all equity instruments.

(d) Available-for-sale

Financial assets classified by the Group as available-for-sale are generally strategic capital investments 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 non-derivative financial assets that are not classified within another category of financial assets.

Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains or losses are recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired. When debt or equity available-for-sale financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified to interest income.

Notes continued

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

IAS 39 - Accounting Policies for financial instruments (continued)

(d) Available-for-sale (continued)

Available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial asset below its cost. The cumulative fair value adjustments previously recognised in OCI on the impaired financial assets are reclassified to profit or loss. Reversals of impairments on equity available-for-sale financial assets are recognised in OCI.

Interest income, calculated using the effective interest method, is recognised in profit or loss. Dividends received on equity available-for-sale instruments are recognised in other revenue within profit or loss when the Group's right to receive payment has been established.

(e) Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the bank as at fair value through profit or loss or available-for-sale.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the Group's loans and advances are included in the loans and receivables category.

(f) Financial liabilities at amortised cost

Financial liabilities that are neither held for trading nor designated at fair value are measured at amortised cost.

Reclassification of financial assets

The Group may choose to reclassify non-derivative trading assets out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets that would not otherwise have met the definition of loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Derivatives or any financial instrument designated at fair value through profit or loss shall not be reclassified out of their respective categories.

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. Subsequent increases in estimates of cash flows adjust the financial asset's effective interest rates prospectively.

On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

Impairment of financial assets

a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the loan or group of loans that can be estimated reliably.

Criteria that are used by the bank in determining whether there is objective evidence of impairment include:

- known cash flow difficulties experienced by the borrower;
- a breach of contract, such as default or delinquency in interest and/or principal payments;
- breaches of loan covenants or conditions;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, and
- where the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Bank would not otherwise consider.

The Group first assesses whether there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Non-performing loans include those financial assets for which the Group has identified objective evidence of default, such as a breach of a material financial asset, covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

When a financial asset carried at amortised cost has been identified as specifically impaired, the carrying amount of the financial asset is reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis includes cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

IAS 39 - Accounting Policies for financial instruments (continued)

Impairment of financial assets (continued)

a) Assets carried at amortised cost (continued)

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment for impairment.

Impairment of groups of financial assets that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss trigger events and the date on which the bank identifies the losses). Groups of financial assets are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in statement of comprehensive income.

Increases in financial assets and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), are reflected within credit impairment charges in profit or loss. Previously impaired financial assets are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts. Any subsequent reductions in amounts previously impaired are reversed by adjusting the allowance account with the amount of the reversal recognised as a reduction in impairment for credit losses in profit or loss.

Subsequent to impairment, the effects of discounting unwind over time as interest income.

b) Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to on-going review to determine whether they are considered to be impaired or past due.

The effective interest rate of renegotiated loans that have not been derecognised (described under the heading Derecognition of financial instruments), is predetermined based on the loan's renegotiated terms.

c) Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have a negative impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is considered to be impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss.

If, in a subsequent period, the amount relating to impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

Borrowings

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost and interest is recognised using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Bank (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the bank is recognised as a separate asset or liability.

Notes continued

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

IAS 39 - Accounting Policies for financial instruments (continued)

Derecognition of financial instruments (continued)

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss.

In all other instances, the renegotiated asset or liability's effective interest rate is predetermined taking into account the renegotiated terms.

Derivative and embedded derivatives (IFRS 9 and IAS 39)

A derivative is a financial instrument whose fair value changes in response to an underlying variable, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date.

In the normal course of business, the Group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation, credit, commodity and equity exposures. Derivative instruments used by the Group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held-for-trading with all changes in fair value being recognised within trading revenue. This includes forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

In terms on IFRS 9 embedded derivatives included in hybrid instruments, where the host is a financial asset, is assessed in terms of the accounting policy on financial assets. In all other instances (being non-financial host contracts and financial liabilities), the embedded derivatives are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant Group accounting policy.

In terms of IAS 39 Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant Group accounting policy.

The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedge relationship.

Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements (Repos) are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposit and current accounts or trading liabilities, as appropriate.

Securities purchased under agreements to resell (reverse repurchase agreements), at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans and included under trading assets or loans and advances, as appropriate.

For repurchase and reverse repurchase agreements measured at amortised cost, the difference between the purchase and sales price is treated as interest and amortised over the expected life using the effective interest method.

Securities lent to counterparties are retained in the annual financial statements. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability.

Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

IAS 39 - Accounting Policies for financial instruments (continued)

Offsetting financial instruments

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 the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

2.7 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 in the principal (or most advantageous) market between market participants at the measurement date under current market conditions.

When a price for an identical asset or liability is not observable, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at measurement date.

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or determined using valuation models that utilise non-observable market data as inputs. The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Subsequent to initial recognition, fair value is measured based on quoted market prices or dealer price quotations for the assets and liabilities that are traded in active markets and where those quoted prices represent fair value at the measurement date.

If the market for an asset or liability is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

The Group has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits a group of financial assets and financial liabilities to be measured at fair value on a net basis. This election is applied where the Group:

- manages the group of financial assets and financial liabilities on the basis of the Group's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Group's documented risk management or investment strategy;
- provides information on that basis about the group of financial assets and financial liabilities to the Group's key management personnel; and
- is required to or has elected to measure those financial assets and financial liabilities at fair value at the end of each reporting period.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

2.8 Property and equipment

Equipment and owner-occupied properties, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised the income statement as incurred.

Owner-occupied properties are held for use in the supply of services or for administrative purposes.

Notes continued

2 Summary of significant accounting policies (continued)

2.8 Property and equipment (continued)

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. Land is not depreciated. Leasehold buildings are depreciated over the shorter of the lease period or its useful life.

The revaluation reserve in equity arose from revaluation of the Stanbic Bank, Chiromo Road office at the point where CfC Bank and Stanbic Bank merged.

The estimated useful lives of tangible assets are typically as follows;

Buildings	40 years
Motor vehicles	4-5 years
Computer equipment	3-5 years
Office equipment	5-10 years
Furniture and fittings	5-13 years
Capitalised leased assets	over the shorter of the lease term or its useful life

There has been no significant change to the estimated useful lives and depreciation methods from those applied in the previous financial year.

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 item is included in the income statement in the year the asset is derecognised.

The assets' residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.

2.9 Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's Cash-generating Units (CGU), or groups of CGUs that is expected to benefit from the synergies of the combination.

Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Note 29 sets out the major cash generating unit to which goodwill has been allocated.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment, an impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use. Any impairment recognised on goodwill is not subsequently reversed.

Computer software

Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the Group and have a probable future economic benefit beyond one year, are recognised as intangible assets. Capitalisation is further limited to development costs where the bank is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, and the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (2 to 10 years) from the date that the assets are available for use, and are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary.

2 Summary of significant accounting policies (continued)

2.10. Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss. Borrowing costs consist of interest and other costs that an entity incurred in connection with the borrowing of funds.

2.11 Impairment of non-financial assets

Non-financial assets are tested annually for impairment and additionally whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. 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. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (CGUs).Impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Property and equipment see note 26, note 2.8
- Intangible assets see note 28, note 2.9
- Disclosure on significant assumptions see note 3

2.12 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A lease of assets is either classified as a finance lease or operating lease.

(i) Group as lessee

Leases, where the Group assumes substantially all the risks and rewards incidental to ownership, are classified as finance leases. All other leases are classified as operating leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are calculated using the interest rate implicit in the lease, or the Group's incremental borrowing rate to identify the finance cost, which is recognised in profit or loss over the lease period, and the capital repayment, which reduces the liability to the lessor.

Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. Contingent rentals are expensed as they are incurred. 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.

(ii) Group as lessor

Leases, where the Group transfers substantially all the risks and rewards incidental to ownership, are classified as finance leases. All other leases are classified as operating leases.

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances in the statement of financial position.

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return. The tax benefits arising from investment allowances on assets leased to customers are accounted for in the direct taxation line.

Operating lease income from properties held as investment properties, net of any incentives given to lessees, is recognised on the straight-line basis or a more representative basis where applicable over the lease term. When an operating lease is terminated before the lease period has expired, any payment required by the Group by way of a penalty is recognised as income in the period in which termination takes place.

2.13 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in provision due to passage of time is recognised as an expense.

Notes continued

2 Summary of significant accounting policies (continued)

2.13 Provisions, contingent assets and contingent liabilities (continued)

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole.

A provision for restructuring is recognised when the Group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the Group, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group's control.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit.

Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote.

2.14 Taxation

(i) Direct tax

Current tax includes all domestic and foreign taxes based on taxable profits and capital gains tax. Current tax is determined for current period transactions and events and deferred tax is determined for future tax consequences. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI.

Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised for all taxable temporary differences, except:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses, and
- investments in subsidiaries, associates and jointly controlled arrangements (excluding mutual funds) where the bank controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. They are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(ii) Indirect tax

Indirect taxes, including non-recoverable VAT, skills development levies and other duties for banking activities, are recognised in profit or loss and included in administrative expenses.

2.15 Employee benefits

(i) Defined contribution plan

The Group operates a number of defined contribution plans, based on a percentage of pensionable earnings funded by both employer companies and employees, the assets of which are generally held in separate trustee-administered funds.

Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

The Group and its employees also contribute to the National Social Security Fund, these contributions are determined by local statutes and the Group's contributions are charged to profit or loss in the year which they relate to.

2.15 Employee benefits (continued)

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iii) Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.16 Dividends

Dividends in ordinary shares are charged to equity in the period in which they are declared.

2.17 Equity

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(i) Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.

(ii) Distributions on ordinary shares

Distributions are recognised in equity in the period in which they are declared. Distributions declared after the reporting date is disclosed in the distributions note.

Proposed dividends are disclosed separately within equity until declared.

2.18 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary share shareholders and the weighted average number of ordinary shared outstanding for the effects of all dilutive potential shareholders if any.

2.19 Equity-linked transactions

Equity compensation plans

The Group operates both equity-settled and cash-settled share-based compensation plans.

The fair value of equity-settled share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. Non-market vesting conditions, such as the resignation of employees and retrenchment of staff, are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against profit or loss and equity over the remaining vesting period.

On vesting of share options, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of equity-settled share options, proceeds received are credited to share capital and premium.

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every reporting date and on settlement. Any changes in the liability are recognised in profit or loss.

2.20 Segment reporting

An operating segment is a component of the Group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The Bank's identification of segments and the measurement of segment results is based on the Group's internal reporting to the excecutive committee.

Transactions between segments are priced at market-related rates.

2.21 Fiduciary activities

The Group commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the Group. However, fee income earned and fee expenses incurred by the Group relating to the Group's responsibilities from fiduciary activities are recognised in profit or loss.

Notes continued

2 Summary of significant accounting policies (continued)

2.22 Hyperinflation

The South Sudan economy was classified as hyperinflationary from 1 January 2016. Accordingly, the results, cash flows and financial position of Stanbic South Sudan Branch have been expressed in terms of the measuring unit current at the reporting date. The results, cash flows and financial position have also been expressed in terms of the measuring unit current at the reporting date.

As the presentation currency of the Group is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level or exchange rates in the current year. The prior period adjustments related to non-monetary items and differences arising on translation of comparative amounts are accounted for directly in retained earnings.

In 2018, the components of owners' equity, except retained earnings, were restated by applying a general price index from the dates the components were contributed or otherwise arose to the date of initial application. Non-monetary assets and liabilities are also restated at the date of initial application by applying to their cost and accumulated depreciation a general price index from the date the items were acquired to the date of initial application. The resulting adjustments determined at the beginning of the period are recognised directly in equity as an adjustment to opening retained earnings.

From the date of initial application and in subsequent periods, all components of owners' equity have been restated by applying a general price index from the beginning of the period or the date of contribution, if later. Items in the statement of financial position not already expressed in terms of the measuring unit current at the reporting period, such as non-monetary items carried at cost or cost less depreciation, are restated by applying a general price index. The restated cost, or cost less depreciation, of each item is determined by applying to its cost and accumulated depreciation the change in the general price index calculated from the later of the beginning of the reporting period and the date of acquisition up to the end of the reporting period. An impairment loss is recognised in profit or loss if the restated amount of a non-monetary item exceeds its estimated recoverable amount.

Restated retained earnings are derived from all other amounts in the restated statement of financial position.

All items recognised in the income statement are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred.

Gains or losses on the net monetary position are recognised in profit or loss within finance costs (Note 15).

All items in the statement of cash flows are expressed in terms of the general price index.

2.23 Letters of Credit Acceptances

Letters of credit acceptances arise in two ways:

(i) Issuing Bank

At initial recognition where the Group is the issuing bank. It recognises a contingent liability for the amount that it may be required to pay out to the confirming bank or beneficiary should the terms and conditions underlying the contract be met.

On the date that all terms and conditions underlying the contract are met, the Group recognises a financial asset (at fair value) on the statement of financial position as part of loans and advances for the contractual right to receive cash from the applicant. Concurrently, the Group recognises a financial liability (at fair value) on the statement of financial position as part of deposits for the contractual obligation to deliver cash to the beneficiary or the confirming bank, depending on the structure of the arrangement.

(ii) Confirming Bank

At initial recognition where the Group is the confirming bank .It recognises the amount that it may be required to pay out to the beneficiary should the terms and conditions underlying the contract be met. The Group concurrently recognises a contingent asset for the amount that the issuing bank may be entitled to receive.

On the date that all terms and conditions underlying the contract are met the Group recognises a financial asset (at fair value) on the statement of financial position as part of loans and advances for the contractual right to receive cash from the issuing bank and concurrently recognises a financial liability (at fair value) on balance sheet as part of deposits for the contractual obligation to deliver cash to the beneficiary.

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Unless otherwise stated, no material changes to assumptions have occurred during the year.

3.1 Going concern

The Group'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 Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3.2 Impairment of fair value through OCI/ available–for–sale investment

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.

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.3 Impairment of amortised cost/ Held to maturity investment

The Group reviews its debt securities classified as held to maturity 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.

3.4 Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets is determined using valuation techniques. Wherever possible, models use only observable market data. Where required, these models incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments.

The total amount of the change in fair value estimated using valuation techniques not based on observable market data that was recognised in profit or loss for the year ended 31 December 2018 was a profit of KShs nil (2017: KShs nil).

Additional disclosures on fair value measurements of financial instruments are set out in notes 2.7 and 38.

3.5 Development costs

The Group capitalises software development costs for an intangible assets in accordance with the accounting policy detailed in note 2.9. Initial capitalisation of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone and where the Group is able to demonstrate its intention and ability to complete and use the software.

3.6 Share-based payment

The Group has a number of cash and equity-settled share incentive schemes which are issued to qualifying employees based on the rules of the schemes. The Group uses the Black-Scholes option pricing model to determine the fair value of awards on grant date for its equity-settled share incentive schemes. The valuation of the Group's obligation with respect to its cash-settled share incentive scheme obligations is determined with reference to the SBG share price, which is an observable market input. In determining the expense to be recognised for both the cash and equity-settled share schemes, the Group estimates the expected future vesting of the awards by considering staff attrition levels. The Group also makes estimates of the future vesting of awards that are subject to non-market vesting conditions by taking into account the probability of such conditions being met. Refer to note 42 for further details regarding the carrying amount of the liabilities arising from the Group's cash-settled share incentive schemes and the expenses recognised in the income statement.

3.7 Income taxes

The Group is subject to direct taxation in two jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in note 34 and note 35, respectively, in the period in which such determination is made.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and on-going developments will determine the recognition of deferred tax. The most significant management assumption is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the entities in the bank in order to utilise the deferred tax assets.

Note 35 summarises the details of the carrying amount of the deferred tax assets. Accounting policy 2.13 provides further detail regarding the Group's deferred tax accounting policy.

3.8 Impairment of goodwill

The Group tests, on an annual basis, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note 29.

3.9 Hyperinflation

The Group exercises significant judgement in determining the onset of hyperinflation in countries in which it operates and whether the functional currency of its branches is the currency of a hyperinflationary economy.

Various characteristics of the economic environment of each country are taken into account. These characteristics include, but are not limited to, whether:

- The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency;
- Prices are quoted in a relatively stable foreign currency;
- Sales or purchase prices take expected losses of purchasing power during a short credit period into account;
- Interest rates, wages and prices are linked to a price index; and
- The cumulative inflation rate over three years is approaching, or exceeds, 100%.

Notes continued

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.9 Hyperinflation (continued)

Following management's assessment, the Group's subsidiary Stanbic Bank Kenya Limited's branch, Stanbic South Sudan has been accounted for as an entity operating in a hyperinflationary economy. The results, cash flows and financial position have been expressed in terms of the measuring units' current at the reporting date and the results and financial position.

The general price indices used in adjusting the results, cash flows and financial position of the branch is set out below:

The general price index used as published by the National Bureau of Statistics of South Sudan is as follows:

Date	Base year	General price index	Inflation rate
30 November 2018	2017	3,348.92	53.71%
30 September 2017	2016	2,178.73	78.68%

The impact of adjusting the Bank's results for the effects of hyperinflation is set out below:

	2018	2017 (Restated)
	KShs'000	KShs'000
Net increase in revenue	18,790	553,439
Net monetary loss	9,416	255,266
Decrease in profit after tax	(14,586)	(179,974)

3.10. Provisions

The accounting policy for provisions is set out in accounting policy 2.12 The principal assumptions taken into account in determining the value at which provisions are recorded at, in the Group's statement of financial position, include determining whether there is an obligation as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the obligation.

The probability of an event of a significant nature occurring will be assessed by management and, where applicable, consultation with the Group's legal counsel. In determining the amount and timing of the obligation once it has been assessed to exist, management exercises its judgement by taking into account all available information, including that arising after the statement of financial position date up to the date of the approval of the financial statements.

3.11 Expected credit loss (ECL) on financial assets - IFRS 9 drivers

ECL measurement period

Personal and business banking (PBB)

- The ECL measurement period at a minimum, is equal to the 12-month ECL of the financial asset.
- A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
- The impact of the lifetime loss given default (LGD) workout, being an increase in the lifetime period over which subsequent cures and re-defaults are considered.
- The IFRS 9 requirement to hold ECL on unutilised loan commitments, notably pertaining to PBB's card and other lending portfolios.

Corporate and investment banking (CIB)

- The ECL measurement period at a minimum, is equal to the 12-month ECL of the financial asset.
- A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
- The requirement to hold ECL on unutilised loan commitments has been included, where appropriate, within this classification.

Significant increase in credit risk (SICR) and low credit risk

A lifetime ECL requirement for all exposures for which there has been SICR. This included the impact of the LGD work out, being an increase in the life time period over which subsequent cures and re-defaults are considered. The requirement to hold ECL on off-balance sheet exposures has been included where appropriate within this classification.

PBB

In accordance with IFRS 9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised. SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk.

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.11 Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

Significant increase in credit risk (SICR) and low credit risk (continued)

PBB (continued)

The Group also determines an appropriate transfer rate of exposures from stage 1 to stage 2 by taking into account the expected levels of arrears status for similar exposures. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR throughout the life of the exposure and consequently facilitate appropriate impairment coverage.

Where behaviour scores are not available, historical levels of delinquency are applied in determining whether there has been SICR. For all exposures, IFRS 9's non-rebuttable presumption of 30 days past due as well as exposures classified as either debt review or as 'watch-list' are used to classify exposures within stage 2.

Forward looking economic expectations are included in the ECL by adjusting the probability of default (PD), LGD and SICR. Adjustments are made based on the bank's macro-economic outlook, using models that correlate these parameters with macro-economic variables. Where modelled correlations are not viable or predictive, adjustments are based on expert judgement to predict the outcomes based on the bank's macro-economic outlook expectations.

CIB

The Group uses a 25-point master rating scale to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the bank's 25-point master rating scale. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

CIB exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historic default experience which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historic default experience, exposures that are classified by the Group's master rating scale as investment grade are assessed for SICR at each reporting date but are considered to be of a low credit risk for IFRS 9 purposes.

Forward looking economic expectations are incorporated in CIB's client ratings. The client rating thus reflects the expected client risk for the Group's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.

Forward looking expectations

- The Group Economics Research team determines the macroeconomic outlook and a Group view of commodities over a planning horizon of at least three years. The outlook is provided to the legal entity Chief Financial Officer for review and asset and liability committee for approval.
- Macroeconomic outlooks take into account various variables such as gross domestic product, central bank policy interest rates, inflation, exchange rates and treasury bill rates.
- Narratives for each of the country economic outlooks, being bear, base and bull cases, are compiled and typically include consideration of the country's economic background, sovereign risk, foreign exchange risk, financial sector, liquidity and monetary policy stance.
- Probabilities are assigned to each of the bear, base and bull cases based on primary macroeconomic drivers and are reviewed monthly.
- The forward looking economic expectations are updated on a bi-annual basis or more regularly when deemed appropriate.

PBB

Adjustments to the PD and LGD, based on forward looking economic expectations at the reporting date resulted in the requirement to hold higher credit impairments.

CIB

Negligible impact as CIB's client ratings, used for IAS 39 purposes, typically included forward looking expectations.

Increased lifetime period over which subsequent cures and re-defaults are considered resulted in higher credit impairments for credit-impaired financial assets.

Default

The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the Basel definition) as occurring at the earlier of:

- where, in the Group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The Group will not rebut IFRS 9's 90 days past due rebuttable presumption.

Notes continued

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.11 Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

Write off policy

An impaired loan is written off once all reasonable attempts at collection have been made and there is no economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- the financial asset has been in default for the period defined for the specific product (i.e. vehicle and asset finance, mortgage loans, etc.) which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan; and
- at the point of write-off, the financial asset is fully impaired (i.e. 100% allowance) with the expectation that the probability of recovery is nil and this probability is not expected to change in the future.

As an exception to the above requirements, where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post-realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above. The shortfall amount does not need to meet the first requirement to be written off.

Partial write-off of an asset occurs when the Group gives a concession to a debtor such that a part of the loan will not be recovered. In this case, the part that will not be recovered is written off.

Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e. stage 3) still exist. Financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e. six full consecutive monthly payments per the terms and conditions). However, in the case of financial assets with quarterly or longer dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the bank's CIB or PBB Credit Governance Committee (as appropriate), such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial asset.

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, when compared to the credit rating at initial recognition, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively. In retail portfolios, a rehabilitation period of at least 6 months (subsequent to a customer repaying all outstanding facilities) would be needed for the customer's internal rating to decrease back to its rating scale at initial recognition and move from stage 2 to stage 1 accordingly.

Debt financial investments

In terms of IFRS 9, this impairment provision is calculated per exposure for the shorter of 12 months or the remaining lifetime of the exposure. Such exposures generally did not carry an impairment provision in terms of IAS 39's incurred loss impairment requirements.

Off-balance sheet exposures – bankers' acceptances, guarantees and letters of credit

The requirement to hold ECL on off-balance sheet financial instruments, such as guarantees and letters of credit, resulted in a requirement to hold additional credit impairment provisions which were not held in terms of IAS 39.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Where the probability of default is upgraded/downgraded by one notch, the expected credit loss is estimated to be KShs 435,562,000 lower or KShs 1,208,698,000 higher (2017: KShs nil).

(i) Portfolio loan impairments (IAS 39)

The Group assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio.

Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis.

The impairment for performing and non-performing but not specifically impaired loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.11 Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

(i) Portfolio loan impairments (IAS 39) (continued)

	Average loss emergence period	
	2018	2017
	Months	Months
Personal & Business Banking		
Mortgage loans	-	3
Instalment sale and finance leases	-	3
Card debtors	-	3
Other lending	-	3
Corporate & Investment Banking	**-**	**12**

*** For 2018, refer to note on Credit Risk (note 4.3)

(ii) Specific loan impairments

Non-performing loans include those loans for which the Bank has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Where the net present value of estimated cash flows to differ by +/-1%, the impairment loss is to be estimated at KShs 76,988,000 higher or KShs 76,988,000 lower (2017: KShs 63,127,000 higher or KShs 63,127,000 lower).

4 Financial risk management

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

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risks.

This note presents 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.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various committees, including the Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors of the Group 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. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. 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 Audit and Risk Committees are responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Committees are assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. The Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

The Group also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-statement of financial position loans and advances; the Group also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Group also trades in financial instruments where it takes positions in traded and over-the-counter instruments to take advantage of short-term market movements in bonds, currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Foreign exchange and interest rate exposures associated with derivatives are normally offset by entering into counter-balancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Notes continued

4 Financial risk management (continued)

4.1 Capital management - Company

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

4.2 Capital management- Group

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- to comply with the capital requirements set by the regulators, Central Bank of Kenya and Capital Market Authority;
- to safeguard the Group's ability (and its subsidiaries) to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

It uses two approaches of measuring capital for capital management.

a) Economic capital assessment

Economic capital is the Group's internal measure of required capital and it incorporates granular risk assessments and portfolio concentration effects that may be absent from the regulatory capital assessment process. Stanbic aggregates the individual risk type economic capital measurements conservatively assuming no inter-risk diversification. Economic capital is compared to Available Financial Reserves (AFR) to perform an assessment of capital adequacy based on internal measures.

b) Regulatory capital assessment

The Group's main subsidiary, Stanbic Bank Kenya Limited, monitors the adequacy of its capital using ratios established by the Central Bank of Kenya (CBK), which ratios are broadly in line with those of the Group for International Settlements (BIS).

These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The risk-based approach applies to both on and off-statement of financial position items. The focus of this approach is credit risk, interest rate risk, market risk, operational risk, concentration risk and underlying collateral risk.

The assets are weighted according to broad categories, each being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, and 100%) are applied.

The Group's key subsidiary (Stanbic Bank Kenya Limited) is required at all times to maintain:

- A minimum level of regulatory capital of KShs 1 billion as at 31 December 2018;
- A core capital (tier 1) of not less than 10.5% (2017: 10.5%) of total risk weighted assets plus risk weighted off-statement of financial position items;
- A core capital (tier 1) of not less than 8% (2017: 8%)of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 14.5% (2017: 14.5%) of its total risk weighted assets plus risk adjusted off statement of financial position items.

Off-balance sheet credit related commitments and forwards are converted to credit risk equivalents using credit conversion factors, designed to convert these items into statement of financial position equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets.

Tier 1 capital consists of shareholders' equity comprising paid up share capital, share premium and retained earnings less intangible assets, goodwill and investments in subsidiary institutions and equity instruments of other institutions. Tier 2 capital includes the Bank's term subordinated debt and regulatory loan loss reserves and cannot exceed tier 1 capital. Regulatory loan loss reserves qualifying as tier 2 capital cannot exceed 1.25% of the risk weighted assets total value.

4 Financial risk management (continued)

4.2 Capital management- Group (continued)

Stanbic Bank Kenya Limited, which is the Group's key subsidiary, had the following capital adequacy levels:

	2018 KShs'000	2017 KShs'000
Tier 1 capital (Core capital)		
Share capital	3,411,549	3,411,549
Share premium	3,444,639	3,444,639
Retained earnings	26,381,053	24,908,793
Total Tier 1 capital (Core capital)	**33,237,241**	**31,764,981**
Tier 2 capital		
Regulatory credit risk reserve	938,245	73
Qualifying subordinate liabilities	5,380,886	3,124,907
Total Tier 2 capital	**6,319,131**	**3,124,980**
Total capital (Tier 1 + Tier 2)	**39,556,372**	**34,889,961**
Risk - weighted assets		
Operational risk	33,099,577	31,767,770
Market risk	3,674,497	15,718,563
Credit risk on-statement of financial position	158,484,199	139,722,072
Credit risk off-statement of financial position	32,035,934	20,000,305
Total risk - weighted assets	**227,294,207**	**207,208,710**
Capital adequacy ratios		
Core capital / total deposit liabilities	16.5%	20.2%
Minimum statutory ratio	**10.5%**	**10.5%**
Core capital / total risk - weighted assets	14.6%	15.4%
Minimum statutory ratio	**10.5%**	**10.5%**
Total capital / total risk - weighted assets	17.4%	16.9%
Minimum statutory ratio	**14.5%**	**14.5%**

Notes continued

4 Financial risk management (continued)

4.3 Credit risk

Credit risk is the risk of loss arising out of failure of client counterparties to meet their financial or contractual obligations when due.

Credit risk is composed of counterparty risk (including primary, pre-settlement risk, issuer and settlement risk) and concentration risk. These risk types are defined as follows:

- **Counterparty risk:** The risk of credit loss to the Group as a result of failure by a counterparty to meet its financial and/or contractual obligations to the Group as they fall due.
- **Credit concentration risk:** The risk of loss to the Group as a result of excessive build-up of exposure to a specific counterparty or counterparty group, an industry, market, product, financial instrument or type of security, or geography, or a maturity. This concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

4.3.1 Governance committees

The primary governance committees overseeing credit risk are the Board Credit Risk Committee (BCRC) and Credit Risk Management Committee (CRMC). These committees are responsible for credit risk and credit concentration risk decision-making, and delegation thereof to Credit officers and committees within defined parameters.

Credit risk management is governed by the Group's overall credit policy guidelines. Respective Credit Risk Management Divisions, which report into the BCC, are responsible for the implementation of these guidelines, which cover compliance with prescribed sanctioning authority levels, avoidance of a high concentration of credit risk and regular review of credit limits. Limits on facilities to counter-parties are governed by internal restraints, which restrict large exposures in relation to the Group's capital.

The Group has set in place comprehensive resources, expertise and controls to ensure efficient and effective management of credit risk.

4.3.2 General approach to managing credit risk

The Group's credit risk comprises mainly wholesale and retail loans and advances, together with the counterparty credit risk arising from derivative contracts entered into with our clients and market counterparties.

The Group manages credit risk through:

- maintaining strong culture of responsible lending and a robust risk policy and control framework;
- identifying, assessing and measuring credit risk clearly and accurately across the Group , from the level of individual facilities up to the total portfolio;
- defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions;
- monitoring the Group's credit risk relative to limits; and
- ensuring that there is expert scrutiny and independent approval of credit risks and their mitigation.

Primary responsibility for credit risk management resides with the Group's business lines. This is complemented with an independent credit risk function embedded within the business units, which is in turn supported by the overarching group risk function.

Impairment provisions are provided for losses that have been incurred at the statement of financial position date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk.

The exposure to any one borrower including banks is further restricted by sub-limits covering on - and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

4.3.3 Management reporting

A number of reports are prepared as management information on credit risk. Various analysis of the data are done and a variety of reports are prepared on a monthly and quarterly basis. Some of these reports include:

- Monthly BCRC Report;
- Quarterly Board Audit Report;
- Quarterly Board Risk Report;
- Regulatory returns;
- Half-year results; and
- Annual financial statements.

These reports are distributed to management, regulators and are available for inspection by authorised personnel.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.4 Credit risk measurement

a) Loans and advances including loan commitments and guarantees

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Group has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. All models are managed under model development and validation policies that set out the requirements for model governance structures and processes, and the technical framework within which model performance and appropriateness is maintained. The models are developed using internal historical default and recovery data. In low default portfolios, internal data is supplemented with external benchmarks and studies. Models are assessed frequently to ensure on-going appropriateness as business environments and strategic objectives change, and are recalibrated annually using the most recent internal data.

In measuring credit risk of loans and advances to customers and to Groups at a counter-party level, the Group reflects three components:

(i) the 'probability of default' by the client or counter-party on its contractual obligations;

(ii) current exposures to the counter-party and its likely future development, from which the Group derives the 'exposure at default'; and

(iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

Probability of default (PD)

The Group uses a 25-point master rating scale to quantify the credit risk for each borrower as illustrated in the table on the following page. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable portfolio. The Group distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making and in managing credit risk exposures.

Loss given default (LGD)

Loss given default measures are a function of customer type, product type, seniority of loan, country of risk and level of collateralisation. LGDs are estimated based on historic recovery data per category of LGD. A downturn LGD is used in the estimation of the capital charge and reflects the anticipated recovery rates and macroeconomic factors in a downturn period.

Exposure at default (EAD)

Exposure at default captures the impact of potential draw-downs against unutilised facilities and changes in counterparty risk positions due to changes in market prices. By using historical data, it is possible to estimate the average utilisation of limits of an account when default occurs, recognising that customers may use more of their facilities as they approach default.

b) Debt securities

For debt securities, external rating such as Standard & Poor's rating or their equivalents are used by Group Treasury for managing of the credit risk exposures as supplemented by the Group's own assessment through the use of internal ratings tools.

Relationship between the bank master rating and external ratings

Core Banking system rating scale	Moody's Investor Services	Standard & Poor's	Fitch	Grading	Credit Quality
1-4	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	Investment Grade	Normal Monitoring
5-7	A1, A2, A3	A+, A, A-	A +, A, A-		
8-12	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-		
13-21	Ba1, Ba2, Ba3 B1, B2, B3	BB+, BB, BB-, B+ B, B-,	BB+, BB, BB- B+, B, B-	Sub-investment grade	
22-25	Caa1, Caa2 Caa3, Ca	CCC+, CCC, CCC-	CCC+, CCC, CCC-		Closing Monitoring
Default	C	D	D	D	D

Notes continued

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and banks, industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sublimit covering on-balance sheet and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

a) Credit tailored to customer profile

There is a clear distinction between the fundamental credit characteristics of the Group's customer base. This customer base is managed according to the following market segments:

- Corporate and Investment Banking (CIB); and
- Personal and Business Banking (PBB)

The Group has established separate credit management functions for each market segment.

Corporate and Investment Banking (CIB): Corporate, sovereign and bank portfolios

Corporate, sovereign and bank borrowers include Kenyan and international companies, sovereigns, local government entities, bank financial institutions, non-bank financial institutions and public sector entities. The entities include large companies as well as small and medium enterprises that are managed on a relationship basis. Creditworthiness is assessed based on a detailed individual assessment of the financial strength of the borrower. Exposure is usually in the form of short and long-term loans and advances but may include exposures arising from derivative contracts. In these sectors, credit risk management is characterised by a close working relationship between the counter-party, the customer relationship team and an independent credit evaluation manager. The credit evaluation manager bases his lending decision on an in-depth knowledge of the counterparty and the industry in which it operates, as well as an assessment of the creditworthiness of the counter-party based on a review of the audited financial statements and underlying risk parameters.

CIB believes that the use of sophisticated modelling techniques combined with an in-depth knowledge and understanding of each client is essential in properly assessing the credit risk, both initially and on an on-going basis, of each counterparty with whom it deals.

To this end CIB uses software developed by third party vendors, which is widely used by the banking industry globally in its credit management process. Expected default frequencies are an important tool in the formal credit assessment process of both new and existing business, and also form the basis for monitoring changes in counterparty credit quality on a day to day basis. Expected default frequencies will continue to be a vital component of credit risk management as the Group continues to improve credit processes and increases focus on portfolio credit management.

Personal and Business Banking (PBB): Retail portfolio

Retail mortgage exposures relate to mortgage loans to individuals and are a combination of both drawn and undrawn EADs. Qualifying retail revolving exposure (QRRE) relate to cheque accounts, credit cards and evolving personal loans and products, and include both drawn and undrawn exposures. Retail other covers other branch lending and vehicle finance for retail, retail small and retail medium enterprise portfolios. Branch lending includes both drawn and undrawn exposures, while vehicle and asset finance only has drawn exposures.

Internally developed behavioural scorecards are used to measure the anticipated performance for each account. Mapping of the behaviour score to a PD is performed for each portfolio using a statistical calibration of portfolio-specific historical default experience. The behavioural scorecard PDs are used to determine the portfolio distribution on the master rating scale. Separate LGD models are used for each product portfolio and are based on historical recovery data. EAD is measured as a percentage of the credit facility limit and is based on historical averages. EAD is estimated per portfolio and per portfolio-specific segment, using internal historical data on limit utilisation.

b) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

b) Financial covenants (for credit related commitments and loan books) (continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

c) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

d) Derivatives

For derivative transactions, the Group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure, where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

e) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The main types of collateral taken are:

Personal and Business Banking	
Mortgage lending	First ranking legal charge over the property financed.
Instalment sales	Joint registration of vehicles.
Other loans and advances	Debentures over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees.

Corporate and Investment Banking	
Corporate lending	All assets debenture over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees.

Longer-term finance and lending to corporate entities is generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise possible credit loss the Group seeks additional collateral from the counter-party as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Notes continued

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

e) Collateral (continued)

Valuation of collateral

The Group has a panel of valuers who undertake valuation of property and other assets to be used as Collateral. The valuers in the panel are qualified professional valuers with adequate experience in the field of property and machinery valuation. All the valuers on the panel provide the Group with professional indemnity to cover the Group in case of negligence. The Group ensures that all properties used as collateral are adequately insured during the term of the loan. Valuation reports on properties are valid for three years after which the property and equipment is revalued.

The table on the following page shows the financial effect that collateral has on the Group's maximum exposure to credit risk. The table includes collateral that management takes into consideration in the management of the Group's exposures to credit risk. All on- and off-balance sheet exposures that are exposed to credit risk, including non-performing loans, have been included. Collateral includes:

- Financial securities that have a tradable market, such as shares and other securities;
- Physical items, such as property, plant and equipment; and
- Financial guarantees and intangible assets.

Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the Group's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions.

In the retail portfolio, 74% (2017: 92%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures above 50% collateral coverage category is 100% (2017: 100%). Of the Group's total exposure, 47% (2017: 51%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

e) Collateral (continued)

31 December 2018	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Greater than 0% to 50%	Greater than 50% to 100%	Greater than 100%
Asset class								
Corporate	**80,118,936**	14,170,709	65,948,227	-	**65,948,227**	-	65,948,227	-
Sovereign	**72,254,494**	72,254,494	-	-	**-**	-	-	-
Group	**21,306,058**	21,306,058	-	-	**-**	-	-	-
Retail	**77,735,641**	**9,937,393**	**67,798,248**	**-**	**57,637,510**	**-**	**57,637,510**	**-**
Retail mortgage	**21,013,697**	-	21,013,697	-	**21,013,697**	-	21,013,697	-
Other retail	**56,721,944**	9,937,393	46,784,551	-	**36,623,813**	-	36,623,813	-
Total	**251,415,129**	**117,668,654**	**133,746,475**	**-**	**123,585,737**	**-**	**123,585,737**	**-**
Less: Impairments for loans and advances	(11,267,987)							
Total exposures	**240,147,142**							

31 December 2017						Collateral coverage - Total		
	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Greater than 0% to 50%	Greater than 50% to 100%	Greater than 100%
Asset class								
Corporate	**112,912,959**	10,172,724	102,740,235	-	**102,740,235**	-	102,740,235	-
Sovereign	**81,938,218**	81,938,218	-	-	**-**	-	-	-
Group	**12,640,509**	12,640,509	-	-	**-**	-	-	-
Retail	**71,401,695**	**7,597,906**	**63,803,789**	**-**	**63,803,789**	**-**	**63,803,789**	**-**
Retail mortgage	**25,411,817**	-	25,411,817	-	**25,411,817**	-	25,411,817	-
Other retail	**45,989,878**	7,597,906	38,391,972	-	**38,391,972**	-	38,391,972	-
Total	**278,893,381**	**112,349,357**	**166,544,024**	**-**	**166,544,024**	**-**	**166,544,024**	**-**
Less: Impairments for loans and advances	**(5,264,005)**							
Total exposure	**273,629,376**							

The Group holds collateral on loans and advances. The table below represents the collateral cover held on various types of loans and advances. Other deposits and margin balances held against off balance sheet facilities are included in other liabilities on note 34(a).

Notes continued

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

e) Collateral (continued)

Repossessed collateral

Assets repossessed as at the end of the year comprise saloon vehicles, prime movers and trailers, which had been financed by the Group under Vehicle and Asset Finance (VAF) and residential and commercial property financed under personal markets. As at the year end, the Group had taken possession of the following:

	GROUP	
Nature of assets	2018 KShs' 000	2017 KShs' 000
Residential property	86,973	19,650
Other	294,908	265,976
	381,881	**285,626**

It is the Group's policy to dispose of repossessed properties on the open market, at fair market value. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Renegotiated financial assets

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure. The renegotiations resulted in the continuation of the original financial asset, with no gain or loss recognised as a consequence of the restructuring. The table below show the carrying amount of financial assets whose term have been renegotiated, by class.

	GROUP	
	2018 KShs' 000	2017 KShs' 000
Personal and Business Banking		
Instalment sales and finance leases	969,259	61,380
Other loans and advances	7,827,828	21,957
Corporate and Investment Banking		
Corporate lending	-	-
	8,797,087	**83,337**

4.3.6 Default and provisioning policy

The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the BASEL definition) as occurring at the earlier of:

- where, in the Group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The Group does not rebut IFRS 9's 90 days past due rebuttable presumption.

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets as per IFRS 9:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower);
- a breach of contract, such as default or delinquency in interest and/or principal payments;
- disappearance of active market due to financial difficulties;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- where the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.6 Default and provisioning policy (continued)

Criteria for classification of loans and advances

IAS 39

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

The credit quality of financial assets is managed by the Group using the Group's internal credit rating system. The credit rating system utilises both quantitative and qualitative information in arriving at the credit rating. Financial information is used and is key in arriving at the credit rating of individual borrowers. The qualitative information used in generating the credit rating includes quality of management, account operation and the industry in which the customer operates. The key consideration though remains the ability of the customer to meet its financial obligation from its cash flow.

Performing loans

Neither past due nor specifically impaired loans: are loans that are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated 1 to 21, and close monitoring loans are generally rated 22 to 25 using the Group's master rating scale.

Early arrears but not specifically impaired loans: include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse conditions persist.

Non-performing loans

Non-performing loans are those loans for which:

- the Group has identified objective evidence of default, such as a breach of a material loan covenant or condition; or
- instalments are due and unpaid for 90 days or more.

Non-performing specifically impaired loans: are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows.

Specifically impaired loans are further analysed into the following categories:

- *Sub-standard: I*tems that show underlying well-defined weaknesses and are considered to be specifically impaired.
- *Doubtful:* Items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items.
- *Loss:* Items that are considered to be uncollectible in whole or in part. The bank provides fully for its anticipated loss, after taking collateral into account.

The impairment provision shown in the statement of financial position at 2018 year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two grading (doubtful and loss categories).

4.3.7 Credit Quality

a) Maximum exposure to credit risk before collateral held or other credit enhancements

Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 40. The Directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both the loan and advances portfolio and debt securities based on the following:

- 62% of the total maximum exposure is derived from loans and advances to customers (2017: 57%);28% represents investments in debt securities (2017: 22%);
- 76% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2017: 86%);
- 89% of the loans and advances portfolio are considered to be neither past due nor impaired (2017: 87%); and
- 99% of all the debt securities, which the Group has invested in, are issued by the Central Bank of Kenya (2017: 95%).

Notes continued

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit Quality (continued)

b) Credit quality by class

The table below shows the credit quality by class of loans and advances, based on the Group's credit rating system:

Year ended 31 December 2018		SB 1 - 12		SB 13 - 20		SB 21- 25		Default							
		Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Purchased/ originated credit impaired						
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	%	%
Loans and advances to customers															
PBB	76,393,937	-	-	51,536,603	-	-	20,073,035	4,784,299	-	4,784,299	1,947,091	638,133	2,585,224		7%
Mortgage loans	21,024,032	-	-	16,648,603	-	-	2,821,584	1,553,845	-	1,553,845	705,639	240,304	607,902	47%	8%
Vehicle and asset finance	14,394,242	-	-	9,829,299	-	-	3,328,484	1,236,459	-	1,236,459	202,880	129,533	904,046	76%	9%
Card debtors	610,492	-	-	-	-	-	610,492	-	-	-	(18,077)	-	18,077	100%	0%
Other loans and advances	40,365,171	-	-	25,058,701	-	-	13,312,475	1,993,995	-	1,993,995	670,500	268,296	1,055,199	59%	6%
CIB	81,460,640	7,860,447	-	58,455,721	2,677,549	204,453	362,801	11,899,669	-	11,899,669	4,502,664	1,823,815	5,573,191		
Corporate	81,460,640	7,860,447	-	58,455,721	2,677,549	204,453	362,801	11,899,669	-	11,899,669	4,502,664	1,823,815	5,573,191	54%	16%
	157,854,577	7,860,447	-	109,992,324	2,677,549	204,453	20,435,836	16,683,968	-	16,683,968	6,449,755	2,461,948	8,158,415		
Loans and advances to banks															
Bank	28,381,176	27,642,232	-	738,944	-	-	-	-	-	-	-	-	583	0%	0%
Gross carrying amount	186,235,753	35,502,679	-	110,731,268	2,677,549	204,453	20,435,836	16,683,968	-	16,683,968	6,449,755	2,461,948	8,158,998	55%	10%
Less: Total expected credit losses for loans and advances	(11,251,043)														
Net carrying amount of loans & advances measured at amortised cost	174,984,710														

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit Quality (continued)

b) Credit quality by class (continued)

	Gross Carrying amount	SB 1 - 12		SB 13 - 20		SB 21- 25		Default	
		Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Purchased/originated credit impaired
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Financial investments measured at amortised costs									
Corporate	708,677	662,092	-	-	46,585	-	-	-	-
Sovereign	22,509,806	17,386,449	-	5,123,357	-	-	-	-	-
Gross carrying amount	23,218,483								
Less: Total expected credit losses for loans and advances	(17,527)								
Net carrying amount of financial investments measured at amortised costs	23,200,956								
Financial investments at fair value through OCI									
Corporate	5,900	5,900	-	-	-	-	-	-	-
Sovereign	17,853,279	17,853,279	-	-	-	-	-	-	-
Gross carrying amount	17,859,179								
Add: Fair value reserve ralating to fair value adjustments (before the ECL balance)	(1,762)								
Net carrying amount of financial investments measured at fair value through OCI	17,857,417								

Notes continued

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit Quality (continued)

b) Credit quality by class (continued)

The table below shows the credit quality by class of loans and advances, based on the Group's credit rating system:

Year ended 31 December 2017			Performing loans				Non-performing loans										
			Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans										
							NPL NET OF IIS										
	Total loans and advances to customers KShs'000 2017	Balance sheet impairments for performing loans KShs'000 2017	Normal monitoring KShs'000 2017	Close monitoring KShs'000 2017	Early arrears KShs'000 2017	Non-performing KShs'000 2017	Sub-standard KShs'000 2017	Doubtful KShs'000 2017	Loss KShs'000 2017	Total KShs'000 2017	Securities and expected recoveries on specifically impaired loans KShs'000 2017	Net after securities and expected recoveries on specifically impaired loans KShs'000 2017	Balance sheet impairments for non-performing specifically impaired loans KShs'000 2017	Gross specific impairment coverage %	Total non-performing loans KShs'000 2017	Non-performing loans %	Interest in Suspense KShs'000 2017
	N=A+B+C+L		A	B	C	D	E	F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
Personal and Business Banking	**65 639 943**	**378 864**	**48 122 211**	**7 168 528**	**6 832 168**	**-**	**1 171 006**	**2 077 484**	**268 547**	**3 517 037**	**1 884 756**	**1 632 281**	**1 632 281**	**46%**	**3 517 037**	**5%**	**503 267**
- Mortgage lending	25 411 817	122 694	18 964 809	2 818 329	2 714 021		155 217	757 502	1 938	914 658	663 910	250 748	250 748	27%	914 658	4%	208 988
- Instalment sales and finance leases	13 149 039	89 734	9 064 565	356 683	2 408 572		422 076	873 041	24 102	1 319 219	591 806	727 413	727 413	55%	1 319 219	10%	149 453
- Card debtors	575 242	7 733	504 102	-	48 033		-	-	23 108	23 108	4 901	18 206	18 206	79%	23 108	4%	-
- Other loans and advances	26 503 845	158 703	19 588 735	3 993 516	1 661 542		593 713	446 940	219 400	1 260 053	624 139	635 914	635 914	50%	1 260 053	5%	144 827
Corporate and Investment Banking	**70 159 876**	**1 641 540**	**56 186 738**	**4 408 933**	**4 353 318**	**-**	**-**	**5 182 008**	**28 879**	**5 210 887**	**3 599 567**	**1 611 320**	**1 611 320**	**31%**	**5 210 887**	**7%**	**1 160 705**
- Corporate lending	70 159 876	1 641 540	56 186 738	4 408 933	4 353 318	-	-	5 182 008	28 879	5 210 887	3 599 567	1 611 320	1 611 320	31%	5 210 887	7%	1 160 705
Gross loans and advances to customers	**135 799 819**	**2 020 404**	**104 308 949**	**11 577 460**	**11 185 486**	**-**	**1 171 006**	**7 259 492**	**297 426**	**8 727 924**	**5 484 323**	**3 243 601**	**3 243 601**	**37%**	**8 727 924**	**6%**	**1 663 972**
Percentage of total book (%)	100.00%	1.49%	76.81%	8.53%	8.24%	0.00%	0.86%	5.35%	0.22%	6.43%	4.04%	2.39%	2.39%		6.43%		1.23%
Less:																	
Balance sheet impairment for performing loans and advances	(2 020 404)																
Balance sheet impairment for non-performing loans and advances	(3 243 601)																
Net loans and advances to customers	**130 535 814**																

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit Quality (continued)

c) Ageing analysis of past due but not impaired financial assets

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary.

The table below shows the ageing of financial assets that are past due at the reporting date but not impaired, per class.

	Performing (Early arrears)			Non - performing		Total
	1 to 29 days	30 to 59 days	60 to 89 days	90 to 180 days	More than 180 days	
31 December 2018	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Personal and Business Banking	**13,459,417**	**3,148,911**	**1,818,619**	**-**	**-**	**18,426,947**
Mortgage lending	2,177,993	757,608	376,744	-	-	*3,312,345*
Instalment sales and finance leases	2,101,589	785,140	168,876	-	-	*3,055,605*
Other loans and advances	9,179,835	1,606,163	1,272,999	-	-	*12,058,997*
Corporate and Investment Banking	**13,603,508**	**126,475**	**341,260**	**-**	**-**	**14,071,243**
Corporate lending	13,603,508	126,475	341,260	-	-	**14,071,243**
Total recognised financial instruments	**27,062,925**	**3,275,386**	**2,159,879**	**-**	**-**	**32,498,190**
31 December 2017						
Personal and Business Banking	**4,733,200**	**1,482,944**	**616,024**	**-**	**-**	**6,832,168**
Mortgage lending	1,745,427	705,774	262,821	-	-	**2,714,022**
Instalment sales and finance leases	1,756,159	508,797	143,616	-	-	**2,408,572**
Other loans and advances	1,231,614	268,373	209,587	-	-	**1,709,574**
Corporate and Investment Banking	**3,328,461**	**539,013**	**485,844**	**-**	**-**	**4,353,318**
Corporate lending	3,328,461	539,013	485,844	-	-	*4,353,318*
Total recognised financial instruments	**8,061,661**	**2,021,957**	**1,101,868**	**-**	**-**	**11,185,486**

Notes continued

4 Financial risk management (continued)

4.4 Market risk

Market risk is the risk of a change in market value, earnings (actual or effective) or future cash-flows of a portfolio of financial instruments (including commodities), caused by moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these measures.

4.4.1 Governance committees

The Group's policy is that all trading activities are undertaken within the Group's trading operations. The Board grants general authority to take on market risk exposure to the Group's Assets and Liabilities Committee (ALCO).

Market risk management process is required to measure, monitor and control market risk exposures. The Group manages market risk through following four principles.

i) Identification of market risks in the trading and banking books

This process entails checking that all market risks are identified. It includes an analysis of new business plans, new products, new pricing models, new risk models and regular reviews by Market Risk staff of financial and management accounts balance sheets, income statements, and portfolio structure hierarchies, accounting classification and accounting elections, jointly with financial control, Risk Self Assessments jointly with operational risk, price testing reports and profit and loss decomposition reports.

ii) Measurement of market risk

Measurement of market risks deals specifically and separately with normal market conditions and stress market conditions. Measurement of trading exposures under stress market conditions is effected by subjecting the portfolios to stress testing, e.g. historical scenarios, hypothetical scenarios on individual asset classes and across different asset classes. In order to highlight 'points of weakness' and identify particular sources of trading book exposure vulnerability, these stress tests capture the effects of abnormal movements in market variables (yield curves including basis curves, volatility surfaces, spot and/or rate moves, credit spread curves, recovery rate sensitivities etc.).

iii) Management of market risk

The Group manages market risk through a specification of risk appetite in form of market risk limits. It uses a suite of risk measurement techniques, including Value at Risk (VaR), Stress Value at Risk (SVar), stress testing, stop loss triggers, back-testing and specific business unit and product controls.

iv) Reporting of market risk

Market Risk has reporting procedures that highlight for attention within Market Risk or by management all forms of exposures i.e. limit breaches or other reports that will periodically be required to submit to different stakeholders e.g. Local ALCO, Local Board, Internal Capital Adequacy Assessment Process (ICAAP) stakeholders, Shareholders (Annual financial statements); Rating agencies; Central Bank of Kenya and other regulators.

4.4.2 Market risk exposure on banking operations

Banking-related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and the economic value of equity that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk. The Group's approach to managing Interest Rate Risk in Banking Book (IRRBB) is governed by applicable regulations and is influenced by the competitive environment in which the Bank operates. Treasury and Capital Management team monitors banking book interest rate risk together with the country ALCO.

The market risk function is independent of trading operations and it is accountable to ALCO. It is responsible for identifying, measuring, managing, controlling and reporting market risk as outlined in the market risk governance standard, with support from the central market risk function. The market risk function also has the ability to set individual trader mandates. Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk management unit to move exposures back in line with approved market risk appetite, with such breaches being reported to management and ALCO.

4.4.3 Approved regulatory capital approaches

The Group applies the Standardised approach for calculating market risk capital. The standardised method uses a "building block" approach, with the capital charge for each risk category calculated separately.

Market risk qualifying assets includes interest rate risk assets in the trading book and foreign currency risk assets throughout the Group.

4.4.4 Trading book market risk

Trading book market risk is represented by financial instruments held on the trading book, arising out of normal global markets' trading activity.

4.4.5 Approach to managing market risk in the trading book

The Stanbic Bank policy is that all trading activities are undertaken within the Group's trading operations. The market risk functions are independent of trading operations and accountable to ALCO. All Value at Risk (VaR) and stressed VaR (SVaR) limits require prior approval from ALCO. The market risk functions have the authority to set limits at a lower level.

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.5 Approach to managing market risk in the trading book (continued)

Market risk teams are responsible for identifying, measuring, managing, monitoring and reporting market risk as outlined in the market risk governance standard.

Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk functions to move exposures back in line with approved market risk appetite, with such breaches being reported to management and ALCO.

a) VaR and SVaR

The Group uses the historical VaR and SVaR approach to quantify market risk under normal conditions and under stressed conditions.

For risk management purposes VaR is based on 250 days of unweighted recent historical data, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in four steps:

- Calculate 250 daily market price movements based on 250 days' historical data.
- Calculate hypothetical daily profit or loss for each day using these daily market price movements.
- Aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days.
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

SVaR uses a similar methodology to VaR, but is based on a period of financial stress and assumes a 10-day holding period and a 99% confidence interval.

Where the Group has received internal model approval, the market risk regulatory capital requirement is based on VaR and SVaR, both of which use a confidence level of 99% and a 10-day holding period.

Limitations of historical VaR are acknowledged globally and include:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.
- The use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully.
- The use of a 95% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intraday exposures.
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

b) Stop-loss triggers

Stop-loss triggers are used to protect the profitability of the trading desks, and are monitored by market risk on a daily basis. The triggers constrain cumulative or daily trading losses through acting as a prompt to a review or close-out positions.

c) Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical and hypothetical simulations. Daily losses experienced during the year ended 31 December 2018 did not exceed the maximum tolerable losses as represented by the Group's stress scenario limits.

d) Back-testing

The Group back-tests its VaR models to verify the predictive ability of the VaR calculations and ensure the appropriateness of the models within the inherent limitations of VaR. Back-testing compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's calculated VaR In addition, VaR is tested by changing various model parameters, such as confidence intervals and observation periods to test the effectiveness of hedges and risk-mitigation instruments.

e) Specific business unit and product controls

Other market risk limits and controls specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor, stop-loss triggers, price validation and balance sheet substantiation.

Notes continued

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.6 Foreign exchange risk

Definition

The Group's primary exposures to foreign currency risk arise as a result of the translation effect on the Group's net assets in foreign operations, intragroup foreign-denominated debt and foreign denominated cash exposures and accruals.

Approach to managing foreign currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily risk according to existing legislation, and accounting parameters. It takes into account naturally offsetting risk positions and manages the Group's residual risk by means of forward exchange contracts, currency swaps and option contracts.

Hedging is undertaken in such a way that it does not constrain normal operational activities. In particular, the need for capital to fluctuate with risk-weighted assets is taken into account.

The repositioning of the currency profile is a controlled process based on underlying economic views of the relative strength of currencies. The Group does not ordinarily hold open exposures of any significance with respect to the banking book.

Gains or losses on derivatives are reported in profit or loss.

The table below summarises the Group's exposure to foreign exchange risk at 31 December 2018.

Included in the table are the Group's financial instruments at carrying amounts, categorised by currency (all amounts expressed in millions of Kenya Shillings):

At 31 December 2018	USD	GBP	EUR	Others	Total
Assets					
Cash and bank balances with banks abroad	18,930	851	1,003	1,639	**22,423**
Loans and advances	62,795	740	3,266	13	**66,815**
Investment in government securities	5,177	-	-	664	**5,842**
Balances due from group companies	20,048	3	-	950	**21,001**
Other foreign currency assets	2,326	0	295	588	**3,210**
Total foreign currency denominated financial assets	**109,277**	**1,594**	**4,565**	**3,855**	**119,291**
Liabilities					
Amounts due to banking institutions abroad	23,476	10	531	707	**24,723**
Deposits	70,116	9,422	5,865	1,446	**86,848**
Loans and advances	3,344	-	-	-	**3,344**
Balances due to group companies	13,157	-	220	-	**13,377**
Other foreign currency liabilities	4,534	3	3,596	1,126	**9,258**
Total foreign currency denominated financial liabilities	**114,626**	**9,434**	**10,212**	**3,279**	**137,551**
Net on balance sheet financial position	(5,349)	(7,840)	(5,646)	575	**(18,260)**
Off balance sheet net notional position	6,351	7,858	5,862	1,073	**21,144**
Overall net position	**1,003**	**18**	**216**	**1,648**	**2,884**

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.6 Foreign exchange risk (continued)

At 31 December 2017	USD	GBP	Euro	Others	Total
Assets					
Cash and bank balances with banks abroad	14,703	427	661	2,780	**18,571**
Loans and advances	59,601	391	5,649	1	**65,642**
Investment in Government Securities	2,141	-	-	1	**2,142**
Balances due from Group Companies	2,581	-	-	210	**2,791**
Other foreign currency assets	2,851	22	397	974	**4,244**
Total foreign currency denominated financial assets	**81,877**	**840**	**6,707**	**3,966**	**93,390**
Liabilities					
Amounts due to banking institutions abroad	29,782	8	186	616	**30,592**
Deposits	55,221	1,851	6,327	1,684	**65,083**
Loans and advances	-	-	-	-	**-**
Balances due to Group Companies	9,911	-	1,637	-	**11,548**
Other foreign currency liabilities	5,182	8	137	1,260	**6,587**
Total foreign currency denominated financial liabilities	**100,096**	**1,867**	**8,287**	**3,560**	**113,810**
Net on balance sheet financial position	(18,219)	(1,027)	(1,580)	406	**(20,420)**
Off balance sheet net notional position	20,414	1,036	2,098	(720)	**22,828**
Overall net position	**2,195**	**9**	**518**	**(314)**	**2,408**

The table below indicates the extent to which the Group was exposed to currency risk as at 31 December on its monetary assets and liabilities denominated in foreign currency. The table shows the sensitivity analysis for each currency to which the Group has significant exposure and the effect of the change in exchange rate on income statement.

Year ended 31 December 2018	Increase in currency rate in %	Effect on profit before tax	Effect on equity	Decrease in currency rate in %	Effect on profit before tax	Effect on equity
	2018	2018	2018	2018	2018	2018
Currency		KShs'000	KShs'000		KShs'000	KShs'000
USD	**0.92%**	9,225	6,457	**1.09%**	10,929	7,650
GBP	**2.70%**	606	424	**2.34%**	525	367
EUR	**2.19%**	5,407	3,785	**2.01%**	4,963	3,474
Year ended 31 December 2017	**Increase in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	**Decrease in currency rate in %**	**Effect on profit before tax**	**Effect on equity**
	2017	**2017**	**2017**	**2017**	**2017**	**2017**
Currency		**KShs'000**	**KShs'000**		**KShs'000**	**KShs'000**
USD	**0.82%**	17,991	12,593	**0.79%**	17,333	12,133
GBP	**2.92%**	325	228	**2.91%**	324	227
EUR	**1.93%**	11,989	8,392	**2.62%**	16,275	11,393

Notes continued

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.7 Interest rate risk

Interest rate risk in the banking book (IRRBB)

These are risks that have an impact on net interest income that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities.

IRRBB is further divided into the following sub risk types:

- **Repricing risk:** timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities.
- **Yield curve risk**: shifts in the yield curves that have adverse effects on the Group's income or underlying economic value.
- **Basis risk:** hedge price not moving in line with the price of the hedged position. Examples include bonds/swap basis, futures/underlying basis.
- **Optionality risk:** options embedded in Group asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract.
- **Endowment risk:** exposure arising from the net differential between interest rate insensitive assets such as non-earning assets, interest rate insensitive liabilities such as non-paying liabilities, and equity.

Approach to managing IRRBB

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

The Group's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the Group operates. The Bank's Treasury and Capital Management team monitors banking book interest rate risk operating under the oversight of ALCO.

Measurement

The analytical techniques used to quantify IRRBB include both earnings- and valuation-based measures. The analysis takes account of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.

Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing or maturity profiles, or through derivative overlays.

Limits

Interest rate risk limits are set in relation to changes in forecast banking book earnings and the economic value of equity. Economic value of equity sensitivity is calculated as the net present value of aggregate asset cash flows less the net present value of aggregate liability cash flows.

All assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on behavioural profiling.

Hedging of endowment risk

IRRBB is predominantly the consequence of endowment exposures, being the net effect of non-rate sensitive assets less non-rate sensitive liabilities and equity.

The endowment risk is hedged using liquid instruments as and when it is considered opportune. Where permissible, hedge accounting is adopted using the derivatives. The interest rate view is formulated through ALCO processes, following meetings of the monetary policy committees, or notable market developments.

Non-endowment IRRBB (repricing, yield curve, basis and optionality) is managed within the treasury and the global markets portfolios.

The table below indicates the KShs equivalent sensitivity of the Bank's banking book earnings (net interest income and banking book mark-to-market profit or loss) and other comprehensive income (OCI) given a parallel yield curve shock. A floor of 0% is applied to all interest rates under the decreasing interest rate scenario. Hedging transactions are taken into account while other variables are kept constant.

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.7 Interest rate risk (continued)

Currency	Increase in basis points 2018 KShs'000	Sensitivity of net interest income 2018 KShs'000	Sensitivity of other comprehensive income 2018 KShs'000	Decrease in basis points 2018 KShs'000	Sensitivity of net interest income 2018 KShs'000	Sensitivity of other comprehensive income 2018 KShs'000
KShs	250	815,205	(22,084)	200	(542,511)	17,668
Others*	100	3,250	-	100	(33,954)	-

Currency	Increase in basis points 2017 KShs'000	Sensitivity of net interest income 2017 KShs'000	Sensitivity of other comprehensive income 2017 KShs'000	Decrease in basis points 2017 KShs'000	Sensitivity of net interest income 2017 KShs'000	Sensitivity of other comprehensive income 2017 KShs'000
KShs	350	948,553	(1,153,661)	300	(1,345,202)	988,852
Others*	100	3,735	-	100	(2,751)	-

* These are any other currencies held by the Group not denominated in KShs.

4.5 Liquidity risk

Liquidity risk arises when the Group, despite being solvent, is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms. This inability to maintain or generate sufficient cash resources may arise where counterparties who provide the Group with short-term funding withdraw or do not rollover that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The nature of banking and trading activities results in a continuous exposure to liquidity risk. The Group manages liquidity in accordance with applicable regulations and within Group's risk appetite. The Bank's liquidity risk management governance framework supports the measurement and management of liquidity at various levels to ensure that all payment obligations can be met by the Group under both normal and stressed conditions. Liquidity risk management ensures that the Group has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times.

The Bank's liquidity risk management framework differentiates between:

- **Tactical (shorter-term) risk management:** managing intra-day liquidity positions and daily cash flow requirements, and monitoring adherence to prudential and internal requirements and setting deposit rates as informed by ALCO.
- **Structural (long-term) liquidity risk management:** ensuring a structurally sound statement of financial position, a diversified funding base and prudent term funding requirements.
- The Group's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the Group operates. The Bank's Treasury and Capital Management team monitors banking book interest rate risk operating under the oversight of ALCO.

Governance committees

The primary governance committee overseeing this risk is the Group Asset Liability Committee (ALCO), which is chaired by the Chief Executive. There is independent risk oversight of all liquidity limits and guidelines by Market Risk, Finance and Central Asset Liability Management units. ALCO reports to the Board Risk Committee.

Approach to managing liquidity risk

There is a sound and robust liquidity management process to measure, monitor and manage liquidity exposures. The following elements are incorporated as part of a cohesive liquidity management process:

a) *Maintaining a structurally sound statement of financial position;*

With actual cash flows typically varying significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments with an indeterminable maturity or drawdown period, as well as to certain liquid assets. Behavioural profiling assigns probable maturities based on historical customer behaviour. This is used to identify significant additional sources of structural liquidity in the form of liquid assets and core deposits, such as current and savings accounts, which exhibit stable behaviour despite being repayable on demand or at short notice.

Notes continued

4.5 Liquidity risk (continued)

Approach to managing liquidity risk (continued)

a) *Maintaining a structurally sound statement of financial position; (continued)*

Structural liquidity mismatch analysis are performed regularly to anticipate the mismatch between payment profiles of balance sheet items, in order to highlight potential risks within the Group's defined liquidity risk thresholds.

b) *Foreign currency liquidity management;*

A specific number of indicators are observed in order to monitor changes in market liquidity as well as the impacts on liquidity as a result of movements in exchange rates. Foreign currency loans and advances are restricted to the availability of foreign currency deposits.

c) *Ensuring the availability of sufficient contingency liquidity;*

Funding markets are evaluated on an on-going basis to ensure appropriate Group funding strategies are executed depending on the market, competitive and regulatory environment. The Group employs a diversified funding strategy.

d) *Preserving a diversified funding base;*

Concentration risk limits are used within the Group to ensure that funding diversification is maintained across products, sectors, and counterparties. Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital.

e) *Undertaking regular liquidity stress testing;*

Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on the funding profiles and liquidity positions of the Group. The crisis impact is typically measured over a two month period, as this is considered the most crucial time horizon for a liquidity event. Anticipated on- and off-balance sheet cash flows are subjected to a variety of Group-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the Group's ability to maintain sufficient liquidity under adverse conditions.

f) *Maintaining adequate liquidity contingency plans or liquidity buffer;*

Portfolios of highly marketable securities over and above regulatory and stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO defined limits on the basis of diversification and liquidity.

g) *Short-term and long-term cash flow management;*

Active liquidity and funding management is an integrated effort across a number of functional areas. Short-term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and internal requirements.

The Group's long term funding strategy is derived from the projected net asset growth which includes consideration of Personal & Business Banking and Corporate & Investment Banking asset classes, capital requirements, the maturity profile of existing wholesale funding and anticipated changes in the retail deposit base. Funding requirements and initiatives are assessed in accordance with ALCO requirements for diversification, tenure and currency exposure, as well as the availability and pricing of alternative liquidity sources.

Liquidity contingency plans are designed to, as far as possible, protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an extensive early warning indicator process supported by a clear and decisive crisis response strategy. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event.

The cumulative impact of the above elements is monitored on a monthly basis by the Group's ALCO and the process is underpinned by a system of extensive internal and external controls. In periods of increased volatility, the frequency of meetings is increased as required to facilitate appropriate and timely management action.

To ensure integrity of the process there is use of application of purpose built technology, documented processes and procedures; independent oversight by risk management and regular independent reviews and evaluations of the effectiveness of the system. The total amount of liquidity held is adequate to meet all internal stress tests as well as regulatory requirements.

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

Exposure to liquidity risk

The key measure by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, 'net liquid assets' includes cash and cash equivalents and financial investment debt securities for which there is an active and liquid market less any deposits from Groups. Details of the reported Group's key subsidiary, Stanbic Bank Kenya Limited, ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	2018 %	2017 %
At 31 December	**54.3**	52.3
Average for the year	**58.0**	56.0
Maximum for the year	**65.8**	61.4
Minimum for the year	**58.0**	51.4
Statutory minimum requirement	**20.0**	20.0

The tables below present the remaining contractual maturities of the Group's non-derivative financial liabilities; it includes a maturity analysis for financial assets that the Group holds as part of managing liquidity risk – e.g. financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

Notes continued

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities - GROUP

	Carrying value	Gross nominal inflow/(outflow)	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing After 5 years
	2018	2018	2018	2018	2018	2018	2018	2018
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Non- derivative financial assets								
Cash and balances to banks	22,061,875	22,061,875	22,061,875	-	-	-	-	-
Financial assets held for trading	31,202,035	33,052,574	-	12,500	23,628,540	7,731,995	444,219	1,235,320
Financial assets at FVOCI	17,857,417	18,461,684	-	1,500,000	12,281,337	4,035,337	645,011	-
Financial assets at amortised cost	23,200,956	32,416,353	-	-	4,528,248	4,460,873	10,217,791	13,209,441
Loans and advances to banks	28,380,593	28,399,896	7,269,352	21,130,544	-	-	-	-
Loans and advances to customers	146,604,117	175,384,482	23,153,478	2,719,829	14,209,634	16,318,971	101,079,327	17,903,243
Other assets	3,231,042	3,231,042	3,231,042	-	-	-	-	-
	272,538,035	313,007,907	55,715,747	25,362,873	54,647,759	32,547,176	112,386,348	32,348,004
Derivative assets:	*1,515,466*							
- Inflows		(490,620)	-	(39,016)	(219,997)	(137,397)	(94,210)	-
- Outflows		2,215,298	-	167,428	527,514	247,515	762,123	510,718
	1,515,466	1,724,678	-	128,412	307,516	110,118	667,913	510,718
Non- derivative financial liabilities								
Amounts due to other banks	(27,909,239)	(30,313,730)	-	(903,228)	(4,516,140)	(5,419,368)	(19,474,993)	-
Customer deposits	(191,584,675)	(192,660,301)	(175,854,126)	(6,294,944)	(5,610,838)	(4,138,015)	(762,378)	-
Financial liabilities – Held for trading	(10,040,568)	(10,287,578)	-	(1,699,825)	(7,747,142)	(840,611)	-	-
Borrowings	(7,064,013)	(8,982,749)	-	(60,970)	(288,026)	(307,067)	(5,035,081)	(3,291,605)
Other liabilities	(6,564,774)	(6,564,774)	(6,564,774)	-	-	-	-	-
	(243,163,269)	(248,809,133)	(182,418,900)	(8,958,967)	(18,162,146)	(10,705,061)	(25,272,452)	(3,291,605)
Derivative liabilities:	*(1,881,658)*							
- Inflows		373,804	-	15,916	67,264	96,152	152,506	41,965
- Outflows		(2,486,120)	-	(170,592)	(705,316)	(629,985)	(561,514)	(418,714)
	(1,881,658)	(2,112,317)	-	(154,676)	(638,052)	(533,832)	(409,007)	(376,750)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities - GROUP

	Carrying value	Gross nominal inflow/(outflow)	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing After 5 years
	2017	2017	2017	2017	2017	2017	2017	2017
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Non- derivative financial assets								
Cash and balances to banks	**8,044,783**	8,044,783	8,044,783	-	-	-	-	-
Financial assets held for trading	**29,806,020**	47,181,804	-	1,020,222	13,403,902	12,863,743	17,796,848	2,097,089
Financial assets-available-for-sale	**40,994,672**	49,217,139	-	2,000,000	22,165,232	7,412,420	7,415,979	10,223,510
Financial assets-held-to-maturity	**5,444,178**	5,590,370	-	-	263,932	263,932	2,093,757	2,968,750
Loans and advances to banks	**12,743,630**	12,874,511	8,538,628	4,335,883	-	-	-	-
Loans and advances to customers	**130,535,814**	166,750,035	23,414,144	2,728,564	14,218,061	16,371,383	95,065,830	14,952,054
Other assets	**3,220,570**	3,220,573	3,220,573	-	-	-	-	-
	230,789,667	**292,879,215**	**43,218,128**	**10,084,669**	**50,051,127**	**36,911,478**	**122,372,414**	**30,241,403**
Derivative assets:	***2,391,101***							
- Inflows	-	4,048,589	-	401,116	1,321,742	890,084	922,757	512,890
- Outflows	-	(164,879)	-	(861)	(18,695)	(62,916)	(59,219)	(23,188)
	2,391,101	**3,883,710**	**-**	**400,255**	**1,303,047**	**827,168**	**863,538**	**489,702**
Non- derivative financial liabilities								
Amounts due to other banks	**(38,707,135)**	(40,314,245)	(3,534,670)	(4,517,078)	(7,480,047)	(6,506,198)	(12,471,123)	(5,805,129)
Customer deposits	**(154,660,772)**	(154,970,529)	(141,704,193)	(4,039,695)	(6,128,566)	(2,638,956)	(447,685)	(11,434)
Trading liabilities	**(362,630)**	(381,672)	-	(159,844)	(221,828)	-	-	-
Borrowings	**(3,989,243)**	(6,072,000)	-	-	(259,000)	(259,000)	(5,554,000)	-
Other liabilities	**(5,596,830)**	(5,596,830)	(5,596,830)	-	-	-	-	-
	(203,316,610)	**(207,335,276)**	**(150,835,693)**	**(8,716,617)**	**(14,089,441)**	**(9,404,154)**	**(18,472,808)**	**(5,816,563)**
Derivative liabilities:	***(2,427,563)***							
- Inflows	-	70,421	-	1,629	3,865	4,638	37,101	23,188
- Outflows	-	(3,179,730)	-	(179,335)	(860,151)	(785,378)	(841,976)	(512,890)
	(2,427,563)	**(3,109,309)**	**-**	**(177,706)**	**(856,286)**	**(780,740)**	**(804,875)**	**(489,702)**

Notes continued

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities (continued)

The amounts in the table above have been compiled as follows:

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows which include interest payments
Issued financial guarantee contracts, and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
Derivative financial liabilities and financial assets held for risk management purpose	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) and the net amounts for derivatives that are net settled.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprises cash and cash equivalents and debt securities issued by sovereigns which can be readily sold to meet liquidity requirements. In addition the Group maintains lines of credit with other Groups and holds unencumbered assets eligible for use as collateral with central Groups.

The table below analyses the Company's non-derivative financial assets and liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

COMPANY	0-3 MONTHS
At 31 December 2018	**KShs'000**
Cash and balances to banks	130,867
Other liabilities	(109,553)
	21,314
At 31 December 2017	
Cash and balances to banks	111,803
Other liabilities	(105,801)
	6,002

4.6 Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

The following table sets out the impact of offset, as well as financial assets and financial liabilities that are subject to enforceable master netting arrangement or similar agreement, irrespective of whether they have been offset in accordance with IAS 32, as required by IFRS 7R disclosure requirements. The gross amounts of financial asset and financial liabilities and their net amounts disclosed in the table below have been measured in the statement of financial position on the following bases:

- Derivative asset and liabilities – fair value;
- Loans and advances – amortised cost; and
- Customer deposits – amortised cost.

4 Financial risk management (continued)

4.6 Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements (continued)

	Gross amount of recognised financial assets	Gross amounts of recognised financial liabilities offset in statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments, financial collateral and cash collateral received	Net amount
	2018	2018	2018	2018	2018
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets					
Loans and advances	174,984,710	-	174,984,710	(1,331,651)	173,653,059
Derivative assets	1,515,466	-	1,515,466	-	1,515,466
	176,500,176	**-**	**176,500,176**	**(1,331,651)**	**175,168,525**
Liabilities					
Deposits	193,367,907	-	193,367,907	(1,331,651)	192,036,256
Derivative liabilities	1,881,658	-	1,881,658	-	1,881,658
	195,249,565	**-**	**195,249,565**	**(1,331,651)**	**193,917,914**

	Gross amount of recognised financial assets	Gross amounts of recognised financial liabilities offset in statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments, financial collateral and cash collateral received	Net amount
	2017	2017	2017	2017	2017
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets					
Loans and advances	143,279,444	-	143,279,444	(1,520,838)	141,758,606
Derivative assets	2,391,101	-	2,391,101	-	2,391,101
	145,670,545	**-**	**145,670,545**	**(1,520,838)**	**144,149,707**
Liabilities					
Deposits	193,367,907	-	193,367,907	(1,520,838)	191,847,069
Derivative liabilities	2,427,563	-	2,427,563	-	2,427,563
	195,795,470	**-**	**195,795,470**	**(1,520,838)**	**194,274,632**

Notes continued

4 Financial risk management (continued)

4.6 Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements (continued)

The ISDA* and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the bank or the counterparties following other predetermined events. In addition the Group and its counterparties do not intent to settle on a net basis or to realise the assets and the liabilities simultaneously.

The Group receives collateral in the form of cash in respect of lending.

The table below sets out the nature of agreement, and the types of rights relating to items which do not qualify for offset but that are subject to a master netting arrangement or similar agreement.

Financial instrument	Nature of agreement	Basis on which amounts are compiled
Derivative assets and liabilities	ISDAs	The agreement allows for offset in the event of default.
Trading assets and trading liabilities	Global master repurchase agreements	The agreement allows for offset in the event of default.
Loans and advances to banks	Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banks Act requirements.
Deposits and current accounts	Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banks Act requirements.

IAS 32 Financial Instruments: Presentation (IAS 32) requires financial assets and financial liabilities to be offset and the net amount presented in the statement of financial position when, and only when, the Group has a current legally enforceable right to set off recognised amounts, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

* An ISDA master agreement is a standard agreement used in over-the-counter derivatives transactions. The ISDA Master Agreement, published by the International Swaps and Derivatives Association (ISDA), is a document that outlines the terms applied to a derivatives transaction between two parties.

5 Operating Segments

The Group is organised into two business units – Corporate and Investment Banking (CIB), Personal and Business Banking (PBB). The results of the business units are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance.

The Group is required to disclose information to the users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates in compliance with IFRS 8.

An operating segment is a component of the Group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. Identification of segments and the measurement of segment results is based on the Group's internal reporting to management.

Management has determined the operating segments based on the reports reviewed by the Group's Chief Executive (CE) with the assistance of the Group's Executive Committee (EXCO) and the Asset and Liability Committee (ALCO). Management considers the business from client turnover perspective.

The Group has therefore segmented its business as PBB and CIB. This is in line with Group reporting and decision-making reports.

The geographical spread (across borders) is also used as a part of performance analysis. The Group's main subsidiary (Stanbic Bank Kenya Limited) operates one Branch in the Republic of South Sudan. Further, SBG Securities Limited (another subsidiary) operates branches in Uganda and Rwanda but these are not considered material for segment reporting.

Personal and Business Banking (PBB)

PBB provides banking services to individual customers and small to medium sized enterprises. The products offered include:

(i) Mortgage Lending – provides residential accommodation loans to individual customers.

(ii) Instalment Sales and Finance Leases – comprises two areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.

(iii) Card Products – provides card facilities to individuals and businesses.

(iv) Transactional and Lending Products – transactions in products associated with the various points of contact channels such as Automated Teller Machines (ATMs), Internet, and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.

(v) Wealth Management and advisory services.

Corporate and Investment Banking (CIB)

CIB provides commercial and investment financial services to larger corporates, financial institutions and international counterparties. The products offered include:

(i) Global Markets – includes foreign exchange and debt securities and equities trading.

(ii) Transactional Products and Services – includes transactional banking and investor services.

(iii) Investment Banking – includes project finance, advisory, structured finance, structured trade finance, corporate lending, primary markets and property finance.

Notes continued

5 Segment information (continued)

5 (a) Results by business units

Statement of profit or loss	Total 2018 KShs'000	Total 2017 KShs'000	CIB 2018 KShs'000	CIB 2017 KShs'000	PBB 2018 KShs'000	PBB 2017 KShs'000
Interest income	19,247,721	16,608,234	11,322,422	9,518,834	7,925,299	7,089,400
Interest expense	(7,118,076)	(5,963,953)	(4,910,442)	(3,800,225)	(2,207,634)	(2,163,728)
Net interest income	**12,129,645**	**10,644,281**	**6,411,980**	**5,718,609**	**5,717,665**	**4,925,672**
Credit impairment losses	(2,064,462)	(2,761,325)	(809,143)	(1,982,800)	(1,255,319)	(778,525)
Net income after credit impairment losses	**10,065,183**	**7,882,956**	**5,602,837**	**3,735,809**	**4,462,346**	**4,147,147**
Fees and commission revenue	4,997,605	4,348,008	2,244,668	2,033,377	2,752,937	2,314,631
Fees and commission expense	(442,225)	(401,215)	(125,035)	(124,339)	(317,190)	(276,876)
Net fees and commission income	**4,555,380**	**3,946,793**	**2,119,633**	**1,909,038**	**2,435,747**	**2,037,755**
Trading revenue	5,350,670	3,827,033	5,350,670	3,826,906	-	127
Net income from financial instruments at fair value through profit and loss	40,938	576,477	40,938	576,477	-	-
Other income	16,841	69,805	11,935	67,902	4,906	1,903
Other gains and losses on financial instruments	891	-	891	-	-	-
Net trading and other income	**5,409,340**	**4,473,315**	**5,404,434**	**4,471,285**	**4,906**	**2,030**
Total income	**20,029,903**	**16,303,064**	**13,126,904**	**10,116,132**	**6,902,999**	**6,186,932**
Employee benefits expense	(5,894,324)	(5,735,195)	(2,433,833)	(2,482,980)	(3,460,491)	(3,252,215)
Depreciation and amortisation expense	(667,536)	(612,933)	(261,711)	(337,074)	(405,825)	(275,859)
Other operating expenses	(4,424,078)	(4,268,006)	(2,313,094)	(2,136,686)	(2,110,984)	(2,131,320)
Finance costs	(96,208)	(285,682)	(94,745)	(285,197)	(1,463)	(485)
Profit before income tax	**8,947,757**	**5,401,248**	**8,023,521**	**4,874,195**	**924,236**	**527,053**
Income tax expense	(2,670,591)	(1,091,754)	(2,354,547)	(896,418)	(316,044)	(195,336)
Profit for the year	**6,277,166**	**4,309,494**	**5,668,974**	**3,977,777**	**608,192**	**331,717**

5 Segment information (continued)

5 (a) Results by business units (continued)

Statement of financial position	Total 2018 KShs'000	Total 2017 KShs'000	CIB 2018 KShs'000	CIB 2017 KShs'000	PBB 2018 KShs'000	PBB 2017 KShs'000
Assets						
Cash and balances with Central Bank of Kenya	22,061,875	8,044,783	15,754,092	4,494,063	6,307,783	3,550,720
Financial investments	72,260,408	76,244,870	72,260,408	76,244,870	-	-
Derivative assets	1,515,466	2,391,101	1,515,466	2,391,101	-	-
Loans and advances to banks	28,380,593	12,743,630	27,778,160	12,743,630	602,433	-
Loans and advances to customers	146,604,117	130,535,809	75,017,036	66,066,027	71,587,081	64,469,782
Other assets and prepayments	3,727,559	3,220,572	370,601	250,221	3,356,958	2,970,351
Investment in subsidaries and other investments	17,500	17,500	17,500	17,500	-	-
Property, equipment and other intangible assets	3,485,095	3,663,275	1,336,268	2,038,748	2,148,827	1,624,527
Intangible assets - goodwill	9,349,759	9,349,759	8,882,271	8,882,271	467,488	467,488
Current tax asset	-	83,026	-	87,614	-	(4,588)
Deferred tax asset	3,167,882	2,444,394	2,179,472	1,613,706	988,410	830,688
Total assets	**290,570,254**	**248,738,719**	**205,111,274**	**174,829,751**	**85,458,980**	**73,908,968**
Liabilities						
Derivative liabilities	1,881,658	2,427,563	1,868,003	2,427,563	13,655	-
Financial liabilities – Held for trading	10,040,568	362,630	10,040,568	362,630	-	-
Deposits from banks	27,909,239	38,707,135	27,909,239	38,707,135	-	-
Deposits from customers	191,584,675	154,660,772	101,263,763	84,638,490	90,320,912	70,022,282
Borrowings	7,064,013	3,989,242	1,737,539	2,444,966	5,326,474	1,544,276
Other liabilities and accrued expenses	6,426,697	5,596,831	3,661,863	3,403,215	2,764,834	2,193,616
Current tax liability	1,039,984	-	742,739	-	297,245	-
Deferred tax liability	-	38,859	-	38,859	-	-
Total liabilities	**245,946,834**	**205,783,032**	**147,223,714**	**132,022,858**	**98,723,120**	**73,760,174**
Shareholders' equity	**44,623,420**	**42,955,687**	**29,512,853**	**30,271,993**	**15,110,568**	**12,683,694**
Funding	**-**	**-**	**28,374,708**	**12,534,900**	**(28,374,708)**	**(12,534,900)**
Total equity and liabilities	**290,570,254**	**248,738,719**	**176,736,567**	**162,294,851**	**113,833,688**	**86,443,868**

Notes continued

5 Segment information (continued)

5 (b) Results by geographical area

Statement of profit or loss	Total 2018 KShs'000	Total 2017 KShs'000	Kenya 2018 KShs'000	Kenya 2017 KShs'000	South Sudan 2018 KShs'000	South Sudan 2017 KShs'000
Interest income	19,247,721	16,608,233	19,246,098	16,607,079	1,623	1,154
Interest expense	(7,118,076)	(5,963,952)	(7,111,291)	(5,960,491)	(6,785)	(3,461)
Net interest income	**12,129,645**	**10,644,281**	**12,134,807**	**10,646,588**	**(5,162)**	**(2,307)**
Credit impairment losses	(2,064,462)	(2,761,325)	(2,113,139)	(3,009,644)	48,677	248,319
Net income after credit impairment losses	**10,065,183**	**7,882,956**	**10,021,668**	**7,636,944**	**43,515**	**246,012**
Fees and commission revenue	4,997,605	4,348,008	4,306,231	3,759,548	691,374	588,460
Fees and commission expense	(442,225)	(401,215)	(438,547)	(396,089)	(3,678)	(5,126)
Net fees and commission income	**4,555,380**	**3,946,793**	**3,867,684**	**3,363,459**	**687,696**	**583,334**
Trading revenue	5,350,670	3,827,033	4,909,965	3,366,998	440,705	460,035
Net income from financial instruments at fair value through profit and loss	40,938	576,477	40,938	576,477	-	-
Other income	16,841	69,805	16,841	69,799	-	6
Other gains and losses on financial instruments	891	-	891	-	-	-
Net trading and other income	**5,409,340**	**4,473,315**	**4,968,635**	**4,013,274**	**440,705**	**460,041**
Total income	**20,029,903**	**16,303,064**	**18,857,987**	**15,013,677**	**1,171,916**	**1,289,387**
Employee benefits expense	(5,894,324)	(5,735,195)	(5,582,175)	(5,454,907)	(312,149)	(280,288)
Depreciation and amortisation expense	(667,536)	(612,933)	(663,280)	(606,974)	(4,256)	(5,959)
Other operating expenses	(4,424,078)	(4,268,006)	(4,070,895)	(3,876,441)	(353,183)	(391,565)
Finance costs	(96,208)	(285,682)	(56,785)	(58,678)	(39,423)	(227,004)
Profit before income tax	**8,947,757**	**5,401,248**	**8,484,852**	**5,016,677**	**462,905**	**384,571**
Income tax expense	(2,670,591)	(1,091,754)	(2,604,689)	(1,065,551)	(65,902)	(26,203)
Profit for the year	**6,277,166**	**4,309,494**	**5,880,163**	**3,951,126**	**397,003**	**358,368**

5 Segment information (continued)

5 (b) Results by geographical area (continued)

Statement of financial position	Total 2018 KShs'000	Total 2017 KShs'000	Kenya 2018 KShs'000	Kenya 2017 KShs'000	South Sudan 2018 KShs'000	South Sudan 2017 KShs'000
Assets						
Cash and balances with Central Bank of Kenya	23,951,804	8,966,331	21,951,949	7,946,940	1,999,855	1,019,391
Financial investments	72,260,408	76,244,870	72,260,408	76,244,870	-	-
Derivative assets	1,515,466	2,391,101	1,515,466	2,391,055	-	46
Loans and advances to banks	38,702,160	19,741,699	25,378,053	8,522,015	13,324,107	11,219,684
Loans and advances to customers	146,661,938	130,646,725	146,649,714	130,642,006	12,224	4,719
Other assets and prepayments	6,298,521	5,622,753	6,251,748	5,565,074	46,773	57,679
Investment in subsidaries and other investments	17,500	17,500	17,500	17,500	-	-
Property, equipment and other intangible assets	3,485,095	3,663,274	3,404,498	3,600,449	80,597	62,825
Intangible assets - goodwill	9,349,759	9,349,759	9,349,759	9,349,759	-	-
Current tax asset	-	83,025	-	63,661	-	19,364
Deferred tax asset	3,167,882	2,444,394	3,158,662	2,444,394	9,220	-
Total assets	**305,410,533**	**259,171,431**	**289,937,757**	**246,787,723**	**15,472,776**	**12,383,708**
Liabilities						
Derivative liabilities	1,881,658	2,427,562	1,881,658	2,427,562	-	-
Financial liabilities – Held for trading	10,040,568	362,630	10,040,568	362,630	-	-
Deposits from banks	40,177,886	46,759,668	39,091,045	45,941,810	1,086,841	817,858
Deposits from customers	191,584,675	154,660,772	180,953,083	146,647,348	10,631,592	8,013,424
Borrowings	7,064,013	3,989,243	7,064,013	3,989,243	-	-
Other liabilities and accrued expenses	8,998,330	7,977,142	6,221,171	5,247,823	2,777,159	2,729,319
Current tax liability	1,039,983	-	975,595	-	64,388	-
Deferred tax liability	-	38,859	-	-	-	38,859
Total liabilities	**260,787,113**	**216,215,876**	**246,227,133**	**204,616,416**	**14,559,980**	**11,599,460**
Shareholders' equity	**44,623,420**	**42,955,555**	**43,710,623**	**42,171,307**	**912,797**	**784,248**
Total equity and liabilities	**305,410,533**	**259,171,431**	**289,937,756**	**246,787,723**	**15,472,777**	**12,383,708**

Notes continued

5 Segment information (continued)

5 (b) Results by geographical area (continued)

Reconciliation of reportable assets and liabilities

	GROUP	
	2018 KShs'000	2017 KShs'000
Assets		
Total assets for reportable segments	305,410,533	259,171,430
Elimination of inter-branch balances with South Sudan	(14,840,279)	(10,432,711)
Entity's assets	**290,570,254**	**248,738,719**
Liabilities		
Total liabilities for reportable segments	305,410,533	259,171,430
Elimination of inter-branch balances with South Sudan	(14,840,279)	(10,432,711)
Entity's liabilities	**290,570,254**	**248,738,719**

6 Interest income

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Loans and advances to customers	14,589,388	12,061,634	-	-
Financial assets – (FVOCI/available-for-sale)	2,362,958	4,164,388	-	-
Financial investments – (amortised cost/ held to maturity)	1,982,526	120,823	-	-
Placements and other bank balances	312,849	261,389	16,214	22,451
	19,247,721	**16,608,234**	**16,214**	**22,451**

7 Interest expense

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Current accounts	1,222,518	718,987	-	-
Savings and term deposit accounts	3,277,462	2,984,876	-	-
Deposits and placements from other banks	1,935,371	1,738,995	-	-
Interest on borrowed funds	682,725	521,104	-	-
	7,118,076	**5,963,962**	**-**	**-**
Net interest income	**12,129,645**	**10,644,272**	**16,214**	**22,451**

All interest income reported above relates to financial assets not carried at fair value through profit or loss and all interest expense reported relates to financial liabilities not carried at fair value through profit or loss.

8 Fees and commission revenue

	GROUP 2018 KShs'000	GROUP 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Account transaction fees	1,499,767	1,347,361	-	-
Knowledge based fees and commission	1,309,297	1,177,103	-	-
Electronic banking fees	545,982	372,899	-	-
Foreign service fees	540,178	510,838	-	-
Documentation and administration fees	286,904	304,349	-	-
Brokerage commission	270,812	251,537	-	-
Other	544,665	383,921	-	-
	4,997,605	**4,348,008**	**-**	**-**

9 Fees and commission expense

	GROUP 2018 KShs'000	GROUP 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Card based commission	165,407	104,222	-	-
Knowledge based fees and commission	90,199	69,010	-	-
Other bank - related fees and commission	186,619	227,983	-	-
	442,225	**401,215**	**-**	**-**

Other bank related fees and commission relates to card courier fees.

The net fees and commission earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers is KShs 305,885,000 (2017: KShs 268,413,000).

All net fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss.

10 Trading revenue

	GROUP 2018 KShs'000	GROUP 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Net foreign exchange income	5,350,670	3,827,033	-	-

11 Net income from financial instruments at fair value through profit and loss

	GROUP 2018 KShs'000	GROUP 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Fixed Income-financial assets-(FVTPL/ Held for trading)	40,938	576,477	-	-

12 Other income

	GROUP 2018 KShs'000	GROUP 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Gain on disposal of property and equipment	1	-	-	-
Dividend income	95	400	2,500,016	1,900,000
Interest recovered from Group receivables	-	46,240	-	-
Other income	16,745	23,165	-	274
	16,841	**69,805**	**2,500,016**	**1,900,274**

Notes continued

	Notes	GROUP 2018 KShs'000	GROUP 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
13 Employee benefits expense					
Salaries and wages		5,491,091	5,346,064	-	-
Retirement benefit costs		403,233	389,131	-	-
		5,894,324	**5,735,195**	**-**	**-**
Included in retirement benefit costs are;					
Defined contribution scheme		400,310	385,986	-	-
National Social Security Fund		2,923	3,145	-	-
		403,233	**389,131**	**-**	**-**
Staff numbers for the year;					
Management		353	292	-	-
Supervisory		485	511	-	-
Clerical		234	285	-	-
Other categories		40	45	-	-
Total		1,112	1,133	-	-

The staff numbers at year refer to permanent and contract employees

	Notes	GROUP 2018 KShs'000	GROUP 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
14 Breakdown of expenses by nature					
Profit before tax has been arrived at after charging-;					
Employees benefit	13	5,894,324	5,735,195	-	-
Audit fees		39,387	23,006	2,278	1,884
Directors' fees		44,754	36,557	9,085	7,165
Depreciation of property and equipment	26	414,148	377,316	-	-
Amortisation of prepaid operating lease	27	2,953	2,954	-	-
Amortisation of intangible assets	28	250,435	232,663	-	-
15 Finance costs					
Bank charges		86,792	99,181	860	524
Loss in monetary value		9,416	186,501	-	-
		96,208	**285,682**	**860**	**524**

16 Income tax expense

	Notes	GROUP 2018 KShs'000	GROUP 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Current income tax	35	2,728,485	2,096,245	4,773	1,554
Current year charge		2,973,709	2,096,245	4,773	1,554
Previous year current income tax over provision		(245,224)	-	-	-
Deferred income tax		(57,894)	(1,004,491)	165	(215)
Current year charge asset (credit)/ debit	36 (a)	(625,529)	(1,030,555)	165	(215)
Previous year deferred income tax under provision	36 (a)	606,494	-	-	-
Current year charge liability (credit)/ debit	36 (b)	(38,859)	26,064	-	-
Income tax expense for the year		**2,670,591**	**1,091,754**	**4,938**	**1,339**

Reconciliation of tax expense to expected tax base based on accounting profit:

The tax on the profit before tax differs from the theoretical amount using the statutory income tax rate as follows:

	GROUP 2018 KShs'000	GROUP 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Profit before income tax	**8,947,757**	**5,401,248**	**2,488,504**	**1,878,230**
Tax at statutory tax rate of 30% (2017: 30%)	2,684,327	1,620,373	746,551	563,469
Tax effect of:				
Income not subjected to tax	(594,089)	(681,926)	(750,005)	(570,224)
Expenses not deductible for tax purposes	154,495	137,002	8,392	8,094
Previous year's current tax over provision	(245,224)	-	-	-
Previous year's deferred income tax under provision	606,494	26,064	-	-
Effect of tax paid in other jurisdictions	64,588	(9,760)	-	-
Income tax expense	**2,670,591**	**1,091,753**	**4,938**	**1,339**

Notes continued

17 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Earnings (Profit after tax)				
Earnings for the purposes of basic earnings per share (KShs' 000)	6,277,166	4,309,494	2,483,566	1,876,891
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	395,322	395,322	395,322	395,322
Earnings per share (KShs) basic and diluted	**15.88**	**10.90**	**6.28**	**4.75**

There were no potentially dilutive shares as at 31 December 2018 or 31 December 2017. Therefore, diluted earnings per share are the same as basic earnings per share.

18 Dividend

	GROUP AND COMPANY	
	2018	2017
The calculation of dividends per share is based on:		
Dividends for the year attributable to ordinary shareholders:		
Interim dividend paid (KShs '000)	889,474	494,153
Final dividend proposed (KShs '000)	1,403,392	1,581,287
	2,292,866	**2,075,440**
Number of ordinary shares at issue date (thousands)	395,322	395,322
Dividends per share – KShs	**5.80**	**5.25**

At the annual general meeting to be held on 9 May 2019, a final dividend in respect of the year ended 31 December 2018 of KShs 3.55 (2017: KShs 4.00) per share amounting to a total of KShs 1,403,392,000 (2017: KShs 1,581,287,000) is to be proposed. These financial statements do not reflect this dividend as payable, the proposed dividend has however been transferred to a separate category of equity.

During the year an interim dividend of KShs 2.25 (2017: KShs 1.25) per share, amounting to a total of KShs 889,474,000 (2017: KShs 494,152,000) was paid. The total dividend for the year, if the final dividend will be declared, will therefore be KShs 5.80 (2017: KShs 5.25) per share, amounting to a total of KShs 2,292,866,000 (2017: KShs 2,075,439,000).

Payment of dividends is subject to withholding tax at a rate of either 10% or 15% depending on the residence of the respective shareholders.

19 Cash and balances with Central Bank of Kenya

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Cash in hand	2,024,503	1,586,469	-	-
Balances with Central Bank of Kenya	20,037,372	6,458,314	-	-
	22,061,875	**8,044,783**	**-**	**-**

19 Cash and balances with Central Bank of Kenya (continued)

The Group's key subsidiary, Stanbic Bank Kenya Limited, is required to maintain a prescribed minimum cash reserve ratio (CRR) including cash in hand and balances with Central Bank of Kenya. The minimum cash reserve is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. At 31 December 2018, the cash reserve requirement was 5.25% of the eligible deposits (2017: 5.25%). The cash reserve requirement balance for the year ended 31 December 2018 is KShs 9,017,102,000 (2017: KShs 7,459,981,000). The Central Bank allows a daily minimum of 3% of CRR when the average total reserving for the month is above KShs 5,250,000,000. The Group therefore held KShs 9,017,102,000 as at 31 December 2018 (2017: KShs 4,340,522,340) to fulfil the prudential requirement.

20 Financial investments and liabilities – FVTPL

20 (a) Financial investments – Held for trading

	GROUP	
Debt securities	**2018 KShs'000**	**2017 KShs'000**
Government treasury bills and bonds	31,202,021	29,805,992
Corporate bonds	14	28
	31,202,035	**29,806,020**
Maturity analysis;		
Maturing within 1 month	-	998,307
Maturing after 1 months but within 6 months	23,059,441	12,674,151
Maturing after 6 months but within 12 months	7,196,326	12,176,738
Maturing after 12 within	946,268	3,956,824
	31,202,035	**29,806,020**

The maturities represent periods to contractual redemption of trading assets recorded. Financial investments -Held for trading had a redemption value at 31 December 2018 of KShs 32,147,772,000 (2017: KShs 30,622,707,000). The weighted average effective interest yield on debt securities held at FVTPL 31 December 2018 was 10.28% (2017: 10.51%).

20 (b) Financial liabilities – Held for trading

	GROUP	
	2018 KShs'000	**2017 KShs'000**
Unlisted	10,040,568	362,630
Maturity analysis;		
Maturing within 1 month	1,349,175	152,965
Maturing after 1 months but within 6 months	7,844,401	209,665
Maturing after 6 months but within 12 months	846,992	-
	10,040,568	**362,630**

The maturities represent periods to contractual redemption of financial liabilities- FVTPL recorded. Dated financial liabilities had a redemption value at 31 December 2018 of KShs 10,296,401,000 (2017: KShs 358,794,000). The weighted average effective interest cost on debt securities held for trading at 31 December 2018 was 6.91% (2017: 5.64%).

21 Financial investments – (FVOCI/available-for-sale)

		GROUP	
	Notes	**2018 KShs'000**	**2017 KShs'000**
Financial assets – (FVOCI/available-for-sale)	21 (a)	15,994,375	36,079,565
Pledged assets – (FVOCI/available-for-sale)	21 (b)	1,863,042	4,915,107
		17,857,417	**40,994,672**

Notes continued

21 Financial investments – (FVOCI/available-for-sale) (continued)

21 (a) Financial assets – (FVOCI/available-for-sale)

	GROUP	
Debt securities – at fair value:	**2018 KShs'000**	**2017 KShs'000**
Listed	**2,374,913**	10,407,312
Unlisted	**13,619,462**	25,672,253
	15,994,375	**36,079,565**
Comprising:		
Government bonds	2,374,913	10,407,312
Government treasury bills	13,613,562	25,666,353
Equities	5,900	5,900
	15,994,375	**36,079,565**

Financial investment securities had a redemption value at 31 December 2018 of KShs 16,285,000,000 (2017: KShs 36,628,247,000).

	GROUP	
Maturity analysis	**2018 KShs'000**	**2017 KShs'000**
Maturing within 1 month	1,465,376	1,989,504
Maturing after 1 month but within 6 months	12,062,516	20,409,920
Maturing after 6 months but within 12 months	1,879,025	4,040,152
Maturing after 12 months	587,458	9,639,989
	15,994,375	**36,079,565**

21 (b) Pledged assets – (FVOCI/available-for-sale)

	GROUP	
	2018 KShs'000	**2017 KShs'000**
Fair value through OCI/Available-for-sale debt securities	1,863,042	4,915,107
	1,863,042	4,915,107
Maturity analysis		
Maturing after 6 months but within 12 months	1,863,042	2,336,798
Maturing after 12 months but within 5 years	-	2,578,309
	1,863,042	**4,915,107**

Pledged assets at fair value through OCI had a redemption value at 31 December 2018 of KShs 2,000,000,000.

The weighted average effective interest yield on available-for-sale investment securities at 31 December 2018 was 10.77% (2017:11.34%). A fair value loss of KShs 320,469,000 (2017: Gain of KShs 298,645,000) has been recognised in the statement of other comprehensive income on page 16. A realised gain of KShs 891,000 (2017: KShs 1,580,700) has been transferred to the statement of profit or loss.

These transactions are conducted under terms that are usual and customary to security lending, and security borrowings and lending activities.

21 Financial investments – (FVOCI/available-for-sale) (continued)

21.1 Reconciliation of expected credit losses for debt financial investments measured at fair value through OCI:

			Income statement movements							
GROUP	Opening ECL 1 Jan 2018 KShs'000	Total transfers between stages KShs'000	ECL on new exposure raised KShs'000	Change in ECL due to modifications KShs'000	Subsequent changes in ECL KShs'000	Change in ECL due to derecognition KShs'000	Net ECL raised/ (released)[1] KShs'000	Impairment accounts written-off KShs'000	Exchange and other movements KShs'000	Closing ECL 31 Dec 2018 KShs'000
Pledged assets (Available for sale/Fair value through OCI)										
Sovereign	-	-	(317)	-	-	-	(317)	-	-	(317)
Stage 1	-	-	(317)	-	-	-	(317)	-	-	(317)
Financial Investments (Available for sale/Fair value through OCI)										
Sovereign	(2,858)	-	(1,344)	-	189	2,568	1,413	-	-	(1,445)
Stage 1	(2,858)	-	(1,344)		189	2,568	1,413			
Total	(2,858)	-	(1,661)	-	189	2,568	1,096	-	-	(1,762)

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note)

21.2 Reconciliation of fair value through OCI reserve for debt financial investments measured at fair value through OCI

	Balance at beginning of the year KShs'000	Reclassifications KShs'000	Net change in fair value KShs'000	Realised fair value adjustments and reversal to profit or loss KShs'000	Net expected credit loss raised/ (released) during the period KShs'000	Exchange and other movements KShs'000	Balance at end of the year KShs'000
GROUP							
Sovereign	(343,317)	-	320,469	891	-	-	(21,957)
Total	(343,317)	-	320,469	891	-	-	(21,957)

Notes continued

22 Financial investments – (amortised cost/held to maturity)

	Note	GROUP 2018 KShs'000	GROUP 2017 KShs'000
Pledged assets – (amortised cost/held to maturity)	22 (a)	3,912,058	-
Financial assets – (amortised cost/held to maturity)	22 (b)	19,288,898	5,444,178
		23,200,956	**5,444,178**

22 (a) Pledged assets – (amortised cost/held to maturity)

	Note	2018 KShs'000	2017 KShs'000
Amortised cost/held to maturity debt securities		3,913,272	-
Gross pledged assets at amortised cost		**3,913,272**	-
Allowances for impairments			
Expected credit loss for financial investments measured at amortised cost (IFRS 9)	22.1	(1,214)	-
Credit impairment losses		**(1,214)**	**-**
Net pledged assets at amortised cost		**3,912,058**	**-**
Maturity analysis:			
Maturing after 6 months but within 12 months		2,902,127	-
Maturing after 12 months but within 5 years		1,009,931	-
		3,912,058	**-**

Pledged assets at amortised cost had a redemption value at 31 December 2018 of KShs 3,500,000,000.

These transactions are conducted under terms that are usual and customary to security lending, and security borrowings and lending activities.

22 Financial investments – (amortised cost/held to maturity) (continued)

22 (b) Financial assets – (amortised cost/held to maturity)

	Note	GROUP 2018 KShs'000	GROUP 2017 KShs'000
Debt securities – at fair value:			
Listed		18,841,855	5,444,178
Unlisted		463,356	-
Gross financial investments at amortised cost		19,305,211	5,444,178
Allowances for impairments			
Expected credit loss for financial investments measured at amortised cost (IFRS 9)	22.1	(16,313)	-
Credit impairment losses		(16,313)	-
Net pledged assets at amortised cost		**19,288,898**	**5,444,178**
Comprising:			
Government bonds		17,845,822	4,684,783
Government treasury bills		463,356	-
Corporate bonds		979,720	759,395
		19,288,898	**5,444,178**
Maturity analysis:			
Maturing after 1 month but within 6 months		3,578,824	-
Maturing after 6 months but within 12 months		509,026	-
Maturing after 12 months but within 5 years		3,543,021	5,444,178
Maturing after 5 years		11,658,027	-
		19,288,898	**5,444,178**

Financial assets held to maturity assets had a redemption value at 31 December 2018 of KShs 19,569,656,000 (2017: KShs 5,294,138,000)

The weighted average effective interest yield on held to maturity investment securities at 31 December 2018 was 10.31% (2017: 9.14%).

Notes continued

22 Financial investments – (amortised cost/held to maturity) (continued)

22.1 Reconciliation of expected credit losses for debt financial investments measured at amortised cost

	Opening ECL 1 Jan 2018	Total transfers between stages	Income statement movements				Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 Dec 2018
			ECL on new exposure raised	Change in ECL due to modifications	Subsequent changes in ECL	Change in ECL due to derecognition				
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Financial Investments Amortised cost										
Sovereign	**(245)**	**-**	**(466)**	**64**	**-**	**-**	**(402)**	**-**	**-**	**(647)**
Stage 1	(245)	-	(466)	64	-		(402)	-	-	(647)
Sovereign	**(11,021)**	**-**	**(10,960)**	**-**	**3,947**	**2,358**	**(4,655)**	**-**	**11**	**(15,665)**
Stage 1	(11,010)	-	(10,960)		3,947	2,358	(4,655)	-	-	(15,665)
Stage 2	(11)	-	-	-	-	-	-	-	11	-
Pledged Assets										
Corporate	**(3,725)**	**-**	**2,416**	**-**	**94**	**-**	**2,510**	**-**	**-**	**(1,215)**
Stage 1	(537)	-	-	-	94	-	94			(443)
Stage 2	(3,188)	-	2,416	-	-	-	2,416			(772)
Total	**(14,991)**	**-**	**(9,010)**	**64**	**4,041**	**2,358**	**(2,547)**	**-**	**11**	**(17,527)**

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note).

23 Loans and advances

23 (a) Loans and advances to banks

	Note	GROUP 2018 KShs'000	GROUP 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Balances with banks		7,269,351	8,306,377	-	-
Balances due from Group banks	40 (a)	21,111,825	4,524,530	130,867	111,803
		28,381,176	**12,830,907**	**130,867**	**111,803**
Allowances for impairments					
Impairment for stage 1&2/ performing loans		(583)	(61,539)	-	-
Impairment for stage 3/non-performing loans		-	(25,738)	-	-
Credit impairment allowances		(583)	**(87,277)**	-	-
Net loans and advances		28,380,593	12,743,630	130,867	111,803
Maturity analysis:					
Redeemable on demand		6,560,349	9,799,229	130,867	111,803
Maturing within 1 month		21,820,244	2,944,401	-	-
Net loans and advances to banks		28,380,593	12,743,630	130,867	111,803

Notes continued

23 Loans and advances (continued)

23 (a) Loans and advances to banks (continued)

23.1 Reconciliation of expected credit losses for loans and advances to banks measured at amortised cost:

	Opening ECL 1 January 2018	Total transfers between stages	Income statement movements				Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2018
			ECL on new exposure raised	Change in ECL due to modifications	Subsequent changes in ECL	Change in ECL due to derecognition				
BANKS	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Stage 1	61,539	64	-	-	265	(4)	261	-	(8,734)	53,130
Stage 2	64	(64)	(7)	-	-	(52,540)	(52,547)	-	-	(52,547)
Stage 3	28,777	-	-	-	-	(28,777)	(28,777)	-	-	-
Total	**90,380**	**-**	**(7)**	**-**	**265**	**(81,321)**	**(81,063)**	**-**	**(8,734)**	**583**

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note).

Year ended 31 December 2017	**Specific impairment**	**Portfolio impairment**	**Total**
	KShs'000	**KShs'000**	**KShs'000**
At start of year	63,373	330,271	393,644
Amounts written off during the year as uncollectible	(37,635)	-	(37,635)
Amounts recovered during the year	-	(268,732)	(268,732)
At end of year	**25,738**	**61,539**	**87,277**

The 2017 provision arises from exposures held with banks which were placed under statutory management in Kenya and the lack of foreign currency in the South Sudan operating environment.

23 Loans and advances (continued)

23 (b) Loans and advances to customers

	Note	GROUP 2018 KShs'000	GROUP 2017 KShs'000
Mortgage lending		21,024,274	17,975,608
Instalment sale and finance leases		15,735,947	14,000,974
Overdraft and other demand lending		23,153,478	23,414,144
Term lending		97,330,386	79,833,848
Card lending		610,492	575,241
Gross loans and advances to customers		**157,854,577**	**135,799,815**
Allowances for impairments			
Expected credit loss for loans and advances measured at amortised cost (IFRS 9)	23(c (i))	(11,250,460)	-
Credit impairments for loans and advances (IAS 39)	23(c(ii))	-	(5,264,001)
Credit impairment allowances	23 (d)	**(11,250,460)**	**(5,264,001)**
Net loans and advances		**146,604,117**	**130,535,814**
Maturity analysis:			
Redeemable on demand		20,587,811	18,016,245
Maturing within 1 month		10,826,141	11,609,492
Maturing after 1 month but within 6 months		12,646,294	16,938,688
Maturing after 6 months but within 12 months		4,812,204	3,834,190
Maturing after 12 months but within 5 years		46,316,216	40,091,563
Maturing after 5 years		51,415,451	40,045,636
Net loans and advances		**146,604,117**	**130,535,814**

The weighted average effective interest rate on loans and advances to customers as at 31 December 2018 was 11.14% (2017: 10.68%). The Group extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment sales and overdrafts.

Notes continued

23 Loans and advances (continued)

23 (c) Allowances for Impairment

23(c (i)) Reconciliation of expected credit losses for loans and advances to customers measured at amortised cost:

A reconciliation of the expected credit loss for loans and advances, by class:

	Opening ECL 1 Jan 2018	Total transfers between stages	Income statement movements: ECL on new exposure raised	Income statement movements: Subsequent changes in ECL	Income statement movements: Change in ECL due to derecognition	Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 Dec 2018	Interest in suspense	Total
Customers	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Mortgage loans	**653,664**	**-**	**13,418**	**147,392**	**-**	**160,810**	**(12,832)**	**8,948**	**810,590**	**31,316**	**841,906**
Stage 1	15,476	25,087	4,655	(27,804)	-	(23,149)	-	4,255	21,669	-	21,669
Stage 2	178,453	(23,359)	8,763	16,805	-	25,568	-	356	181,018	-	181,018
Stage 3	459,735	(1,728)	-	158,391	-	158,391	(12,832)	4,337	607,903	31,316	639,219
Vehicle and asset finance	**1,259,900**	**-**	**180,186**	**608,621**	**-**	**788,807**	**(473,314)**	**(82,446)**	**1,492,947**	**(19,920)**	**1,473,027**
Stage 1	103,558	5,938	66,365	(65,567)	-	798	-	-	110,294	-	110,294
Stage 2	279,476	(17,542)	113,821	102,850	-	216,671	-	-	478,605	-	478,605
Stage 3	876,866	11,604	-	571,338	-	571,338	(473,314)	(82,446)	904,048	(19,920)	884,128
Card debtors	**53,918**	**-**	**3,827**	**54,114**	**-**	**57,941**	**(50,483)**	**(9,789)**	**51,587**	**-**	**51,587**
Stage 1	14,820	410	2,616	(681)	-	1,935	-	-	17,165	-	17,165
Stage 2	20,891	1,099	1,211	(6,857)	-	(5,646)	-	-	16,344	-	16,344
Stage 3	18,207	(1,509)	-	61,652	-	61,652	(50,483)	(9,789)	18,078	-	18,078
Other loans and advances	**1,726,445**	**-**	**312,410**	**45,279**	**-**	**357,689**	**(262,836)**	**83,990**	**1,905,288**	**123,469**	**2,028,757**
Stage 1	164,191	23,994	96,022	(109,714)	-	(13,692)	-	944	175,437	-	175,437
Stage 2	781,513	(81,386)	216,388	(241,334)	-	(24,946)	-	(529)	674,652	-	674,652
Stage 3	780,741	57,392	-	396,327	-	396,327	(262,836)	83,575	1,055,199	123,469	1,178,668
Corporate	**5,280,395**	**-**	**413,142**	**872,997**	**(322,147)**	**963,992**	**-**	**(52,314)**	**6,192,073**	**663,110**	**6,855,183**
Stage 1	405,041	(71,828)	169,461	58,377	(110,997)	116,841	-	-	450,054	-	450,054
Stage 2	2,103,329	(1,848,316)	41,976	(28,611)	(76,011)	(62,646)	-	(52,314)	140,053	-	140,053
Stage 3	2,772,025	1,920,144	201,705	843,231	(135,139)	909,797	-	-	5,601,966	663,110	6,265,076
Total	**8,974,322**	**-**	**922,983**	**1,728,403**	**(322,147)**	**2,329,239**	**(799,465)**	**(51,611)**	**10,452,485**	**797,975**	**11,250,460**

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note).

23 Loans and advances (continued)

23 (c) Allowances for Impairment

23(c(ii)) Impairment reserve

Year ended 31 December 2017	Non-performing loans	Portfolio impairment	Group Total
	KShs'000	KShs'000	KShs'000
At 1 January 2017	1,653,491	1,479,177	3,132,668
Amounts written off during the year as uncollectable	(944,179)	-	(944,179)
Amounts recovered during the year	(100,406)	-	(100,406)
Provision for loans impairment	2,634,690	541,228	3,175,918
At 31 December 2017	**3,243,596**	**2,020,405**	**5,264,001**

23 (d) Credit impairment losses

	Note	GROUP 2018 KShs'000	GROUP 2017 KShs'000
Loans impairment for financial investments		1,454	-
Loans impairment for non-performing customer loans	23 (c)	2,097,504	2,634,690
Loans impairment for performing customer loans	23 (c)	231,736	541,228
Loans impairment for performing bank loans	23.1	(81,063)	-
Loans impairment for non-performing off balance sheet letters of credit and guarantees	41 (c)	19,447	-
Loans impairment for performing off balance sheet letters of credit and guarantees	41 (c)	(53,534)	-
Amounts recovered during the year		(151,082)	(268,732)
Amounts recovered during the year for customer loans		-	(100,406)
Recoveries of amounts previously written off		-	(45,455)
Net credit impairment losses		**2,064,462**	**2,761,325**

The Directors are of the opinion that net recoverable amounts are reasonable and are expected to be realised based on past experience.

Notes continued

23 Loans and advances (continued)

23 (e) Instalment sales and finance lease

The Group holds instalment sales contracts with customers where the Group finances the purchase of assets under a series of contracts which transfer title to the Group as security for the loan. The Group receives the lease payments and sets off the payments against the principal loan and interest repayments. While in principal the Group only finances the purchase of the assets, the agreements that are necessary to execute the arrangement confer a lessor status on the Group.

	GROUP	
	2018 KShs'000	2017 KShs'000
Gross investment in finance leases:		
Not later than 1 year	1,048,546	1,285,172
Later than 1 year and not later than 5 years	14,446,703	12,446,683
Later than 5 years	240,698	460,600
	15,735,947	**14,192,455**
Unearned finance charge	-	-
Net investment in investment sales and finance leases	**15,735,947**	**14,192,455**

The amount of finance lease receivable included above is nil (2017: Nil).

Impairment provisions of KShs 672,147,000 (2017: KShs 727,413,000) for instalment sale and finance lease receivables are included in the impairment for non-performing loans.

23 (f) Loans to employees

The aggregate amount of loans and advances to employees on the statement of financial position is:

	GROUP	
	2018 KShs'000	2017 KShs'000
At start of year	3,848,482	3,708,037
New loans issued	1,564,065	1,104,356
Interest on loan	437,271	160,805
Loan repayments	(1,655,191)	(1,124,716)
At end of year	**4,194,627**	**3,848,482**

24 Other assets and prepayments

		GROUP		COMPANY	
	Note	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Uncleared effects		1,647,390	1,864,419	-	-
Off market loan adjustment		686,626	833,640	-	-
Trade receivables and prepayments		663,339	166,147	-	-
Due from related companies	40 (h)	693,949	336,255	-	-
Others		36,255	20,109	-	-
		3,727,559	**3,220,570**	**-**	**-**

The off-market adjustment relates to the prepaid benefit granted to staff, being the difference between the fair value of the loan and the initial cash outflow. The fair value of future cash flows is discounted at a market related rate. The asset represents the Group's right to receive future service from employees.

25 Investment in subsidaries and other investments

25(a) Investment in subsidiaries

	Company			
Company	Beneficial ownership	Country of Incorporation	2018 KShs'000	2017 KShs'000
Stanbic Bank Kenya Limited	100%	Kenya	18,009,808	18,009,808
SBG Securities Limited	100%	Kenya	165,530	165,530
Stanbic Insurance Agency Limited	100%	Kenya	42,174	42,174
			18,217,512	**18,217,512**

All subsidiary entities are incorporated and domiciled in Kenya. The consolidated financial statements are available to the public and can be accessed on http://www.stanbicbank.co.ke/kenya/About-Us/Investor-relations

The principal place of business for the subsidiaries is Stanbic Bank Centre, Chiromo Road.

There were no significant restrictions on the company's ability to access the assets and settle liabilities of the subsidiaries. The total amount disclosed as investment in subsidiaries is a non-current asset.

Stanbic Insurance Agency Limited was acquired from Stanbic Bank Kenya Limited in 2017 for KShs 42,174,000.

25(b) Other investments

	GROUP		COMPANY	
Unquoted:	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Equity investment at fair value through profit and loss default	17,500	17,500	-	-
At 31 December	**17,500**	**17,500**	**-**	**-**

The investment is in Anglo African Property Holding Limited where the Group holds a beneficial interest of 1%.

The investment is unquoted and its carrying value (cost) approximates its fair value.

Notes continued

26 Property and equipment

26 a) GROUP

Year ended 31 December 2018	Land and premises KShs'000	Equipment, furniture & fittings KShs'000	Motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost					
At 1 January 2018	385,493	3,884,547	204,656	171,516	4,646,212
Additions	-	235,686	8,553	118,364	362,603
Disposals/retirement	-	(12,239)	(28,122)		(40,361)
Transfers	-	108,948		(108,948)	-
Foreign Exchange revaluation	-	(19,536)	(103)	-	(19,639)
Hyperinflation adjustment	-	3,699	-	-	3,699
At 31 December 2018	**385,493**	**4,201,105**	**184,984**	**180,932**	**4,952,514**
Depreciation					
At 1 January 2018	(108,869)	(2,139,915)	(141,153)	-	(2,389,937)
Depreciation for the year	(15,666)	(380,450)	(18,032)	-	(414,148)
Disposals/ Retirement	-	8,440	28,122	-	36,562
Foreign Exchange revaluation	-	1,276	103	-	1,379
At 31 December 2018	**(124,535)**	**(2,510,649)**	**(130,960)**	**-**	**(2,766,144)**
Net book value at 31 December 2018	**260,958**	**1,690,456**	**54,024**	**180,932**	**2,186,370**

Year ended 31 December 2017	Land and premises KShs'000	Equipment, furniture & fittings KShs'000	Motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost					
At 1 January 2017	385,493	3,557,435	166,055	105,026	4,214,009
Additions	-	294,077	48,295	114,882	457,254
Disposals	-	(15,357)	(9,694)	-	(25,051)
Work in progress transfers	-	48,392	-	(48,392)	-
At 31 December 2017	**385,493**	**3,884,547**	**204,656**	**171,516**	**4,646,212**
Depreciation					
At 1 January 2017	(93,203)	(1,772,898)	(139,943)	-	(2,006,044)
Depreciation for the year	(15,666)	(350,746)	(10,904)	-	(377,316)
Disposals	-	9,457	9,694	-	19,151
Foreign exchange differences	-	(30,987)	-	-	(30,987)
Hyperinflation adjustment	-	5,259	-	-	5,259
At 31 December 2017	**(108,869)**	**(2,139,915)**	**(141,153)**	**-**	**(2,389,937)**
Net book value at 31 December 2017	**276,624**	**1,744,632**	**63,503**	**171,516**	**2,256,275**

26 Property and equipment (continued)

26 b) COMPANY

	Computer Equipment	
	2018 KShs'000	2017 KShs'000
Cost		
At 1 January	1,659	1,659
At 31 December	**1,659**	**1,659**
Depreciation		
At 1 January	(1,659)	(1,659)
At 31 December	**(1,659)**	**(1,659)**
Net book value at 31 December	-	-

The Group's work in progress is composed of refurbishments and equipment for branches and projects that had not been completed as at year end. The total amount disclosed as property and equipment is non-current.

As at 31 December 2018 and 31 December 2017, there were no items of property and equipment pledged by the Group and Company to secure liabilities. No items of property and equipment were obtained from borrowed funds hence no capitalisation of borrowing costs.

Revaluation of land and buildings

The revaluation reserve in equity relates to the value of the Stanbic office in Chiromo at the point of merger between CFC and Stanbic Bank in 2008. The fair value of the properties was determined using the market comparable method. This means that valuations performed by the valuer were based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property.

As the functional currency of Stanbic South Sudan is the currency of a hyperinflationary economy, property, plant and equipment relating to this Branch is restated by applying the change in the general price indices from the date of acquisition to the current reporting date.

Depreciation relating to the property, plant and equipment of Stanbic South Sudan is based on the restated amounts, which have been adjusted for the effects of hyperinflation.

27 Prepaid operating lease

	GROUP	
	2018 KShs'000	2017 KShs'000
Cost		
At 1 January	85,499	85,499
At 31 December	**85,499**	**85,499**
Amortisation		
At 1 January	(34,552)	(31,598)
Charge for the year	(2,953)	(2,954)
At 31 December	**(37,505)**	**(34,552)**
Net book value at 31 December	**47,994**	**50,947**

This relates to land leased by the Group for a lease term period of 99 years. The total amount disclosed as prepaid operating lease in the Group is non-current.

Notes continued

28 Other Intangible assets

GROUP

Year ended 31 December 2018	Work in progress KShs'000	Software KShs'000	Other intangible assets KShs'000	Total KShs'000
Cost				
At 1 January 2018	193,026	2,810,805	1,099,059	4,102,890
Additions	134,480	11,427	-	145,907
Foreign exchange difference	-	(420)	-	(420)
Hyperinflation journal	-	(410)	-	(410)
At 31 December 2018	**327,506**	**2,821,402**	**1,099,059**	**4,247,967**
Amortisation				
At 1 January 2018	-	(1,892,974)	(853,866)	(2,746,840)
Amortisation charge for the year	-	(205,168)	(45,267)	(250,435)
Foreign exchange difference	-	39	-	39
At 31 December 2018	**-**	**(2,098,103)**	**(899,133)**	**(2,997,236)**
Net book value at 31 December 2018	**327,506**	**723,299**	**199,926**	**1,250,731**

Year ended 31 December 2017	Work in progress KShs'000	Software KShs'000	Other intangible assets KShs'000	Total KShs'000
Cost				
At 1 January 2017	117,395	2,433,219	1,099,059	3,649,673
Additions	75,631	378,282	-	453,913
Foreign exchange difference	-	(934)	-	(934)
Hyperinflation adjustment	-	238	-	238
At 31 December 2017	**193,026**	**2,810,805**	**1,099,059**	**4,102,890**
Amortisation				
At 1 January 2017	-	(1,705,578)	(808,599)	(2,514,177)
Amortisation charge for the year	-	(187,396)	(45,267)	(232,663)
At 31 December 2017	**-**	**(1,892,974)**	**(853,866)**	**(2,746,840)**
Net book value at 31 December 2017	**193,026**	**917,831**	**245,193**	**1,356,050**

As the functional currency of Stanbic Bank South Sudan branch is the currency of a hyperinflationary economy, intangible assets relating to this branch are hyperinflated by applying the change in the general price indices from the date of acquisition to the current reporting date.

Amortisation relating to intangible assets of Stanbic Bank South Sudan branch is based on the hyperinflated amounts, which have been adjusted for the effects of hyperinflation.

The total amount disclosed as intangible assets is non-current and relates to computer software. Work in progress relates to computer software for upgrades in mobile banking and telephone system which had not been completed as at year end.

As at 31 December 2018, the intangible assets had an average remaining useful life of 5 years.

28 Other Intangible assets (continued)

The intangible assets arising from the business combination comprise of the following:

	GROUP	
	Cost KShs'000	Useful life Years
Trade names	260,000	15
Customer relationships	475,000	5 - 15
Others	364,059	2 - 5
	1,099,059	

29 Intangible assets - goodwill

	GROUP		COMPANY	
Cost	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
At 1 January and 31 December	9,349,759	**9,349,759**	-	-

Goodwill relating to Stanbic Holdings Plc was tested for impairment on 31 December 2018. The recoverable amount was determined to be the value in use. Unless indicated otherwise, the value in use in 2018 was determined in a manner consistent with that used in prior years. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use.

(a) Discount rate

The pre-tax discount rate used was based on an assessment of the risks applicable to the Stanbic Holdings Plc. The cost of equity discount rate calculated for the forecast years was 17.63% per annum (2017: 16.72%). The cost of equity assigned to the cash-generating unit and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is derived from an equity pricing model deemed appropriate based on the entity under review. The risk-free rate used to determine the cost of equity has been derived from the 10-year US Dollar government bonds adjusted for inflation differential and country risk yield.

A rise in the pre-tax discount rate to 32.30% (2017: 25.82%), that is +14.67% (2017: +9.1%) in the CIB unit would result to an impairment. A rise in the pre-tax discount rate to 27.70% (2017: 18.92%), that is +10.07% (2017: +2.2%) in the PBB unit would result to an impairment.

(b) Future cash flows

The forecast periods adopted reflect a set of cash flows that based on management judgement and expected market conditions could be sustainably generated over such a period. An eight-year forecast was used as a basis for future cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a nominal growth rate of 7.3% (2017: 8%). These values are sensitive to the cash flows projected for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows thereafter. Based on the testing performed, no impairment was identified.

A decrease in the net profit by 40.9% would result in a further impairment in the CIB unit. A decrease in the net profit by 17.0% would result in impairment in the PBB unit.

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. 95% of the goodwill has been allocated to Corporate CIB CGU and the remaining 5% has been allocated to PBB CGU.

Notes continued

30 Ordinary share capital and share premium

30 (a) Authorised share capital

	2018		2017	
	Number of Shares (thousands)	Share Capital KShs'000	Number of Shares (thousands)	Share Capital KShs '000
Balance as at 1 January and 31 December	473,684	2,368,421	473,684	2,368,421

30 (b) Issued share capital

	2018		2017	
	Number of Shares (thousands)	Share Capital KShs'000	Number of Shares (thousands)	Share Capital KShs '000
Balance as at 1 January and 31 December	395,322	1,976,608	395,322	1,976,608
Unissued shares	78,362	391,813	78,362	391,813

30 (c) Ordinary share premium

	2018 KShs'000	2017 KShs'000
At 1 January and 31 December	16,897,389	16,897,389

31 Derivative assets and derivative liabilities

All derivatives are classified as fair value through profit or loss (FVTPL).

31.1 Use and measurement of derivative instruments

In the normal course of business, the Group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation and for credit exposures. Derivative instruments used by the Group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of equities.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that there is both a legal right of set-off and an intention to settle on a net basis, or the intention to realise the derivative asset and settle the derivative liability simultaneously.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.

The major types of swap transactions undertaken by the Bank are as follows:

a) Interest rate swap contracts which generally entail the contractual exchange of fixed and floating interest payments in a single currency, based on a notional amount and an interest reference rate.

b) Options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified amount of a financial instrument or commodity at a predetermined price. The seller receives a premium from the purchaser for this right. Options may be traded Over The Counter (OTC) or on a regulated exchange.

c) Forwards and futures are contractual obligations to buy or sell financial instruments on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the OTC market, whereas futures are standardised contracts transacted on regulated exchanges.

31 Derivative assets and derivative liabilities (continued)

31.2 Derivatives held-for-trading

The Group transacts derivative contracts to address client demand both as a market maker in the wholesale markets and in structuring tailored derivatives for clients. The Group also takes proprietary positions for its own account. Trading derivative products include the following derivative instruments:

30.2.1 Foreign exchange derivatives

Foreign exchange derivatives are primarily used to economically hedge foreign currency risks on behalf of clients and for the bank's own positions. Foreign exchange derivatives primarily consist of foreign exchange forwards and swaps, foreign exchange futures and foreign exchange options.

30.2.2 Interest rate derivatives

Interest rate derivatives are primarily used to modify the volatility and interest rate characteristics of interest-earning assets and interest-bearing liabilities on behalf of clients and for the Group's own positions. Interest rate derivatives primarily consist of bond options, caps and floors, forwards, options, swaps and swap options.

31.3 Day one profit or loss

Where the fair value of an instrument differs from the transaction price, and the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation model whose variables include only data from observable markets, the difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument or non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the valuation model is deferred and subsequently recognised in accordance with the Group's accounting policies (refer to accounting policy 2.6 – Financial instruments).

31.4 Fair values

The fair value of a derivative financial instrument represents, for quoted instruments in an active market, the quoted market price and, for an unquoted instrument, the present value of the positive and/or negative cash flows which would have occurred if the rights and obligations arising from that instrument were closed out in an orderly marketplace transaction at the reporting date.

31.5 Notional amount

The contract/notional amount is the sum of the absolute value of all bought and sold contracts. The notional amounts have been translated at the closing exchange rate at the reporting date where cash flows are receivable in foreign currency. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the Group's participation in derivative contracts.

Notes continued

31 Derivative assets and derivative liabilities (continued)

31.5 Notional amount (continued)

GROUP

	2018 Fair values			2017 Fair values		
	Notional contract amount	Assets	Liabilities	Notional contract amount	Assets	Liabilities
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Foreign exchange derivatives						
Currency forwards	21,217,066	68,719	474,075	17,445,355	185,265	216,441
Currency swaps	41,953,501	434,412	213,484	30,223,913	64,039	451,707
Currency options	16,400,923	263,256	177,888	18,403,411	867,354	183,107
Total over-the-counter derivatives	**79,571,490**	**766,387**	**865,447**	**66,072,679**	**1,116,658**	**851,255**
Interest rate derivatives						
Interest rate swaps	58,532,021	749,079	1,016,211	48,583,192	1,085,227	1,387,092
Cross currency interest rate swaps	-	-	-	4,154,802	189,216	189,216
Total over-the-counter derivatives	**58,532,021**	**749,079**	**1,016,211**	**52,737,994**	**1,274,443**	**1,576,308**
Total derivative assets held for trading	**138,103,511**	**1,515,466**	**1,881,658**	**118,810,673**	**2,391,101**	**2,427,563**
Current	86,671,101	697,359	852,660	78,456,434	894,299	831,596
Non-current	51,432,410	818,107	1,028,998	40,354,239	1,496,802	1,595,967
Total	**138,103,511**	**1,515,466**	**1,881,658**	**118,810,673**	**2,391,101**	**2,427,563**

32 Deposits and current accounts from banks and customers

32 (a) Deposits from banks

	Note	GROUP 2018 KShs'000	GROUP 2017 KShs'000
Deposits from banks		12,438,426	25,687,196
Deposits due to Group banks	40 (b)	15,470,813	13,019,939
Total deposits from banks		**27,909,239**	**38,707,135**

Maturity analysis of deposits from banks

The maturity analysis is based on the remaining periods to contractual maturity from year end.

	GROUP 2018 KShs'000	GROUP 2017 KShs'000
Repayable on demand	3,488,780	8,528,670
Maturing within 1 month	-	17,247,902
Maturing after 1 month but within 6 months	1,476,287	6,164,691
Maturing after 6 months but within 12 months	444,637	5,189,243
Maturing after 12 months	22,499,535	1,576,629
	27,909,239	**38,707,135**

Included in deposits from banks is a borrowing from a syndicate of banks maturing in after one year .Interest for these borrowings is libor + 1.4%

32 (b) Deposits from customers

	GROUP 2018 KShs'000	GROUP 2017 KShs'000
Current accounts	119,955,590	105,335,213
Call deposits	8,949,555	7,240,980
Savings accounts	42,611,190	26,317,844
Term deposits	16,404,173	13,006,715
LC acceptances	3,664,167	2,760,020
Total deposits from customers	**191,584,675**	**154,660,772**
Total deposits from banks and customers	**219,493,914**	**193,367,907**

Maturity analysis of deposits from customers

The maturity analysis is based on the remaining periods to contractual maturity from year end.

	2018	2017
Repayable on demand	171,750,427	113,344,837
Maturing within 1 month	6,278,970	27,396,462
Maturing after 1 month but within 6 months	8,963,597	11,706,367
Maturing after 6 months but within 12 months	3,919,456	1,809,720
Maturing after 12 months	672,225	403,386
	191,584,675	**154,660,772**

Deposit products include current accounts, savings accounts, call deposits and fixed deposits. The weighted average effective interest rate on customer deposits as at 31 December 2018 was 3.43% (2017: 2.57%).

Notes continued

33 Borrowings

At 31 December 2018

	Notional value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
Stanbic Bond	4,000,000	3,992,347	12.95%	15-Dec-14	15-Dec-21
Subordinated Debt	3,052,017	3,071,666	6.82%	28-Feb-18	28-Feb-28
Total	**7,052,017**	**7,064,013**			

At 31 December 2017

	Notional value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
Stanbic Bond	4,000,000	3,989,243	12.95%	15-Dec-14	15-Dec-21
Total	**4,000,000**	**3,989,243**			

There were no charges placed on any of the Group's assets in relation to these borrowings. The borrowings are unsecured subordinated debt instruments.

The Group has not had any defaults of principal, interest or other breaches with regard to any borrowings during 2018 and 2017. The borrowings are payable on their maturity dates at the notional value.

The surbodinated debt relates to USD 30M obtained from Standard Bank of South Africa in 2018.There are no covenants relating to this financing.

Interest expense incurred in the above borrowings was KShs 682,725,000 (2017: KShs 521,104,000). The weighted average effective interest rate on borrowings as at 31 December 2018 was 9.88% (2017: 12.95%).

The difference between the carrying and notional value represents, accrued interest and the unamortised issue costs.

34 Other liabilities and accrued expenses

34 (a) Other liabilities and accrued expenses

		Group		Company	
	Note	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Accruals		2,357,802	1,922,033	12,416	12,520
Deferred bonus scheme	34 (b)	158,067	309,825	-	-
Unpresented bank drafts		104,498	111,271	-	-
Margin on guarantees and letters of credit		1,331,651	1,520,838	-	-
Items in transit		127,585	152,955	-	-
Due to group companies	40 (i)	256,086	463,369	-	8,675
Sundry creditors		1,952,933	1,116,539	97,137	84,606
Expected credit losses on off balance sheet items	41 (c)	138,076	-	-	-
		6,426,698	**5,596,830**	**109,553**	**105,801**

Sundry creditors relate to accounts payables, credits in transit, PAYE and VAT payables.

34 (b) Deferred bonus scheme (DBS)

It is essential for the Group to retain key skills over the longer term. This is done particularly through share-based incentive plans. The purpose of these plans is to align the interests of the Group and employees, as well as to attract and retain skilled, competent people.

The Group has implemented a scheme to defer a portion of incentive bonuses over a minimum threshold for key management and executives. This improves the alignment of shareholder and management interests by creating a closer linkage between risk and reward, and also facilitates retention of key employees.

All employees granted an annual performance award over a threshold have part of their award deferred. The award is indexed to Standard Bank Group's (SBG) share price and accrues notional dividends during the vesting period, which are payable on vesting. The awards vest in three equal amounts at 18 months, 30 months and 42 months from the date of award. The final pay-out is determined with reference to SBG's share price on vesting date.

The provision in respect of liabilities under the scheme amounts to KShs 158,067,000 at 31 December 2018 (2017: KShs 309,825,000) and the amount charged for the year was KShs 29,315,000 (2017: KShs 257,187,000).

	Units	
Reconciliation	**2018**	**2017**
Units outstanding at beginning of the year	140,662	133,976
Granted	-	-
Exercised	(80,649)	(116,975)
Lapsed	(13,450)	(15,856)
Transfers	5,675	139,517
Units outstanding at end of the year	**52,238**	**140,662**
Weighted average fair value at grant date (ZAR)*	220.97	155.95
Expected life (years)	2.51	2.51
Risk-free interest rate (%)	-	5.54

* South African Rand

Notes continued

35 Current income tax asset/ (liability)

The current income tax payable and current income tax receivable have been separately recognised as Kenya and South Sudan have no legal enforceable right to set off current tax.

The tax receivable/(payable) from the tax authorities in the jurisdictions of operations are highlighted below;

		GROUP	
	Note	2018 KShs'000	2017 KShs'000
Kenya operations	35 (a)	(1,039,983)	66,358
Foreign operations	35 (b)	-	16,668
As at 31 December		**(1,039,983)**	**83,026**

35 (a) Current income tax asset/ (liability)

Kenya operations

		GROUP		COMPANY	
	Note	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
At 1 January		66,358	(1,042,810)	18,054	18,872
Reallocation of kenya operations to opening balance		-	79,582	-	-
Exchange difference on translation		27,831	-	-	-
Current income tax charge	16	(2,957,041)	(2,096,245)	(4,773)	(1,554)
Income tax paid		1,577,646	3,483,127	2,432	736
Prior year provision		245,223	(357,296)	-	-
		(1,039,983)	**66,358**	**15,713**	**18,054**

The Group and Company amount above relates to current income tax receivable/ (payable) from the Kenyan tax authority and is current.

35 (b) Current income tax asset/ (liability)

Foreign operations

		GROUP	
	Note	2018 KShs'000	2017 KShs'000
As at 1 January		16,668	113,547
Reallocation of Kenya operations from opening balance		-	(79,582)
Exchange difference on translation		-	(14,601)
Current tax charge	16	(16,668)	-
Prior year provision		-	(2,696)
As at 31 December		**-**	**16,668**

The Group has operations in South Sudan. The amount above relates to current income tax recoverable in South Sudan and is current.

36 Deferred income tax asset/ (liability)

36 (a) Deferred income tax asset/ (liability)

The deferred tax liability and asset have been separately recognised as Kenya and South Sudan have no legal enforceable right to set off tax.

Kenya operations		GROUP		COMPANY	
	Note	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
At start of year		2,444,394	1,407,363	203	(12)
Impact of initial application of IFRS 9		670,988	-	-	-
		3,115,382	1,407,363	203	(12)
Reallocation of foreign operations to opening balance		-	7,699	-	-
Credit /debit to statement of profit or loss	16	625,529	1,030,555	(165)	215
Previous year deferred income tax over provision	16	(606,494)	101	-	-
Credit/ debit to OCI		33,452	(1,324)	-	-
Exchange difference on translation		13	-	-	-
At 31 December		**3,167,882**	**2,444,394**	**38**	**203**

Deferred income tax assets and liabilities and deferred income tax (credit)/charge in the statement of profit or loss and other comprehensive income (OCI) are attributable to the following items:

	1.1.2018	(Credited)/ charged to statement of profit or loss	Charge to SOCI	Translation movement	31.12.2018
Year ended 31 December 2018	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Arising from:					
Property and equipment	(71,594)	58,779	-	-	(12,815)
Unrealised gain on bonds- FVOCI	8,586	-	33,452	-	42,038
Unrealised gain on bonds- FVTPL	37,114	74,104		-	111,218
Impairment charges on loans and advances	2,259,119	241,047	-	-	2,500,166
Leasing	-	-	-	-	-
Other provisions	771,757	(153,701)	-	-	618,056
Group intangible assets	(90,275)	-	-	-	(90,275)
Unrealised gain on South Sudan paid up capital	209,950	(217,650)	-	-	(7,700)
Exchange difference on translation	(9,277)	7,236	-	15	(2,026)
South Sudan deffered tax asset	-	9,220	-	-	9,220
Net deferred asset	**3,115,380**	**19,035**	**33,452**	**15**	**3,167,882**

Notes continued

36 Deferred income tax asset/ (liability) (continued)

36 (a) Deferred income tax asset/ (liability) (continued)

Year ended 31 December 2017	1.1.2017 KShs'000	(Charge)/ Credited to statement of profit or loss KShs'000	Charge to SOCI KShs'000	Translation movement KShs'000	31.12.2017 KShs'000
Arising from:					
Property and equipment	(42,163)	(29,431)	-	-	(71,594)
Unrealised gain on bonds- AFS	9,910	-	(1,324)	-	8,586
Unrealised gain on bonds- HTM	(172,935)	210,049	-	-	37,114
Impairment charges on loans and advances	821,379	766,754	-	-	1,588,133
Leasing	21,487	(21,487)	-	-	-
Other provisions	965,170	(193,413)	-	-	771,757
Group intangible assets	(88,826)	(1,449)	-	-	(90,275)
Unrealised gain on South Sudan paid up capital	(99,704)	309,654	-	-	209,950
Exchange difference on translation	(6,955)	(10,122)	-	7,800	(9,277)
Net deferred asset	**1,407,363**	**1,030,555**	**(1,324)**	**7,800**	**2,444,394**

The total amount disclosed as deferred income tax asset is non-current.

36 (b) Deferred income tax asset/ (liability)

	Note	GROUP 2018 KShs'000	 2017 KShs'000
At start of year		(38,859)	(7,699)
(Credit)/ Debit to statement of profit or loss	16	38,859	(26,064)
Debit to other comprehensive income		-	(5,096)
At end of year		**-**	**(38,859)**

The total amount disclosed as deferred income tax liability is a non-current liability.

As the functional currency of Stanbic Bank South Sudan branch is the currency of a hyperinflationary economies, deferred tax relating to this branch is recognised using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their restated carrying amounts.

Foreign operations

Year ended 31 December 2018	01.01.2018	(Credited)/ charged to statement of profit or loss	Credited to OCI	31.12.2018
Arising from:				
Property and equipment	38,859	(38,859)	-	-
Net deferred income tax liability	38,859	(38,859)	-	-

Year ended 31 December 2018	01.01.2017	(Credited)/ charged to statement of profit or loss	Credited to OCI	31.12.2017
Arising from:				
Property and equipment	7,699	26,064	5,096	38,859
Net deferred income tax liability	7,699	26,064	5,096	38,859

37 Notes to the cash flow statement

37 (a) Reconciliation of profit before income tax to net cash generated from operating activities

		GROUP		COMPANY	
	Note	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Net income before income tax		8,947,757	5,401,249	2,488,504	1,878,230
Adjusted for:					
Depreciation - property and equipment	26	414,148	377,316	-	-
Amortisation of intangible assets	28	250,435	232,663	-	-
Amortisation of prepaid operating lease	27	2,953	2,954	-	-
Change in fair value of derivatives		329,730	(552,410)	-	-
Share based payment reserve	43	18,801	2,143	-	-
Hyperinflation adjustment		-	(5,497)	-	-
(Gain)/ Loss on disposal of property and equipment		(3,946)	3,340	-	-
Cash flow from operating activities		**9,959,878**	**5,461,758**	**2,488,504**	**1,878,230**

37 (b) Analysis of balances of cash and cash equivalents as shown in the statement of cash flows.

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Unrestricted cash and balances with CBK	13,044,773	3,704,261	-	-
Treasury bills	24,630,105	14,852,342	-	-
Loans and advances to banks	26,929,233	12,743,630	130,867	111,803
Amounts due to other banks	(3,563,714)	(5,443,779)	-	-
Cash and cash equivalent at the end of the year	**61,040,397**	**25,856,454**	**130,867**	**111,803**

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

Notes continued

38 Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

The table below categorises the Group's assets and liabilities as at 31 December 2018 between those that are financial and non-financial.

All financial assets and liabilities have been classified according to their measurement category with disclosure and their fair value

Year ended 31 December 2018	Fair value through profit and loss - default KShs'000	Fair value through profit or loss - designated KShs'000	Amortised cost KShs'000	Fair value through OCI KShs'000	Other non-financial assets/liabilities	Total carrying amount KShs'000	Fair value KShs'000
Assets							
Cash and balances with Central Bank of Kenya	11,041,605	-	11,020,270	-	-	**22,061,875**	22,061,875
Financial assets – held for trading	31,202,035	-	-	-	-	**31,202,035**	31,202,035
Financial assets – FVOCI	-	-	-	17,857,417	-	**17,857,417**	17,857,417
Financial assets – amortised cost	-	-	23,200,956	-	-	**23,200,956**	32,301,824
Derivative assets	1,515,466	-	-	-	-	**1,515,466**	1,515,466
Loans and advances to banks	3,052,017	-	25,328,576	-	-	**28,380,593**	28,363,776
Loans and advances to customers	-	-	146,604,117	-	-	**146,604,117**	162,757,149
Other financial assets	-	-	3,727,559	-	-	**3,727,559**	3,727,559
Investment securities	17,500	-	-	-	-	**17,500**	17,500
Other non - financial assets	-	-	-	-	16,002,736	**16,002,736**	-
	46,828,623	**-**	**209,881,478**	**17,857,417**	**16,002,736**	**290,570,254**	**299,804,602**
Liabilities							
Deposits from customers	-	-	(191,584,675)	-	-	**(191,584,675)**	(192,494,661)
Deposits from banks	-	-	(27,909,239)	-	-	**(27,909,239)**	(30,216,470)
Derivative liabilities	(1,881,658)	-	-	-	-	**(1,881,658)**	(1,881,658)
Trading liabilities	(10,040,568)	-	-	-	-	**(10,040,568)**	(10,040,568)
Borrowings	-	-	(7,064,013)	-	-	**(7,064,013)**	(9,010,645)
Other financial liabilities	-	-	(6,426,698)	-	-	**(6,426,698)**	(6,426,698)
Other non - financial liabilities	-	-	-	-	(1,039,983)	**(1,039,983)**	-
	(11,922,226)	**-**	**(232,984,625)**	**-**	**(1,039,983)**	**(245,946,834)**	**(250,070,700)**

38 Classification of assets and liabilities (continued)

Accounting classifications and fair values of assets and liabilities (continued)

Year ended 31 December 2017	Held for Trading KShs'000	Loans and receivables KShs'000	Available-for-sale KShs'000	Amortised cost KShs'000	Other non-financial assets/liabilities KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	8,044,783	-	-	-	8,044,783	8,044,783
Financial assets – held for trading	29,806,020	-	-	-	-	29,806,020	29,806,020
Financial assets - held to maturity	-	-	-	5,444,178	-	5,444,178	5,401,894
Financial assets – available-for-sale	-	-	40,994,672	-	-	40,994,672	36,073,667
Derivative assets	2,391,101	-	-	-	-	2,391,101	2,391,101
Loans and advances to banks	-	12,743,630	-	-	-	12,743,630	12,771,390
Loans and advances to customers	-	130,535,814	-	-	-	130,535,814	166,750,035
Other financial assets	-	3,220,570	-	-	-	3,220,570	3,647,838
Investment securities	17,500	-	-	-	-	17,500	17,500
Other non - financial assets	-	-	-	-	15,540,451	15,540,451	-
	32,214,621	**154,544,797**	**40,994,672**	**5,444,178**	**15,540,451**	**248,738,719**	**264,904,228**
Liabilities							
Customer deposits	-	-	-	(154,660,772)	-	(154,660,772)	(155,715,720)
Amounts due to other banks	-	-	-	(38,707,135)	-	(38,707,135)	(40,314,246)
Derivative liabilities	(2,427,563)	-	-	-	-	(2,427,563)	(2,427,563)
Trading liabilities	(362,630)	-	-	-	-	(362,630)	(362,630)
Borrowings	-	-	-	(3,989,243)	-	(3,989,243)	(6,072,000)
Other financial liabilities	-	-	-	(5,596,830)	-	(5,596,830)	(5,425,398)
Other non - financial liabilities	-	-	-	-	(38,859)	(38,859)	-
	(2,790,193)	**-**	**-**	**(202,953,980)**	**(38,859)**	**(205,783,032)**	**(210,317,557)**

Notes continued

39 Fair value of financial instruments

Valuation process

All financial instruments carried at fair value, regardless of classification, are marked to market using models that have been validated independently by the Group's model validation unit and approved by the market risk methodologies committee. This control applies to both off-the-shelf models as well as those developed internally by the Group. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the market risk unit. Such price validation is performed on at least a monthly basis and daily where possible given the liquidity of the underlying price inputs. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to market, are carefully validated and tabled at the monthly price validation forum to ensure these are reasonable and used consistently. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed monthly to the market risk committee and ALCO.

Level hierarchy

The table that follows analyses financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that available market data is used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the assets and liabilities.

Significant unobservable inputs

The fair value of level 3 assets and liabilities is determined using valuation techniques that include reference to recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants. However, such techniques typically have unobservable inputs that are subject to management judgement. These inputs include credit spreads on illiquid issuers, implied volatilities on thinly traded stocks, correlation between risk factors, prepayment rates and other illiquid risk drivers. Exposure to such illiquid risk drivers is typically managed by:

- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver
- raising day one profit provisions in accordance with IFRS
- quantifying and reporting the sensitivity to each risk driver
- limiting exposure to such risk drivers and analysing this exposure on a regular basis

39 (a) Financial instruments measured at fair value

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy:

Financial instruments measured at fair value on a recurring basis

At 31 December 2018	Note	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets					
Cash and balances with Central Bank of Kenya (minimum regulatory reserve)	19	11,041,605	-	-	11,041,605
Financial investments – FVTPL	20 (a)	-	31,202,035	-	31,202,035
Financial investments – FVOCI	21 (a)	-	17,857,417	-	17,857,417
Equity investments	25(b)	-	-	17,500	17,500
Derivative assets	31	-	1,515,466	-	1,515,466
		11,041,605	**50,574,918**	**17,500**	**61,634,023**
Liabilities					
Financial liabilities – FVTPL	20 (b)	-	10,040,568	-	10,040,568
Derivative liabilities	31	-	1,881,658	-	1,881,658
		-	**11,922,226**	**-**	**11,922,226**

39 Fair value of financial instruments (continued)

39 (a) Financial instruments measured at fair value (continued)

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy:

Financial instruments measured at fair value on a recurring basis

		Level 2		Total
At 31 December 2017	**Note**	**KShs'000**		**KShs'000**
Assets				
Financial investments – held for trading	20 (a)	31,202,035		31,202,035
Financial investments – available-for-sale	21 (a)	36,079,565		36,079,565
Derivative assets	31	2,391,101		2,391,101
		69,672,701		**69,672,701**
Liabilities				
Financial liabilities – held for trading	20 (b)	362,630		362,630
Derivative liabilities	31	2,427,563		2,427,563
		2,790,193	-	**2,790,193**

There were no transfers between levels in 2018 and 2017.

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily of cash and subordinated debt listed on the Nairobi Securities Exchange (NSE).

Sensitivity of fair value of level 2 financial instruments

The fair value of level 2 financial instruments is determined using valuation techniques which incorporate assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

Level 2 financial assets and financial liabilities

	Valuation basis/technique	Main assumptions[1]
Derivative instruments	Discounted cash flow model Black-Scholes model Multiple valuation technique	Discount rate Risk-free rate, volatility rate Valuation multiples
Trading assets	Discounted cash flow model Black-Scholes model	Discount rate, liquidity discount rate Risk-free rate, volatility rate
Financial investments	Discounted cash flow model Multiple valuation technique Quoted exit price adjusted for notice period	Discount rate, liquidity discount rate Valuation multiples Discount rate
Loans and advances to customers	Discounted cash flow model	Discount rate, liquidity discount rate
Financial liabilities	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from Banks	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from customers	Discounted cash flow model	Discount rate, liquidity discount rate
Other financial liabilities	Discounted cash flow model	Discount rate, liquidity discount rate
Cash with Central Bank of Kenya	Prevailing exchange rate	Exchange rate
Investment in equities	Sale price	Discount rate

[1]The main assumptions for all instruments include applicable credit spreads.

Notes continued

39 Fair value of financial instruments (continued)

39 (b) Financial instruments not measured at fair value

Financial assets and Financial liabilities

The fair value hierarchy for financial assets not measured at fair value is as shown in the table below:

At 31 December 2018	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs '000	Carrying value KShs'000
Assets					
Loans and advances to banks	-	-	28,363,776	28,363,776	28,380,593
Loans and advances to customers	-	-	162,757,149	162,757,149	146,604,117
Financial investments- amortised costs	-	32,301,824	-	32,301,824	23,200,956
Other investments	-	-	17,500	17500	17,500
Other assets	-	-	3,231,042	3,231,042	3,231,042
	-	**32,301,824**	**194,369,467**	**226,671,292**	**201,434,208**
Liabilities					
Deposits from banks	-	-	(30,216,470)	(30,216,470)	(27,909,239)
Deposits from customers	-	-	(192,494,661)	(192,494,661)	(191,584,675)
Borrowings	-	-	(9,010,645)	(9,010,645)	(7,064,013)
	-	**-**	**(231,721,776)**	**(231,721,776)**	**(226,557,927)**

At 31 December 2017	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs '000	Carrying value KShs'000
Assets					
Cash and balances with CBK	8,044,783	-	-	8,044,783	8,044,783
Loans and advances to banks	-	-	12,711,390	12,711,390	12,743,630
Loans and advances to customers	-	-	147,236,355	147,236,355	130,535,814
Financial investments- held to maturity	-	5,590,370	-	5,590,370	5,444,176
Other investments			17,500	17,500	17,500
Other assets			3,220,570	3,220,570	3,220,570
	8,044,783	**5,590,370**	**163,185,815**	**176,820,968**	**160,006,473**
Liabilities					
Deposits from banks	-	-	(40,314,246)	(40,314,246)	(38,707,135)
Deposits from customers	-	-	(155,715,720)	(155,715,720)	(154,660,773)
Subordinated debt	-	-	(5,617,021)	(5,617,021)	(3,989,243)
	-	**-**	**(201,646,987)**	**(201,646,987)**	**(197,357,151)**

The valuation techniques used in determining the fair value of financial assets and liabilities classified within level 2 and level 3.

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 2 and level 3 assets and liabilities not measured at fair value but for which fair value is disclosed:

	Valuation basis/technique	Main assumptions
Loans and advances to banks	Discounted cash flow model	Discount rate, liquidity discount rate
Loans and advances to customers	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from banks	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from customers	Discounted cash flow model	Discount rate, liquidity discount rate
Subordinated debt	Discounted cash flow model	Discount rate, liquidity discount rate
Other financial assets	Discounted cash flow model	Discount rate, liquidity discount rate
Other financial liabilities	Discounted cash flow model	Discount rate, liquidity discount rate

There were no transfers between financial assets and fair value hierarchy in the year 2018 and 2017.

40 Related party transactions

Stanbic Holdings Plc is a subsidiary of Stanbic Africa Holdings Limited (SAHL), incorporated in the United Kingdom. The ultimate parent of SAHL is Standard Bank Group Limited, which is incorporated in South Africa.

There are other companies which are related to Stanbic Holdings Plc through common shareholdings or common directorships.

In the normal course of business, nostro and vostro accounts are operated and placings of both foreign and local currencies are made with the parent company and other group companies at interest rates in line with the market. The relevant balances are as shown below;

For the year ended 31 December 2018, the Group has made provision for doubtful debts relating to long outstanding amounts owed by related parties KShs 275,290,000 (2017: KShs 275,290,000) as indicated on Note 39 (h).

40 (a) Loans due from group banks

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Stanbic Bank Kenya Limited	-	-	130,867	111,803
Stanbic Bank Uganda Limited	60,973	19,221	-	-
Stanbic Bank Tanzania Limited	1,233	48,733	-	-
Standard Bank (Mauritius) Limited	5	27	-	-
Standard Bank of South Africa Limited	1,001,226	1,799,470	-	-
Standard Bank Isle of Man Limited	20,048,108	2,580,033	-	-
Stanbic Bank Botswana Limited	239		-	-
Stanbic Bank Ghana Limited	41		-	-
	21,111,825	**4,447,484**	**130,867**	**111,803**
Interest income earned on the above is:	**230,142**	**116,316**	**16,214**	**22,451**

40 (b) Deposits due to group banks

	GROUP	
	2018 KShs'000	2017 KShs'000
Standard Bank of South Africa Limited	2,040,969	403,871
Standard Bank Namibia Limited	561	526
Stanbic Bank Uganda Limited	69,597	393,971
Stanbic Bank Zambia Limited	325	366
Stanbic Bank Zimbabwe Limited	814	358
Stanbic Bank Botswana Limited	-	1,350
Standard Bank (Mauritius) Limited	833,845	1,672,616
Standard Bank Malawi Limited	582	1,315
Standard Bank Isle of Man Limited	12,513,772	10,542,423
Stanbic Bank Tanzania Limited	10,274	3,096
Standard Bank Swaziland Limited	74	47
	15,470,813	**13,019,939**
Interest expense incurred on the above is:	**737,797**	**237,889**

The weighted average effective interest rate on amounts due from group companies as at 31 December 2018 is 2.33% (2017 – 3.80%) and on amounts due to group companies was 4.41% (2017: 3.13%).

Notes continued

40 Related party transactions (continued)

40 (c) Deposits due to group companies non-bank

	GROUP	
	2018 KShs'000	2017 KShs'000
The Heritage Insurance Company Limited	306,843	479,109
STANLIB Kenya Limited	185,788	150,296
Liberty Life Assurance Kenya Ltd	97,519	110,851
	590,150	740,256

40 (d) Trading liabilities with group companies non-bank

	2018 KShs'000	2017 KShs'000
STANLIB Kenya Limited	1,295,481	-
	1,295,481	-

40 (e) Key management compensation

Key management personnel include: the members of the Stanbic Holdings Plc board of directors and prescribed officers effective for 2018 and 2017. Non-executive directors are included in the definition of key management personnel as required by IAS 24 Related Party Disclosures. The definition of key management includes the close family members of key management personnel and any entity over which key management exercise control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by that person in their dealings with the Group. They include the person's domestic partner and children, the children of the person's domestic partner, and dependants of the person or the person's domestic partner.

Key management have transacted with the Group as indicated in note 40 (f) and 40 (g);

40 (f) Loans and advances

Included in loans and advances are amounts advanced to certain companies in which directors are involved either as shareholders or directors (associated companies). In addition, there are contingent liabilities including guarantees and letters of credit, which have been issued to associated companies. The balances as at 31 December 2018 and 31 December 2017 are as shown below:

Loans and advances to key management

The aggregate amount of loans to directors, affiliates and their families on the statement of financial position is KShs 776,515,000 (2017: KShs 588,641,000).

No specific credit impairments have been recognised in respect of loans granted to key management (2017: KShs nil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

40 (g) Key management compensation

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Fees for services as a Director	44,754	36,557	9,085	7,165
Salaries and other short-term employment benefits	68,409	87,872	-	-
Post-employment pension	3,315	3,036	-	-
Share-based payments	5,283	15,864	-	-
	121,761	143,329	9,085	7,165

40 Related party transactions (continued)

40 (h) Amounts due from related companies

	GROUP	
	2018 KShs'000	2017 KShs'000
Liberty Life Assurance Limited	2,483	172
The Heritage Insurance Company Limited	142	-
Standard Bank Jersey Limited	1,936	3,017
Stanbic Bank Uganda Limited	3,645	12,177
Stanbic Bank Tanzania Limited	297,314	297,735
Standard Bank of South Africa Limited	647,186	265,678
Stanbic Bank Zambia Limited	2,275	-
Standard Bank Malawi Limited	1,384	3,199
Standard Bank RDC SARL	-	655
Standard Bank Isle of Man Limited	-	1,872
Standard Bank Swaziland Limited	216	-
Standard Bank de Angola S.A.	7,147	27,040
Standard Advisory London Limited	1,619	-
STANLIB Kenya Limited	3,525	-
Standard Bank Namibia Limited	367	-
	969,239	**611,545**
Provisions on regional costs balances	(275,290)	(275,290)
	693,949	**336,255**

40 (i) Other payables due to related companies

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Stanbic Bank Kenya Limited	-	-	-	8,675
Standard Bank Malawi Limited	-	1,353	-	-
Standard Bank of South Africa Limited	245,592	458,654	-	-
Stanbic Bank Uganda Limited	5,697	2,384	-	-
Stanbic Bank Tanzania Limited	1,631	816	-	-
Stanbic Bank Jersey Limited	3,166	162	-	-
	256,086	**463,369**	**-**	**8,675**

There is no interest accruing for these outstanding liabilities

40 (j) Related party expenses

The Group incurred the following related party expenses payable to Standard Bank of South Africa:

	GROUP	
	2018 KShs'000	2017 KShs'000
Franchise fees	639,799	551,226
Information technology	52,547	93,963
Other operating costs	77,497	67,327
	769,843	**712,516**

Notes continued

41 Contingent liabilities - Group

	GROUP	
	2018 KShs'000	2017 KShs'000
Commitments were with respect to:		
Letters of credit and acceptances	3,603,396	4,841,591
Guarantees	75,056,875	34,270,551
Unutilised facilities	10,651,153	6,252,527
	89,311,424	**45,364,669**

41 (a) Nature of contingent liabilities

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

Guarantees are generally written by a Group to support performance by a customer to third parties. The Group will only be required to meet these obligations in the event of customers' default.

An acceptance is an undertaking by the Group to pay a bill of exchange drawn on a customer. The Group expects most of the acceptances to be presented, and to be reimbursed by the customer almost immediately.

A contingent liability exists on an advance payment guarantee. The guarantee was issued on behalf of a well-rated Foreign Bank and a claim has arisen following a disagreement between the applicant (client of the Foreign Bank) and the beneficiary. Whilst the Directors believe that their legal defence is strong, they have been engaging the various stakeholders to this disagreement, in an effort to have the matter resolved amicably. These efforts are progressing well and there is a high likelihood the matter shall be resolved in 2019 The potential amount of payments that the Group could be required to make if there was an adverse decision is estimated to be up to USD 14.6 million. As at 31 December 2018, the Group has provided for legal fees of USD1.5 million, in respect to this matter and does not believe any further provision is required at this stage. The position shall continually be assessed.

41 (b) Segmental analysis of off-balance sheet liabilities

	GROUP			
	2018		2017	
	KShs'000	%	KShs'000	%
Agriculture	800,681	1%	1,959,763	4%
Manufacturing	7,329,822	8%	3,226,186	7%
Construction	12,939,274	14%	3,806,467	8%
Energy	622,164	1%	8,296,149	18%
Transport and communication	2,002,709	2%	2,832,456	6%
Distribution/wholesale	10,663,335	12%	3,857,709	9%
Financial Services	53,322,058	60%	18,103,741	40%
Tourism	169,858	0%	1,111,650	3%
Other activities and social service	1,461,523	2%	2,170,548	5%
	89,311,424	**100%**	**45,364,669**	**100%**

41 Contingent liabilities - Group (continued)

41 (c) Reconciliation of expected credit losses for off balance sheet facilities measured at amortised cost

	Opening ECL 1 January 2018	Total transfers between stages	Income statement movements			Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2018
			ECL on new exposure raised	Change in ECL due to modifications	Subsequent changes in ECL				
Off balance sheet	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Stage 1	**(78,848)**	**(4,494)**	**(36,253)**	**-**	**69,842**	**33,589**	**-**	**-**	**(45,259)**
Letters of credit	(35,953)	(4,494)	(4,925)	-	30,746	**25,821**	-	-	(10,132)
Guarantees	(42,895)	-	(31,328)	-	39,096	**7,768**	-	-	(35,127)
Stage 2	**(32,793)**	**4,494**	**(8,167)**	**-**	**28,289**	**20,122**	**-**	**-**	**(12,671)**
Letters of credit	(18,493)	4,494	(175)	-	13,999	**13,824**	-	-	(4,669)
Guarantees	(14,300)	-	(7,992)	-	14,290	**6,298**	-	-	(8,002)
Stage 3	**60,699**	**-**	**80,146**	**-**	**60,699**	**(19,447)**	**-**	**19**	**80,146**
Letters of credit	-	-	(80,146)	-	60,699	**(19,447)**	-	19	(19,447)
Guarantees	(60,699)	-	-	-	-	**-**	-	-	(60,699)
Total ECL	**(172,340)**	**-**	**(124,566)**	**-**	**158,830**	**34,264**	**-**	**19**	**(138,076)**

41 (d) Legal proceedings

In the conduct of its ordinary course of business, the Group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims arising, that the bank has adequate insurance programmes and provisions in place to meet such claims.

The amounts provided for in other liabilities are KShs 25,000,000 (2017: KShs 25,000,000).

Notes continued

42 Other reserves

For the year ended 31 December 2018	Pre-acquisition reserve	Revaluation of financial assets- at FVOCI	Regulatory credit risk reserve	Revaluation reserve on buildings	Share-based payment reserve	Foreign currency translation reserve	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2018	(126,078)	343,317	73	122,598	16,004	(804,230)	(448,316)
Impact of initial application of IFRS 9[1]	-		(73)	-	-	-	(73)
At 1 January 2018 - updated	(126,078)	343,317	-	122,598	16,004	(804,230)	(448,389)
Total comprehensive income for the year	-	(321,360)	-	-	-	(270,472)	(591,832)
Currency translation difference for foreign operations	-	-	-	-	-	(270,472)	(270,472)
Fair value changes on financial assets	-	(321,360)	-	-	-	-	(321,360)
Transfer of statutory credit risk reserve	-	-	938,245	-	-	-	938,245
Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group							
Share based payment reserve	-	-	-	-	18,801	-	18,801
Total transactions with owners of the Group	-		-	-	18,801	-	18,801
At 31 December 2018	(126,078)	21,957	938,245	122,598	34,805	(1,074,702)	(83,175)

42 Other reserves (continued)

For the year ended 31 December 2017	Pre-acquisition reserve	Revaluation of financial assets- Fair value	Regulatory credit risk reserve	Revaluation reserve on buildings	Share-based payment reserve	Foreign currency translation reserve	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2017	**(126,078)**	**44,672**	**65,522**	**122,598**	**13,859**	**(878,631)**	**(758,058)**
Total comprehensive income for the year	-	**298,645**	-	-	-	**74,401**	**373,046**
Currency translation difference for foreign operations	-	-	-	-	-	74,401	74,401
Fair value changes on financial assets	-	298,645	-	-	-	-	298,645
Transfer of statutory credit risk reserve	-	-	**(65,449)**	-	-	-	**(65,449)**
Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group							
Share based payment reserve	-	-	-	-	2,145	-	**2,145**
Total transactions with owners of the Group	-	-	-	-	**2,145**	-	**2,145**
At 31 December 2017	**(126,078)**	**343,317**	**73**	**122,598**	**16,004**	**(804,230)**	**(448,316)**

Notes continued

42 Other reserves (continued)

	Note	GROUP 2018 KShs'000	GROUP 2017 KShs'000
Pre-acquisition reserve		(126,078)	(126,078)
Revaluation of financial assets- Fair value		21,957	343,317
Regulatory credit risk reserve		938,245	73
Revaluation reserve on buildings		122,598	122,598
Share-based payment reserve	43	34,805	16,004
Foreign currency translation reserve		(1,074,702)	(804,230)
At end of year		**(83,175)**	**(448,316)**

The pre-acquisition reserve solely represents the deficit on the AFS reserve and regulatory credit risk reserve from the merger of CfC Bank Limited and Stanbic Bank Kenya Limited in 2008. The Group has not revalued the reserve since the merger. The pre-acquisition reserve is non-distributable.

Fair value reserve represents the surplus or losses arising on fair valuation of available-for-sale/FVOCI financial instruments and is non-distributable.

The Regulatory credit risk reserve represents an appropriation from retained earnings to comply with the Central Bank of Kenya's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognised in accordance with the Company's accounting policy. The reserve is not distributable.

The revaluation reserve on buildings solely represents the surplus on the revaluation of buildings and freehold land net of deferred income tax. The revaluation reserve arose from the merger of CfC Bank Limited and Stanbic Bank Kenya Limited in 2008. The Group policy was adopted to state all its assets using the historical cost model. No revaluation has been undertaken since the merger. The revaluation reserve is non-distributable.

Share-based payment reserve represents the Group's share incentive scheme which enables key management personnel and senior employees of the Group to benefit from the performance of Standard Bank Group (SBG) shares.

Foreign currency translation reserve represents exchange differences arising on the translation of the net investment in foreign entities and is non-distributable.

43 Share-based payment reserve

	GROUP	
	2018 KShs'000	2017 KShs'000
At start of year	16,004	13,858
Equity growth scheme for the year	18,801	2,146
At end of year	**34,805**	**16,004**

The Group's share incentive scheme enables key management personnel and senior employees of the Group to benefit from the performance of Standard Bank Group (SBG) shares.

The Group has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights. The share appreciation rights granted during the year were valued using Black Scholes pricing model. Each grant was valued separately.

At 31 December 2018, the total amount included in staff costs for Group Share Incentive Scheme was KShs 10,248,000 (2017: KShs 6,085,000) and for Equity Growth Scheme was KShs 8,553,000 (2017: KShs 3,941,000).

The two schemes have five different sub-types of vesting categories as illustrated by the table below:

	Year	% vesting	Expiry
Type A	3, 4, 5	50, 75, 100	10 Years
Type B	5, 6, 7	50, 75, 100	10 Years
Type C	2, 3, 4	50, 75, 100	10 Years
Type D	2, 3, 4	33, 67, 100	10 Years
Type E	3, 4, 5	33, 67, 100	10 Years

A reconciliation of the movement of share options and appreciation rights is detailed below:

	Option price range (ZAR)	Number of options	
Group Share Incentive Scheme	**2018**	**2018**	**2017**
Options outstanding at beginning of the year		72,251	117,563
Transfers		-	34,126
Exercised	98.80-111.94	(12,251)	(74,750)
Lapsed		-	(4,688)
Options outstanding at end of the year		**60,000**	**72,251**

The weighted average SBG share price for the year to 31 December 2018 was ZAR 192.35 (2017: ZAR 157.29).

The following options granted to employees had not been exercised at 31 December 2018:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
3,750	111.94	111.94	Year to 31 December 2020
56,250	98.80 - 107.55	101.65	Year to 31 December 2021
60,000			

Notes continued

43 Share-based payment reserve (continued)

The following options granted to employees had not been exercised at 31 December 2017:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
10,750	111.94	111.94	Year to 31 December 2020
61,501	98.80 - 107.55	101.65	Year to 31 December 2021
72,251			

Equity Growth Scheme	Appreciation right price range (ZAR) 2018	Number of rights 2018	Number of rights 2017
Rights outstanding at beginning of the year		41,813	21,375
Transfers		-	26,013
Exercised	98.80-111.94	(38,813)	-
Lapsed		-	(5,575)
Rights outstanding at end of the year[1]		**3,000**	**41,813**

[1] At 31 December 2017 the Bank would need to issue 1,378 (2017: 39,065) SBG shares to settle the outstanding appreciated rights value.

The following rights granted to employees had not been exercised at 31 December 2018:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
3,000	96.68	96.68	Year to 31 December 2021
3,000			

The following rights granted to employees had not been exercised at 31 December 2017:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
1,375	62.39	62.39	Year to 31 December 2019
16,250	105.60 - 111.94	111.45	Year to 31 December 2020
24,188	98.80 - 96.68	98.54	Year to 31 December 2021
41,813			

44 Capital commitments

Capital commitments for the acquisition of property and equipment are summarised below:

	GROUP	
	2018 KShs'000	2017 KShs'000
Authorised and contracted for	330,808	237,506
Authorised but not contracted for	1,186,830	704,750

45 Operating leases

The Group has entered into a number of commercial leases for its premises and office equipment under operating leases. These leases have an average life of between six years with a renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases such as those concerning dividends or additional debt.

At 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows;

	GROUP	
	2018 KShs'000	2017 KShs'000
Less than one year	273,999	260,421
Between one and five years	845,488	788,827
More than five years	99,568	9,852
	1,219,055	**1,059,100**

46 Fiduciary activities

The assets held on behalf of individuals, trusts, retirement benefit plans and other institutions:

	GROUP	
	2018 KShs'000	2017 KShs'000
Assets held on behalf of individual's trusts and other institutions	**292,161,154**	**266,101,243**

47 Comparatives

Where necessary, comparative figues within the notes have been adjusted to either conform to change in presentation in the current year or for the adoption of new IFRS requirements.

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Other information

CMA Corporate Governance Scorecard

Company market to book ratio at end of financial year	0.80
No of outstanding shares at end of financial year	Issued shares: 395,321,638 Unissued shares: 78,362,573
Closing price of stock at end of financial year	KShs 90.75
Net sales as per Income Statement at end of financial year	KShs 20,029,903,000
Net profit as per Income Statement at end of financial year	KShs 6,277,166,000
Total debt (short and long term) as per Balance Sheet at end of financial year	KShs 7,064,013,000
Total equity as per Balance Sheet at end of financial year	KShs 44,623,420,000
Total no. of Board members at end of financial year	10
No. of independent directors at end of financial year	6
No. of non-executive directors at end of financial year	9

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
		A	INTRODUCTION				
1	M	A.1	Has the company developed and published a Board Charter which is periodically reviewed and which sets out the Board responsibility for internal control?	1.1.2, 2.6.2, 6.3.2	FA	There is a Board Mandate (Charter) in place. It is reviewed on an annual basis, with the last review being done on 28/02/2019. Responsibility for internal control is set out under Sections 7.15 and 7.27 of the Board Mandate.	The Board Mandate is found on the Company website (https://www.stanbicbank.co.ke/kenya/About-Us), under Governance Documents. Board Meeting Minutes further capture records of dates of review.
2	M	A.2	Does the Board Charter or company documents distinguish the responsibilities of the board from management in line with Code requirements?	1.1.2, 2.3.1, 2.3.2, 2.6.2	FA	Yes. This is outlined in the Board Mandate, under Section 3 which distinguishes the role of Board Committees and Section 7 which distinguishes the role of the Board. The responsibilities of the management committees which fall under the subsidiary companies, are further distinguished in their individual committee mandates. The distinctions are also emphasised in the Annual Report.	Board Mandate/ Charter and Chief Executive Mandate, both found in the Company website. The Annual Report under the Governance Statement section.

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
3	A or E	A.3	Is there a statement indicating the responsibility of Board members for the application of corporate governance policies and procedures of the company?	1.1.6	FA	Yes. The statement is included in the Board Mandate under the opening paragraph on the Board's Purpose. A more detailed statement is also contained in the Terms of Reference in the Board Mandate, under Sections 7.16, 7.18 and 7.19. The Annual Report also gives further emphasis in the section containing the Corporate Governance Statement.	The Board Mandate and 2018 Annual Report both found in the Company's Website.
4	M	A.4	Has the Board ensured all directors, CEOs and management are fully aware of the requirements of the Kenyan CG Code?	1.1.6	FA	Yes. In compliance with the training requirements under Section 7.25 of the Board Mandate and Section 7.2.3 of the Nominations Committee Mandate, the Board underwent internal training on the Code in February 2016, by qualified external consultants. In addition, individual directors, the Company Secretary and the Chief Financial Officer have attended seminars on the Code, hosted by the Capital Markets Authority and IFC. Compliance team have also included the Code under a regulatory universe document. A refresher training has been set up for 03/07/2019 for the Board. Training for EXCO is scheduled for 04/07/2019. Further, the Board Charter has been amended to incorporate the requirements of the Code.	Board Mandate and Nominations Committee Mandate available on the Company's Website. Compliance Regulatory Universe available for review.
5	M	A.5	Do company documents indicate the role of the Board in developing and monitoring the company strategy?	Part II - Overview, 2.3	FA	Yes. This is indicated as part of the Terms of Reference in the Board Mandate, under Section 7.2. Section 2.7 also indicates that the composition of the Board should be aligned to the strategic requirements of the Company. This is also reflected in the Corporate Governance Statement in the 2018 Annual Report.	Board Mandate, and 2018 Annual Report, both found on the Company's website.

CMA Corporate Governance Scorecard (continued)

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
6	A or E	A.6	Does the company strategy promote sustainability of the company?	2.3.6	FA	Yes. This is articulated in the strategy for the Company's operating banking subsidiary and reflected in the core strategic value drivers adopted which focus on ensuring client value, employee welfare, implementing risk controls and doing business the right way, financial outcomes and measuring impact on society, the economy and the environment.	2018 Annual Report found on the Company's website highlights the Company's strategy in promoting sustainability of the Company and its subsidiaries.
7	M	A.7	Are all board committees governed by a written charter/ terms of reference, disclosing its mandate, authority, duties, composition, leadership and working processes?	2.2.2	FA	Yes. Each committee has its own mandate, which outlines the terms of reference, authority, responsibilities, composition, leadership and working processes. The committees are highlighted under Section 2 of the Board Mandate and delegated authority under Section 7.6 of the same. The mandates of the committees are reviewed annually and published on the Company's website. Further, summaries of the committees' duties and activities are provided in the Annual Report under the Corporate Governance Statement Section.	The Board Mandate, the Board Audit Committee Mandate, the Nominations Committee Mandate and the 2018 Annual Report, found on the Company's website.
		B	**BOARD OPERATIONS and CONTROL**				
8	M	B.1	Has the Board established a Nomination Committee comprised mainly of independent and non-executive Board members?	2.1.2, 2.2.2	FA	Yes, the Board has established a Nominations Committee, comprised solely of independent and non-executive Board members. As at 28 February 2019, there are 4 members, 2 of whom are independent non-executive Board Members. The chairman is independent. The membership of the committee is confirmed in the Board minutes, which records the appointment of members. The composition of the Committee in 2018, including attendance, is published in the Corporate Governance section of the 2018 Annual Report.	Board Meeting Minutes. In addition, the Nominations Committee Mandate Section 3.1 and the 2018 Annual Report, available in the Company's Website.

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
9	M	B.2	Is the chairperson of the Nomination Committee an independent director?	2.2.3	FA	In 2018, the Chair of the Nominations Committee was a Non-Executive Director. On recommendation of the Nominations Committee, the Board has since appointed an independent non-executive director to chair the Committee, with effect from February 2019. The newly appointed chair of the Nominations Committee is an independent non-executive director.	Nominations Committee Meeting Minutes, Board Meeting Minutes, Company Website.
10	M	B.3	Has the board adopted and published procedures for nomination and appointment of new Board members?	2.1.1, 2.1.7	FA	These are contained in the Company's Articles of Association, the Governance Framework Sections 4.8-4.11, the Board Mandate Section 4 and the Nominations Committee Mandate under Section 7.1. The Nominations Committee evaluates potential Board members based on the required skills and on the diversity policy. Selected candidates are recommended to the Board for consideration and appointment subject to regulatory approval.	The Board Mandate, the Governance Framework, the Nominations Committee Mandate and the Company's Articles of Association found on the Company's website.
11	M	B.4	Is the Board size sufficient for the exercise of the company business?	2.1.4	FA	Yes. The Board is composed of 10 Directors. This is within the requirement stipulated under Section 2.1 of the Board Mandate and under the Company's Articles of Association Section 99 (Section 63 (a) for Bank).	The Board Mandate and Articles of Association found on the Company's website.
12	A or E	B.5	Has the board adopted a policy to ensure Board diversity including age, race and gender in its composition? Does the Board disclose measurable objectives for board diversity and report on these?	2.1.1, 2.1.3, 2.1.5, 2.5.1	FA	Yes. The Company has a Diversity policy in place and is available on the company's website. Further, Section 7.1.5 of the Nominations Committee Mandate and Section 2.6 of the Board Mandate emphasises the need for diversity of the Board in terms of age, race and gender. Diversity in skills, experience and views is important for the Board to ensure effective monitoring of the Company and delivery of value to diverse stakeholders.	The Diversity Policy, Board Mandate, Nominations Committee Mandate and the Governance Framework contained on the Company's website.

CMA Corporate Governance Scorecard (continued)

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
13	M	B.6	Do Board members represent a mix of skills, experience, business knowledge and independence to enable the discharge of their duties?	2.1.2, 2.2.1	FA	Yes, they do. This is a requirement under Section 4.2 of the Board Mandate. The mix of skills, knowledge, business experience and independence of the Board members has been provided in the Annual Report under the skills matrix and in the Directors' individual profiles.	Board Mandate and 2018 Annual Report contained on the Company's website.
14	M	B.7	Has the board adopted and applied a policy limiting the number of board positions each Board member may hold at any one time?	2.1.6	FA	Only where it interferes with discharge of duties. The Conflicts of interest section of the Board Mandate under 9.1 and 9.3 requires disclosure of multiple directorships and annual declaration of the same, or immediate disclosure where an appointment occurs between annual declarations. A current declaration of interests register is maintained by the Company Secretary. The Board is also guided by the Company's Governance Framework Section 7.4 and by applicable regulations, notably regarding number of directorships allowed on public listed companies and, in relation to the banking subsidiary, the number of banks (limited to 2).	The Board Mandate and the Governance Framework both contained on the Company's website.
15	M	B.8	Have any Alternate Board members been appointed? If so, have the Alternate Director/s been appointed according to regulation and Code requirements?	2.1.6, 2.1.7	FA	There are currently no alternate directors appointed. The Articles of Association, however, allow for appointment of alternate directors.	None Applicable
16	M	B.9	Are independent directors at least one-third of the total number of Board members?	1.1.2, 2.1.3, 2.4.1	FA	As at 31 December 2018, seven of the ten directors on the Board are independent non-executive directors. This is disclosed in the 2018 Annual Report.	The 2018 Annual Report under profile of directors contained within the Corporate Governance Statement.

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17	A or E	B.10	Does the Board have policies and procedures to annually assess the independence of independent Board members?	2.4.1	FA	Yes. In compliance with Section 10 of the Board Mandate, the Board conducts a Board Evaluation Exercise in in the first quarter of every financial year (with the last exercise being carried out on 28 February 2019). This includes an evaluation of the independence of independent directors. A register of declaration of interest is also mandated under Section 9.6 of the Board Mandate and a record of the same maintained by the Company Secretary.	Board Mandate contained on the Company's website. Board Evaluation Report and Minutes of the session, provided to relevant regulators.
18	M	B.11	Do all independent Board members have a tenure of less than 9 years?	2.4.2	FA	Yes. This is stipulated in the Board Mandate under Section 4.6. After expiry of this period, such Directors are re-designated as non-independent non-executive Directors	Board Mandate.
19	M	B.12	Is the Board comprised of a majority of non-executive board members?	2.1.3	FA	Yes. 9 out of the 10 directors are non-executive directors.	Board Meeting Minutes and the 2018 Annual Report under Director Profiles.
20	M	B.13	Does the Board ensure a smooth transition of Board members?	2.1.8	FA	Yes. The Company's Articles of Association Section 110 and the Nominations Committee Mandate under Sections 7.1.5 and 7.1.6 guarantees this. The Board is always adequately composed and it is provided that only a third of directors retire by rotation at the Annual General Meeting.	Articles of Association of the Company and Nominations Committee Mandate.
21	M	B.14	Has the Board established an Audit Committee according to Code requirements?	2.2.4, 6.5.1, 2.1.7	FA	Yes. The Board has established an effective Audit Committee, chaired by an independent non-executive director and professional accountant in good standing. Two other members sit on the Committee, both independent non-executive directors. The composition requirements of the Committee are clearly outlined under Section 2 of the BAC Mandate.	The BAC Meeting Minutes, Board Meeting Minutes, the BAC Mandate and public notice of 2019 Annual General Meeting. The Notice is available on the Company's website.

CMA Corporate Governance Scorecard (continued)

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
22	M	B.15	Are the functions of the Chairperson and the Chief Executive Officer exercised by different individuals?	2.3.3	FA	Yes, the functions of the Chairman of the Board and the Chief Executive Officer are exercised by different individuals. This is indicated under the Governance Framework (Category 1), under Principle 1.3 and supported by Section 2.4 of the Company's Board Mandate.	The Board Mandate and the Governance Framework and 2018 Annual Report, all available on the Company's website. Board Meeting Minutes.
23	M	B.16	Is the Chairman of the Board a non-executive board member?	2.3.4	FA	Yes, the Chairman of the Board is a non-executive Director. This is reflected in the Board Mandate, the Governance Framework, Board Meeting minutes and the Annual Report, under director profiles. Section 2.4 of the Board Mandate indicates that the Chairman of the Board must be an independent non-executive director.	2018 Annual Report, Board Mandate and the Governance Framework available on the Company's website. AGM Minutes and Board Meeting Minutes.
24	A or E	B.17	Has the Board established procedures to allow its members access to relevant, accurate and complete information and professional advice?	2.3.5	FA	This is explicitly provided for under Sections 7.34 and 8.6 of the Board Mandate. Board members have the authority to obtain access to all relevant information as and when required. Further, the Board may obtain information from Management or an external professional where necessary, at the Company's cost.	Board Mandate available on the Company's website.
25	M	B.18	Has the Board adopted a policy on managing conflict of interest?	2.3.8	FA	Included in the Company's Articles of Association under Sections 113, 115 and 116. Section 9 of the Board Mandate makes explicit provisions on matters touching on conflict of interest. In addition, the agenda of every board meeting includes an item of declaration of any conflict of interest at the beginning of the meeting, prior to confirmation of minutes. The Company's Governance Framework and Code of Ethics contains provisions on this.	Articles of Association, Board Mandate, Group Code of Ethics and Governance Framework contained on the Company's website. In addition, Board Meeting Minutes.

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26	M	B.19	Has the Board adopted a policy on related party transactions which meets the requirements of the Code?	2.3.7	FA	This is in place within the Company's banking subsidiary Credit Committee Mandate under Section 6.4.1 and in the Board Mandate under Section 9. Related party transactions are also disclosed in the Financial Statements section of the Annual Report.	Stanbic Bank Kenya Board Credit Committee Mandate, Company Board Mandate and 2018 Annual Report.
27	M	B.20	Has the company appointed a qualified and competent company secretary who is a member in good standing of ICPSK?	2.3.9	FA	The Company Secretary is a member of ICPSK and is a member of good standing.	In the Annual Report on the Company's website. ICPSK Records and website.
28	A or E	B.21	Has the Board adopted policies and processes to ensure oversight of sustainability, environmental and social risks and issues?	2.3.2, 2.3.6	FA	This is provided for under Section 7.22 of the Board Mandate. The Annual Report also contains a detailed report on the Social, Economic and Environmental activities of the Company and the progress made in that regard. Further, an Environmental & Social Policy and Standard have been implemented in the Company's banking subsidiary.	Environmental & Social Policy and Standard, Board Mandate and 2018 Annual Report available on the Company's website.
29	A or E	B.22	Has the Board developed an annual work-plan to guide its activities?	2.6.3	FA	The Board has an annual work-plan which is approved in the fourth quarter of the preceding financial year.	Board Work-plan and Board Meeting Minutes.
30	M	B.23	Has the Board determined, agreed on its annual evaluation process and undertaken the evaluation of the Board, the Board Committees, the CEO and the company secretary?	2.6.4, 2.8	FA	Section 10 of the Board Mandate explicitly provides for evaluation of the Board, Board Committees, the CEO and the Company Secretary. The Board has completed the full annual evaluation for 2018 and met to discuss the same on 28 February 2019.	Board Evaluation Minutes, Board Mandate and Board Evaluation Report.
31	A or E	B.24	Has the Board established and applied a formal induction program for in-coming members?	2.7.1	FA	There is a formal induction program in place for all in-coming members. This is provided for under Section 4.5 of the Board Mandate and Sections 6.1.2 and 7.2.2 of the Nominations Committee Mandate. The Corporate Governance Statement in the Annual Report makes reference to this process.	2018 Annual Report, Board Mandate, Nominations Committee Mandate.

CMA Corporate Governance Scorecard (continued)

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
32	A or E	B.25	Do Board members participate in on-going corporate governance training to the extent of 12 hours per year?	2.7.3	FA	Yes. In 2018, all Directors received over 12 hours training on areas of governance from the Company and other credible sources. Mention of the same is made in the Corporate Governance section of the Annual Report. A calendar of Board Training sessions, including corporate governance training is usually prepared and approved on an annual basis and approved in the fourth quarter of the previous financial year. Further, all Directors must sign the attendance register after the sessions indicating their presence and participation. The trainings are conducted by both external and internal subject matter experts.	Board Training Calendar, Attendance Register, 2018 Annual Report. This is included in the governance section of the Annual Report available on the Company's website.
33	A or E	B.26	Has the Board set up an independent Remuneration Committee or assigned to another Board committee the responsibility for determination of remuneration of directors?	2.9.2	FA	This function is carried out by the Nominations Committee. This is provided for under Section 7.32 of the Board Mandate and has been disclosed in detail in the 2018 Annual Report under the Board Committees section of the Corporate Governance Report. The full Board considers and endorses the Board remuneration Report for ratification and approval by shareholders.	Board Mandate, Board Nominations Committee Mandate, 2018 Annual Report, Nominations Committee Meeting Minutes, Board Meeting Minutes.
34	M	B.27	Has the Board established and approved formal and transparent remuneration policies and procedures to attract and retain Board members?	2.9.1	FA	There is a Board Remuneration Policy in place, and which is published on the Company's website and in the 2018 Annual Report.	Board Remuneration Policy available in the Annual Report and on the Company's website.
35	M	B.28	Does the Board ensure compliance with all applicable laws, regulations and standards, including the Constitution and internal policies?	2.10, 2.10.1, 2.10.2	FA	This is done through the Compliance, Governance and Legal Units, through quarterly reports submitted to the Board touching on these areas. The Nominations Committee is also responsible for ensuring this, as per Section 7.1.8 of the Nominations Committee Mandate.	Board and Committee Meeting Minutes, Nominations Committee Mandate.

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36	M	B.29	In the past year, has the Board carried out an internal legal and compliance audit and in the past two years, an independent legal and compliance audit?	2.10.3	FA	A comprehensive independent Legal & Compliance Audit was carried out by TripleOk Advocates in 2018 on the Company's banking subsidiary and the relevant report issued. This was approved by the Board as necessitated under Section 7.17 and 7.19 of the Board Mandate. A disclosure on the same has been made in the 2018 Annual Report. An internal Legal & Compliance audit will be conducted in 2019.	Legal and Compliance Audit Report, Board Mandate, Board Meeting Minutes for meeting held on 22 November 2018, and statement made in 2018 Annual Report.
37	A or E	B.30	Has the Board undertaken an annual governance audit?	2.11.1	FA	The audit firm, CPF, conducted the Governance Audit in 2017/2018 and issued the report. The audit for the full year 2018 is underway in 2019 and is being performed by TripleOkLaw. This was approved by the Board as necessitated under Section 7.18 and 7.19 of the Board Mandate.	Governance Audit Report, 2018 Annual Report and Board Meeting Minutes for the meeting held on 22 November 2018.
		C	**RIGHTS of SHAREHOLDERS**				
38	M	C.1	Does the governance framework recognise the need to equitably treat all shareholders, including the minority and foreign shareholders?	3.0 Overview, 3.2.1	FA	Yes. This is contained in the Articles of Association. The Company's Code of Ethics goes a step ahead to emphasise the need to treat all shareholders fairly. Further, the Board has Independent Non-Executive Directors with the fiduciary duty to protect the interest of all shareholders and ensure that all shareholders are treated equitably.	Articles of Association and Group Code of Ethics available on the Company's website.

CMA Corporate Governance Scorecard (continued)

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
39	M	C.2	Other than at the AGM, does the Board facilitate the exercise of shareholders' rights?	3.1.1	FA	All shareholders are given equal notice of general meetings and have an equal right to vote. Notices are given to all shareholders as required by law. Where an investor is unable to physically attend such meetings, they are allowed to attend by proxy. We also have Investor briefings twice a year after release of the company's financials. All investors are allowed to access information pertinent to them and the Annual Report on the website and at the Registrars and Company Secretary's Office.	2018 Annual Report, and Company's website, AGM Minutes, Media Briefs available on print and electronic media.
40	M	C.3	Does the Board facilitate shareholders participation at the AGM?	3.1.1	FA	Public notices are issued through two daily newspapers, registered mail for shareholders in the diaspora, text messages and the Company's website within the stipulated time. The abridged audited financial statements are included in the notices sent by mail and published in the newspapers. The full audited financial statements are available on the Company's website. The AGM venue is central and accessible and sufficient notice is provided as to the venue. The AGM proceedings encourage active participation by shareholders during the meeting and sufficient time is allocated for that. Those unable to attend physically may do so by proxy.	AGM Notices published in print media, the Company's website, NSE website, records of registered mail and text messages.
41	A or E	C.4	Are minority and foreign shareholders holding the same class of shares treated equitably?	3.2.1	FA	Yes, they are. Minority and foreign shareholders hold the same class of shares, ordinary shares, and are treated equitably. The Articles of Association set out the rights of shareholders.	Articles of Association published on the Company's website.

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42	A or E	C.5	Does the Board proactively provide information to shareholders and the media, (and in a timely basis) on corporate affairs and corporate governance?	3.1.1, 3.4.1	FA	Yes, all material information is published within the time stipulated by law the evidence is in the media publications, on the Company website and on the Nairobi Securities Exchange (NSE) website. Further, there are 2 investor briefings held every year.	Media records, Company website, NSE website, correspondence with CMA and NSE.
		D	**STAKEHOLDER RELATIONS**				
43	A or E	D.1	Does the Board have a stakeholder-inclusive approach in its practice of corporate governance and which identifies and engages its various stakeholders?	4.1.1	FA	Yes. As part of our engagement with stakeholders, we have identified the environmental, social and governance issues presenting significant risks and opportunities to our business, and our ability to create value. Prioritised themes for disclosure and engagement with stakeholders are contained in the Annual Report and reflected on the Company website. These issues are also covered in the Group Code of Ethics. Further, the Group Stakeholder Engagement Guidelines have also been approved by the Board and adopted and made available on the Company's website.	The Company's website, Group Code of Ethics, Group Stakeholder Engagement Guidelines.
44	A or E	D.2	Has the Board developed policies, procedures and strategies to manage relations with different/key stakeholder groups?	4.1.2, 4.1.3, 4.1.5, 4.2.1	FA	Yes, through the Articles of Association. Further, the necessary policies and procedures have been implemented in the Company's subsidiaries. A Group Stakeholder Engagement Guideline is in place and available on the Company's website.	Articles of Association and Group Stakeholder Engagement Guideline are available on Company's website.
45	A or E	D.3	Does the Board take into account the interests of key stakeholder groups prior to making decisions?	4.1.4	FA	Yes. This is done through issuing public notices via the media and the Company website and where required by law, seeking approval from shareholders at a General Meeting. The Company and its subsidiaries is also guided by its policies stated above.	Media records, Company website, AGM Minutes.

CMA Corporate Governance Scorecard (continued)

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
46	M	D.4	Does the Board ensure communications with stakeholders?	4.2, 4.2.1	FA	By complying with the requirements of legislation, regulation and the Company's Articles of Association on public notices to stakeholders. The Board also ensures that the stakeholders have access to the Company website, Annual Reports and investor briefings.	Media records, Articles of Association, Annual Report, Company's website.
47	M	D.5	Has the Board established a formal dispute resolution process to address internal and external disputes?	4.3.1	FA	There are formal internal and external dispute resolution processes in place. For stakeholders, especially suppliers and service providers, we include dispute resolution mechanisms in our contracts to address external disputes. Regarding staff, our Human Capital policy has mechanisms for internal dispute resolution. At Board level, a Board Dispute Resolution Policy was approved and adopted in the fourth quarter of the previous financial year. These policies are available on the Company's website.	External vendor service contracts, Human Capital Policy and Board Dispute Resolution Policy. The policies are available on the Company's website.
		E	**ETHICS AND SOCIAL RESPONSIBILITY**				
48	A or E	E.1	Does the Board ensure that all deliberations, decisions and actions are founded on the core values (responsibility, accountability, fairness and transparency) underpinning good governance and sustainability?	5.1.1	FA	Yes. This is contained in the Code of Ethics, Environmental & Social Policy and in the Governance Framework. This is further detailed in the Board Mandate under Sections 4.5, 7.22, 7.24 and 7.35. The Board also emphasises its awareness of these duties in the Annual Report.	Code of Ethics, Governance Framework, Environmental & Social Policy, Annual Report and Board Mandate, all available on the Company's website.

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
49	M	E.2	Has the Board developed and publicly disclosed a Code of Ethics and Conduct (which includes sustainability) and has it worked to ensure its application by all directors, management and employees?	2.6.1, 5.2.2, 5.2.3, 5.2.4	FA	The Group Code of Ethics is all encompassing and applicable uniformly to all directors, management and employees. The same is available on the Company's website. The banking subsidiary also has a separate procurement policy disclosed on our website. In addition, we have our Governance Framework, the Board Charter and the Human Capital policy which all cover ethics and conduct.	Group Code of Ethics, Procurement Policy, Governance Framework, Board Mandate and Human Capital Policy available on the Company's website.
50	A or E	E.3	Does the Board ensure that compliance with the Ethics Code and Conduct is integrated into company operations?	5.2.3	FA	Yes. This is included in the Board Mandate and various policies of the Group. In addition, all employees of the Company are required to undertake online training and examination on the Group Code of Ethics.	Board Mandate, 2018 Annual Report, policies and Group Code of Ethics, included on the Company's website.
51	A or E	E.4	Does the Board incorporate ethical and sustainability risks and opportunities in the risk management process?	5.2.1	FA	Yes. The evidence is in the documented processes and Board approved policies of its subsidiary companies. Further, this is included as part of the Terms of Reference in the Board Risk & Technology Committee Mandate, under Section 6.5 of the banking subsidiary.	Board Risk & Technology Committee Mandate and various policies available on the Company's website.
52	A or E	E.5	Is the company performance on ethics assessed, monitored and disclosed to internal and external stakeholders?	5.2.4, 5.2.5	FA	The Company's performance on ethics is disclosed in the Annual Report and through the formal governance audit carried out.	2018 Annual Report and Governance Audit Report.
53	A or E	E.6	Has the company established and implemented a whistle blowing policy?	5.2.5	FA	There is a Whistleblowing Policy in place and is reviewed annually. The same is available on the Company's website.	Whistleblowing Policy available on the Company's website.
54	A or E	E.7	Has the Board/or management developed policies on corporate citizenship and sustainability and strategies for company use?	5.3.1, 5.4	FA	Yes. There is a Group Corporate Social Investment Framework Environment & Social Policy and Social Economic & Environment Committee Mandate which are available on the Company's website.	Group Corporate Social Responsibility Framework, Environment & Social Policy and Social Economic & Environment Committee Mandate available on the Company's website.

CMA Corporate Governance Scorecard (continued)

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
55	M	E.8	Does the Board consider not only the financial performance but also the impact of the company's operations on society and the environment?	5.3.2, 5.3.3	FA	Yes. This has been covered in elaborate detail in the Annual Report, under the Governance section.	2018 Annual Report and policies mentioned above.
56	A or E	E.9	Does the Board monitor and report activities on corporate citizenship and sustainability and demonstrate they are well coordinated?	5.4.1	FA	Yes, the same is also contained in the Annual Report.	The 2018 Annual Report.
		F	**ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL**				
57	M	F.1	Does the Audit Committee and the Board review the financial statements for integrity of the process and for truthful and factual presentation?	6.1, 6.1.1a	FA	The Audit Committee oversees the integrity of the process and for truthful and factual presentation. It further proposes the approval of the financial statements to the Board. Disclosures on this are made in the Annual Report in the section on Corporate Governance detailing the mandate and activities of Board Committees. This is indicated in Section 7.2 of the BAC Mandate and Section 3.1.1 of the Board Mandate.	Board Audit Committee Meeting Minutes and Board Meeting Minutes. In addition, the 2018 Annual Report, the Board Mandate and the Board Audit Committee Mandate available on the website.
58	M	F.2	Does the Annual Report contain a statement from the Board explaining its responsibility for preparing the accounts and is there a statement by the external auditor about his/her reporting responsibilities?	6.1.2	FA	Yes. This is contained in the section on the Report of the Directors and the Statement of Directors' Responsibilities. The external auditor's statement is contained within the Independent Auditor's Report.	2018 Annual Report available on the website.

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
59	A or E	F.3	Does the board or audit committee have a process in place to ensure the independence and competence of the Company's external auditors?	6.1.1b	FA	Yes. The Company uses a reputable firm of qualified auditors and the independence of the external auditors is confirmed in the Post-Audit Report on an annual basis. Disclosure of this is made in the Annual Report. There is also a confirmation on quarterly basis at the subsidiary Bank Board Credit Committee.	Board Audit Committee Meeting Minutes, Board Meeting Minutes, 2018 Annual Report.
60	M	F.4	Do the shareholders formally appoint the external auditor at the AGM through a formal and transparent process after Audit Committee review and recommendation?	6.1.3	FA	Yes. This is part of the Agenda that is circulated with the AGM Notice prior to the meeting. The proceedings are reflected in the AGM Minutes.	AGM Minutes and AGM Notice circulated prior to meeting available on the website.
61	A or E	F.5	Is the Company working towards the introduction of integrated reporting (incorporating financial and non-financial information) or is the company's Annual Report prepared on an integrated basis using frameworks developed by the Integrated Reporting Council, The Global Reporting Initiative, the G4 Sustainability Guidelines and/or the Sustainability Accounting Standards Board?	6.1.5	FA	The Company's Annual Report is prepared in an integrated basis using the Global Reporting Initiative.	2018 Annual Report available on the Company's website.
62	A or E	F.6	Has the Board established a risk management framework for the company which is inclusive of key risks, foreseeable risks, environmental and social risks and issues?	6.2.1	FA	Yes there are various risk management policies implemented by the Company's subsidiary companies. This is approved by the Board Risk & Technology Committee of the banking subsidiary. Reports can be found in the Board Risk & Technology Committee Meeting Minutes. Further, the banking subsidiary applies the Equator Principles in its lending activities for applicable projects.	Board Risk & Technology Committee Meeting Minutes and various risk policies available on the website.

CMA Corporate Governance Scorecard (continued)

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
63	M	F.7	Has the Board established and reviewed on a regular basis the adequacy, integrity and management of internal control systems and information systems (including for compliance with all applicable laws, regulations, rules and guidelines)?	6.3.1, 6.3.2, 6.3.3	FA	Yes. These are covered within the Board, Board Audit Committee (BAC) and Board Risk & Technology Committee Mandates and reviewed on a quarterly basis at the Group Board and Committee Meetings.	Board Mandate, Board Risk & Technology Committee Mandate, BAC Mandate, Board Meeting Minutes, BAC meeting minutes and Board Risk & Technology Committee Meeting Minutes.
64	M	F.8	Does the Board annually conduct a review on the effectiveness of the company's risk management practices and internal control systems and report this to shareholders?	6.4.1	FA	Yes. The review is undertaken during the quarterly Board Risk & Technology Committee Meetings, BAC Meetings and Board Meetings. The shareholders are informed through the Annual Report, in the section concerning Risk Management.	Board Risk & Technology Committee, Board and BAC mandates and meeting minutes on a quarterly basis. The 2018 Annual Report and mandates are available on the website.
65	M	F.9	Has the Board established an internal audit function according to Code requirements and which reports directly to the Audit Committee?	6.5.2	FA	Yes. This is provided for in the Board Audit Committee and Board Mandates. The Internal Audit function reports to the Board through the Board Audit Committee. This is disclosed in the 2018 Annual Report in the section on Corporate Governance Statement. This is also provided for under Section 7.3.1 of the BAC Mandate which provides for establishment of a permanent internal audit function commensurate with the size and functions of the Company. This is further reinforced under Section 7.5 of the Board Mandate which requires the establishment of the internal audit function which should be adequately staffed for its purpose.	Board Audit Committee Mandate, Board Mandate, and the 2018 Annual Report.
66	A or E	F.10	Does the Board disclose details of Audit Committee activities ?	6.5.1, 6.5.2	FA	Yes. These are disclosed in the Annual Report under the Corporate Governance Statement section.	2018 Annual Report

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
		G	TRANSPARENCY and DISCLOSURE				
67	M	G.1	Does the company have policies and processes to ensure timely and balanced disclosure of all material information as required by all laws, regulations and standards and the Code?	7.0 Overview, 7.1.1	FA	Yes. This role is carried out by the Board, Company Secretary and Finance function. This is enforced under Section 7.22 of the Board mandate. There are also documented internal procedures. Public notices are published in newspapers and on the Company's website in compliance with the stipulated time.	Board Mandate and public notices contained on the Company's website, as well as correspondence with all relevant regulators .
68	A or E	G.2	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to the company's governance, the Board and the Audit Committee?	7.1.1	FA	The company's governance, mandate and members of Board and the Board Audit Committee are disclosed in the Annual Report under the Corporate Governance Statement.	2018 Annual Report available on the Company's website.
69	A or E	G.3	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to the company's mission, vision and strategic objectives?	7.1.1	FA	Yes. This is included in the Strategic Objectives section, which gives a wide explanation of the vision, mission, values and strategic objectives of the Company. It also goes ahead to outline the progress made towards living and achieving these objectives.	The Governance section in the 2018 Annual Report.
70	A or E	G.4	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to remuneration and whistleblowing?	7.1.1	FA	Yes. This is explicitly covered within the Corporate Governance Statement and the Financial Statements. There is also a section within the statements, that covers Remuneration of Directors.	In the Governance section of the 2018 Annual Report
71	A or E	G.5	As a minimum, does the company website disclose current information on all areas prescribed in 7.1.1 (Board Charter, Whistleblowing Policy, Code of Ethics and information on resignation of directors)?	7.1.1	FA	Yes. The Company's website contains information pertaining to the Whistleblowing Policy, Group Code of Ethics and resignation of Directors, which is outlined in the Articles of Association.	The Governance section of the Company website

CMA Corporate Governance Scorecard (continued)

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
72	A or E	G.6	Does the Board disclose the management discussion and analysis as required in 7.1.1?	7.1.1	FA	Yes. This is disclosed in the Audited Financial Statements and within the Annual Report, with details of the same being contained in the Chairman's statement, and the Chief Executive's statement. This also includes the operating Banking subsidiary.	2018 Annual Report.
73	A or E	G.7	Has the Board provided disclosures as required in 7.1.1 on compliance with laws, regulations and standards; ethical leadership, conflict of interest, corporate social responsibility and citizenship?	7.1.1	FA	Yes. Through the Annual Report, the Board has explicitly disclosed that a legal and compliance audit was carried out as required in 2018 for 2017 and obtained a satisfactory level of compliance with laws, regulations and standards. Any departures from required compliance and the causes of non-compliance have been addressed and measures have been put in place to deal with the same.	The Governance section of the 2018 Annual Report.
74	A or E	G.8	Has the Board made all required disclosures, including confirming requirements of 7.1.1 which include that a governance audit was carried out and that there are no known insider dealings?	7.1.1	FA	Yes. The Board explicitly disclosed in the Annual Report that a Governance Audit was carried out and confirmed that there were no insider dealings in the Company.	The Governance section of the 2018 Annual Report.
75	A or E	G.9	Has the Board disclosed the company's risk management policy, company procurement policy, policy on information technology as per 7.1.1?	7.1.1	FA	Yes. The Risk Management, Procurement and IT Policies are fully disclosed in the Annual Report. Under the Company's banking subsidiary, committees on procurement and technology have been set up and the necessary policies formulated on the same. These policies have been posted on the Company's website for further reference.	2018 Annual Report and the Company's website under Governance Documents.

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
76	M	G.10	Has the Board disclosed information on shareholders, including the key shareholders, directors and senior management and the extent of their shareholdings as required in 7.1.1 and on stakeholders who influence company performance and sustainability?	7.1.1	FA	Directors shareholding is disclosed in the 2018 Annual Report, specifically under the Financial Statements. No member of senior management holds more than 5% shareholding. Further, Annual Returns filed with the Registrar of Companies show this. Monthly reports are posted on the Company's website and the same issued to CMA and NSE.	2018 Annual Report, Annual Returns, Monthly Reports and the Company's website.
77	M	G.11	Has the Board disclosed all related-party transactions?	7.1.1t	FA	Yes. These are disclosed as and where required, in the Annual Report under the Financial Statements.	2018 Annual Report
78	M	G.12	Does the Board include in its Annual Report a statement of policy on good governance and the status of the application of this Code?	1.1.3, 7.1.1r	FA	Yes. A Governance Statement containing a statement of policy on good governance and the status of the application of the Code is contained in the 2018 Annual Report, which has been posted on the website.	2018 Annual Report and Governance Statement on the Company's website.
Note 1	All elements marked in green are mandatory and MUST be complied with and , if not, regulatory sanctions will be imposed. When completing column 'F' for MANDATORY ITEMS, 'FA' will mean 'Fully Complied With', 'PA' will mean 'Partially Complied With' and 'NA' will mean 'Not Complied With'.						
Note 2	Column 'F' should be marked as follows: 'FA' - Full Application, PA - Partially Applied or 'NA' - Not Applied. Full application of this Code is prescribed, therefore anything less than 'full application' is considered 'non compliance and non-application' of the Code. A response of PA or NA is noncompliance and requires an explanation to be provided with a firm commitment to moving towards full compliance. See also Note 4.						
Note 3	An explanation of how the Code provision is applied is required in column 'G' and shall be supported by evidence. If the provision is NOT applied, an explanation for why it is not applied or only partially applied is required in column 'G'. For each question, column 'G ' will be completed.						
Note 4	If an explanation is required because of non-application of any element of the Code, the explanation must be satisfactory, must be provided to relevant stakeholders including the Capital Markets Authority and shall include: a: reasons for non-application b: time frame required to meet each application requirement c: the strategies to be put in place to progress to full application.						

Group Shareholding

Top 10 Global Investors as at Monday, 31 December 2018

	Names	Address	Shares	Percentage
1	STANBIC NOMINEES LTD A/C NR00901	P.O. BOX 30550-00100 NAIROBI	272,982,438	69.05%
2	STANDARD CHARTERED NOMINEES NON -RESD. A/C 9866	P.O. BOX 40984-00100 NAIROBI	33,969,924	8.59%
3	STANDARD CHARTERED NOMINEES NON -RESD. A/C 9867	P.O.BOX 40984-00100 NAIROBI	8,544,272	2.16%
4	STANDARD CHARTERED NOMINEESLTD NON RESD A/CKE11663	40984-00100 NAIROBI	8,396,200	2.12%
5	STANDARD CHARTERED NOMINEES NON -RESD. A/C KE9053	P.O. BOX 40984-00100 NAIROBI	5,680,033	1.44%
6	THE PERMANENT SECRETARY TO THE TREASURY OF KENYA	(ON BEHALF OF THE GOVT. OF KEN-TREASURY BUILDING KENYA	4,342,548	1.10%
7	STANDARD CHARTERED NOMINEES A/C 9230	P.O. BOX 40984-00100 NAIROBI	2,472,022	0.63%
8	ICEA LION LIFE ASSURANCE COMPANY LIMITED-POOLED	P.O BOX 46143-00100 GPO NAIROBI	2,279,853	0.58%
9	KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B	P.O BOX 30664-00100 NAIROBI	2,137,651	0.54%
10	KINGSWAY NOMINEES LIMITED	P.O. BOX 42841-00100 NAIROBI	1,987,300	0.50%
11	Others		52,529,397	13.29%
		Grand Totals:	**395,321,638**	**100.00%**

Shares Distribution Statistics as at Monday, 31 December 2018

	Range	Records	Range Total	Percentage
1	1 to 500	1,802	305,697	.08%
2	501 to 1000	481	400,295	.10%
3	1001 to 5000	803	1,940,604	.49%
4	5001 to 10000	403	2,952,898	.75%
5	10001 to 50000	340	7,420,956	1.88%
6	50001 to 100000	85	5,866,162	1.48%
7	100001 to 500000	75	16,582,330	4.19%
8	500001 to 1000000	17	11,945,730	3.02%
9	1000001 to 2000000000	14	347,906,966	88.01%
	Grand Totals:	**4,020**	**395,321,638**	**100.00%**

Notice of Annual General Meeting

Notice is hereby given that the Sixty-Fourth Annual General Meeting of the Members of Stanbic Holdings Plc (the Company) will be held on Thursday the 9th day of May 2019, at Louis Leakey Auditorium, National Museums of Kenya, Nairobi, at 11.00 a.m. to transact the following business:

1. The Secretary to read the notice convening the meeting and confirm the presence of a quorum.

   To receive and adopt the Audited Financial Statements for the year ended 31st December 2018, and the Directors' and Auditor's Report thereon.

2. To consider and if thought fit, approve the recommendation by the Board for a final dividend of KShs 3.55 per ordinary share. Having already paid an interim dividend of KShs 2.25 per share, the total dividend per share will be KShs 5.80 for the year ended 31st December 2018. The published book closure date is 10th May 2019, and if the final dividend is approved by the Company's shareholders, the payment of a final dividend will be made on or about 28th May 2019.

3. To elect Directors:

   i) In accordance with Articles 110 and 112 of the Company's Articles of Association, Ms. Ruth T. Ngobi retires by rotation and being eligible, offers herself for re-election.

   ii) In accordance with Articles 110 and 112 of the Company's Articles of Association, Mr. Edward W. Njoroge, retires by rotation and though eligible, does not offer himself for re-election.

   iii) In accordance with Articles 110 and 112 of the Company's Articles of Association, Mr. Fred N. Ojiambo, MBS, SC, retires by rotation and though being eligible, does not offer himself for re-election.

5. To pass an ordinary resolution pursuant to Section 681(1) of the Companies Act, 2015, approving the Directors' remuneration report for the year ended 31st December 2018, as provided in the Audited Financial Statements.

6. To consider and if thought fit, to pass an ordinary resolution approving the Directors' remuneration policy.

7. To pass an ordinary resolution pursuant to Section 721(4) of the Companies Act, 2015, to appoint Messrs Pricewaterhouse Coopers as auditors of the Company, taking note that the auditors have indicated their willingness to continue in office.

8. To pass an ordinary resolution pursuant to Section 724(1) of the Companies Act, 2015, authorising the Directors to fix the remuneration of the appointed auditors.

9. To consider and if though fit, to pass an ordinary resolution pursuant to Section 769(1) of the Companies Act, 2015, to appoint the following members of the Board Audit Committee:

   i) Ms. Dorcas F. Kombo

   ii) Mr. Christopher B. Newson

   iii) Ms. Rose B. Osoro

Any other business for which due notice has been given.

BY ORDER OF THE BOARD

Lillian Mbindyo

Company Secretary

Date: 28th February 2019

NOTE:

In accordance with section 298(1) and (2) of the Companies Act, 2015 every member entitled to attend and vote at the above meeting and any adjournment thereof is entitled to appoint a proxy with full rights as the member, to attend, to speak and vote on his/her behalf. The Member may appoint more than one proxy for a meeting provided each proxy is appointed to exercise the rights attached to a different share or different shares held by the member. A proxy need not be a Member of the Company. A proxy form can be downloaded from the Company's website, www.stanbicbank.co.ke, or from the Registered Office of the Company at Stanbic Centre, Chiromo Road, Westlands, Nairobi.

Completed proxy forms should be returned to the Company Secretary by delivery to the Registered Office or by post to P.O. Box 72833-00200 Nairobi, to arrive not later than 48 hours before the meeting.

In accordance with Article 165 of the Company's Articles of Association, a copy of the Annual Report may be obtained from the website stated above or from the Company Secretary at the Registered Office, or from the Company's Shares Registrars, Image Registrars Limited, at 5th floor Barclays Plaza, Loita Street Nairobi.

Shareholders wishing to receive a proxy form and/or a copy of the Annual Report by e-mail may send a request, quoting their full name and account number, to info@image.co.ke

Proxy Form

To The Company Secretary
Stanbic Holdings Plc
P O Box 30550 – 00100
NAIROBI

I/We ....

of ....,

being a member of STANBIC HOLDINGS PLC hereby appoint..

....

of ....

or failing him/her ....

of ....

as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on Thursday, 9 May 2019 and at any adjournment thereof.

Dated this .... day of 2019

Note: The proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof.


You can stand
tall now
that we stand
beside you.
We go the extra mile to ensure you realise your goals. Our environmental liability insurance covers damage caused by pollution. We ensured that you are well covered for third party bodily damage, legal costs, clean-up costs (offsite and on site), business interruption expenses, pollution conditions resulting from transported cargo and marine cover as well.
To help determine the best cover for you and a quote please contact Stanbic Insurance Agency today. Call us on 0711 068 888 or email us at SBK_bancassurance@mail.stanbicbank.com
Stanbic Insurance Agency Moving Forward™
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