STANBIC HOLDINGS PLC

ANNUAL INTEGRATED REPORT 2019

Stanbic Moving Forward™

A member of Standard Bank Group

ABOUT OUR INTEGRATED REPORT

Our 2019 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 2019. 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 2019. 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.

Responding to our stakeholders

CLIENTS	EMPLOYEES AND THEIR REPRESENTATIVES	REGULATORS AND GOVERNMENTS	SHAREHOLDERS AND INVESTMENT ANALYSTS	COMMUNITIES AND CIVIL SOCIETY
• Retail • Corporate • High networth individuals	• Long-term employees • Short-term employees • Banking, insurance and Finance union	• National Treasury • Central Bank of Kenya • Bank of South Sudan • Capital Market Authority • Securities Exchange • Bankers Associations	• Investors • Shareholders • Analysts	• Beneficiaries • Corporate Social Investment • Suppliers/Partners • Media • Advocacy Groups • Public

Our stakeholders are those individuals or organisations that have an interest in and whose actions impact on our ability to execute our strategy.

Our intention is to build and promote stakeholder engagement activities and relationships that are meaningful, and support us in fulfilling our purpose, enhancing our reputation and meeting regulatory requirements.

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, accounting standards, digitisation and changing client behaviour, and what our stakeholders expect of us.

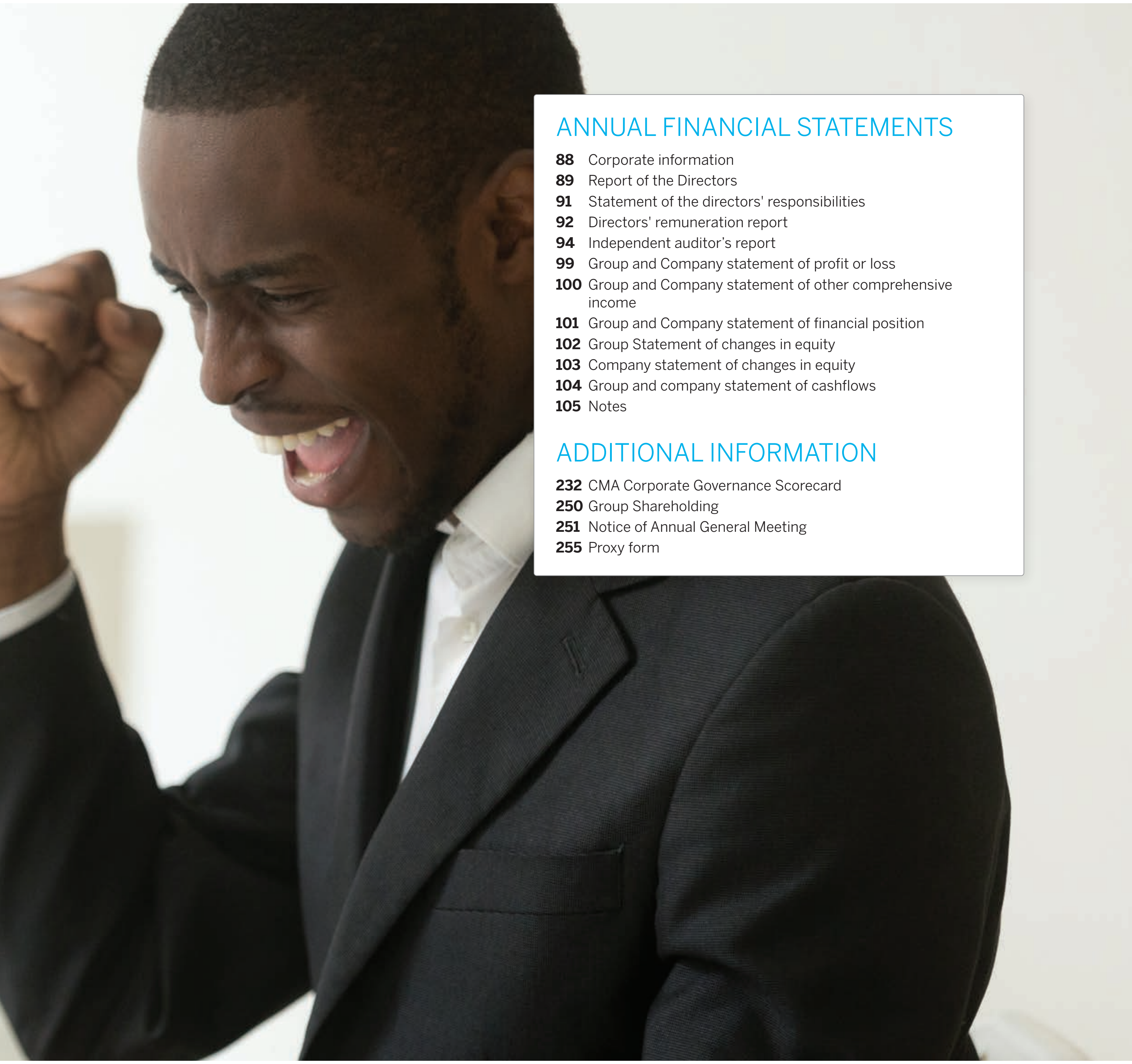
CONTENTS

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

Our progress for the year and prospects for the year ahead according to our strategic value drivers.

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.

How we drive good governance outcomes, and assess and reward our leaders, to ensure we continue to create and protect sustainable value.



ANNUAL FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

HOW TO READ OUR REPORT

We produce a report that caters for the diverse needs of our stakeholders

Section	Description	Frameworks* applied
OUR BUSINESS	This section provides information on who we are, our mission and vision statement. It also details the performance highlights for 2019.	**Frameworks* applied** • King Code IV • <IR> Framework of the International Integrated Reporting Council
OUR STRATEGIC PROGRESS	This section provides information on our value creation model, our strategy, details on how we use our resources and distribute value to our stakeholders and our leadership team. It also provides a holistic assessment of the Group's ability to create value. It considers the issues that are material to our commercial viability and social relevance which are required to achieve our strategy in the meduim term to long term.	**Frameworks* applied** • King Code IV • <IR> Framework of the International Integrated Reporting Council
OUR PERFORMANCE	This section contains message from the Chairman. It also details the execution of the various facets of our strategy including client focus, digitisation,becoming an integrated financial services organization and social, economic and environmental impact, and how these contribute to the group's sustainability and its ability to achieve its purpose.	**Frameworks* applied** • IFRS • Companies Act • Banking Act • CBK Prudential Guidelines • King Code IV • Equator Principles • CMA Guidelines • Insurance Act • IRA Gudelines
HOLDING OURSELVES ACCOUNTABLE	This section provides detailed review of the group's risk management statement and corporate governance and remuneration practices, including the group's remuneration policy.	**Frameworks* applied** • Basel II & III • Companies Act • Banking Act • CBK Prudential Guidelines • King Code
ANNUAL FINANCIAL STATEMENTS	This section sets out the group's full audited annual financial statements.	**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
ADDITIONAL 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	**Frameworks* applied** • Companies Act • CMA Guidelines

***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
IRA Guidelines - Insurance Regulatory Authority Guidelines
King Code – King Report on Corporate Governance, also known as King IV
The group – Stanbic Holdings

The invitation to the annual general meeting and the notice of the resolutions to be tabled at the meeting are on page **251**


"Shifting landscapes?"
"Steady partner."
The only certainty in life is change. But if you've found a partner as firm as you, you'll be ready for anything. Let us be your partner for growth in East Africa.
Kenya: Telephone: +254 20 3268212; +254 711 068212; +254 732 113212 (customercare@stanbic.com).
South Sudan: Telephone: +211 910 210 300 (CustomerCareSouthSudan@stanbic.com).
Tanzania: Telephone: +255 743 159 451 (angela.turuka@stanbic.com).
Uganda: Telephone: +256 312 222430; +256 312 224911; +256 312 224908; +256 312 224900 (ampairec@stanbic.com).
Corporate and Investment Banking
Stanbic Bank Moving Forward™
A member of Standard Bank Group

OUR BUSINESS

WHO WE ARE

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

Stanbic at a Glance

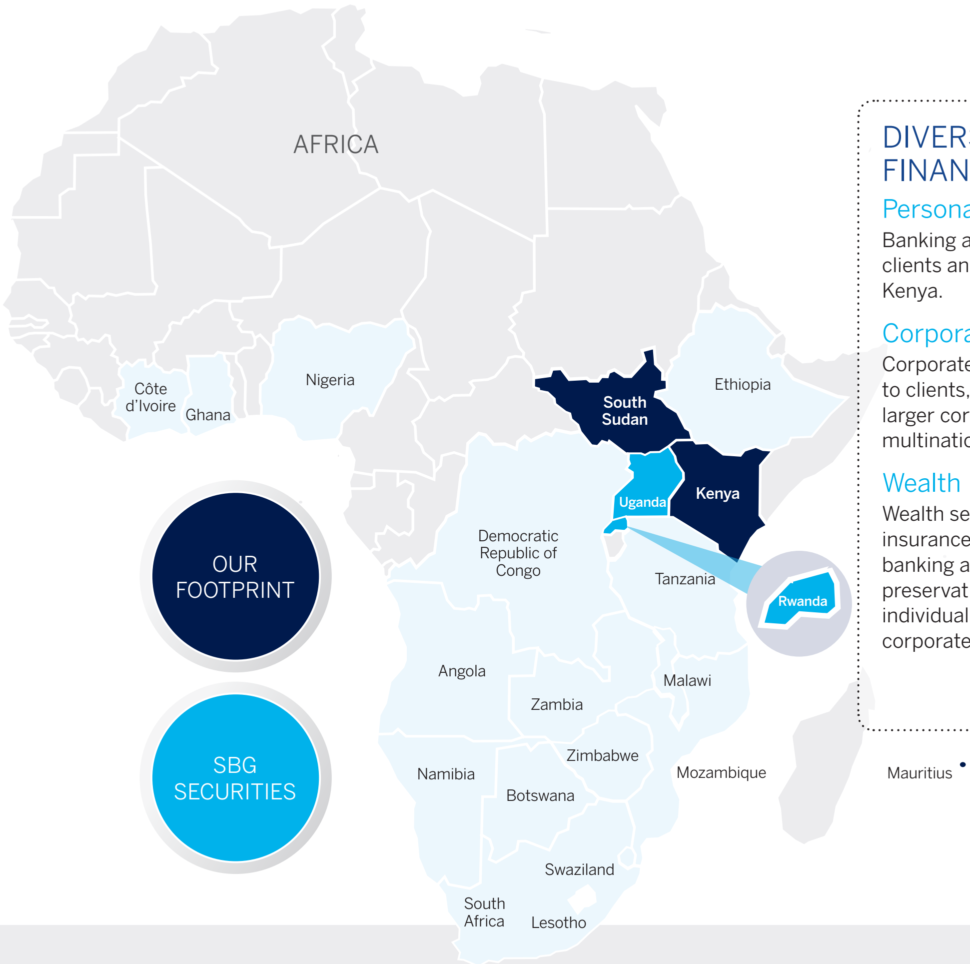
Kenya is our home and we are focused on fostering her socio economic growth. Founded on a solid legacy that spans over 100 years, we are a leading financial services organisation with an on-the-ground presence in Kenya and South Sudan. Stanbic is a member of the Standard Bank Group Limited, Africa's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

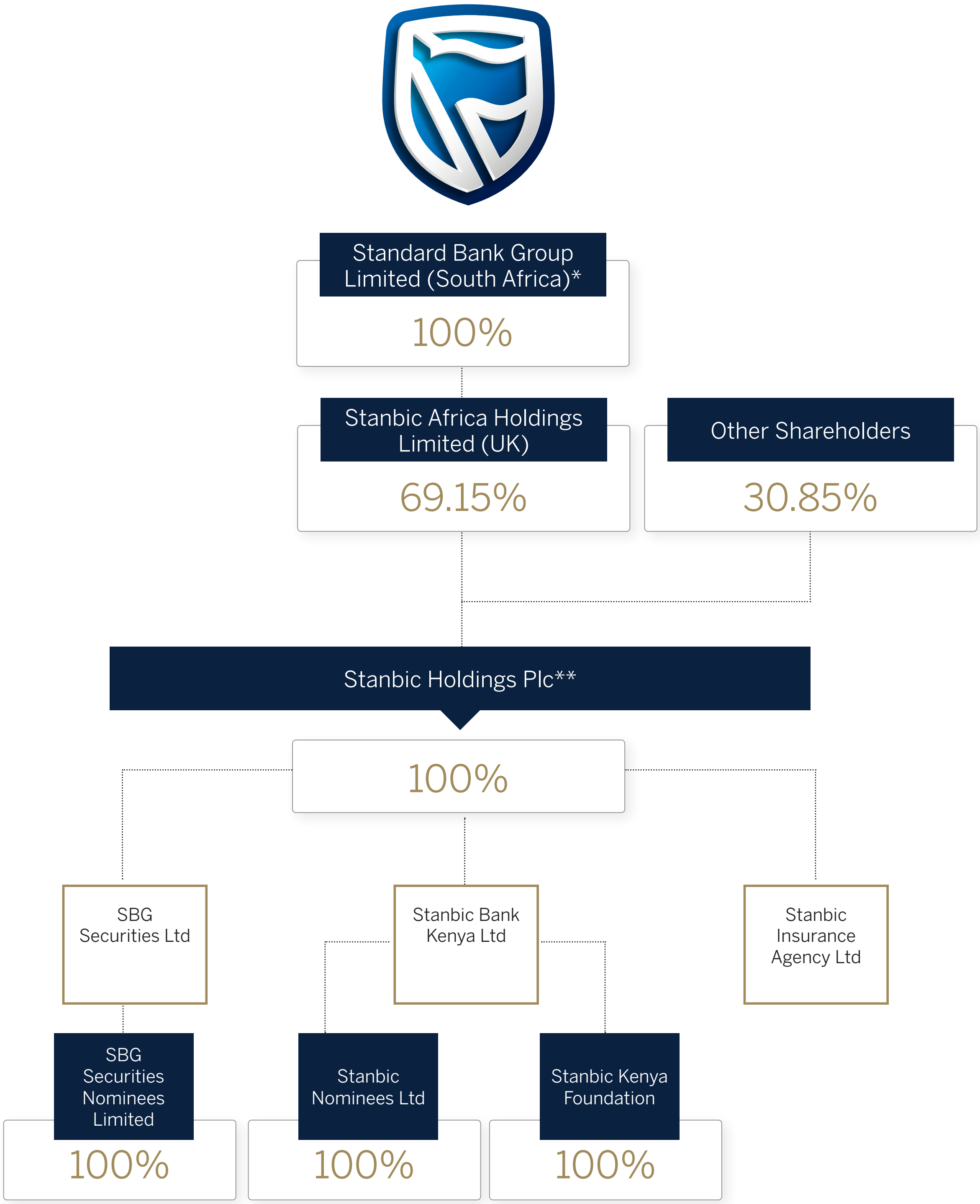
Personal & Business Banking
Banking and other financial services to individual clients and small-to medium-sized enterprises in Kenya.

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

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.

Fit-for-purpose infrastructure	Fit-for-purpose channel	Fit-for-purpose channel	Valued people	Digital capabilities	Recognised brand
25 BRANCHES	**51** ATMs	**45** BULK NOTE ACCEPTORS	**945** GROUP PERMANENT EMPLOYEES	MODERNISED BANKING PLATFORMS	STANDARD BANK STANBIC BANK SBG SECURITIES
2018: 25	2018: 48	2018: 27	2018: 1 071		

OUR BUSINESS STRUCTURE



* Listed on the Johannesburg Stock Exchange

** Listed at the Nairobi Securities Exchange

The above business structure is at 31st December 2019

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.

↑ KShs 15,222 million

TOTAL REVENUE

2018: KShs 13,945 million

WHAT WE OFFER

- Global markets
- Investment banking
- Transactional products and services

PERSONAL & BUSINESS BANKING

Banking and other financial services to individual clients and small-to-medium-sized enterprises (SMEs).

↑ KShs 9,559 million

TOTAL REVENUE

2018: KShs 8,158 million

WHAT WE OFFER

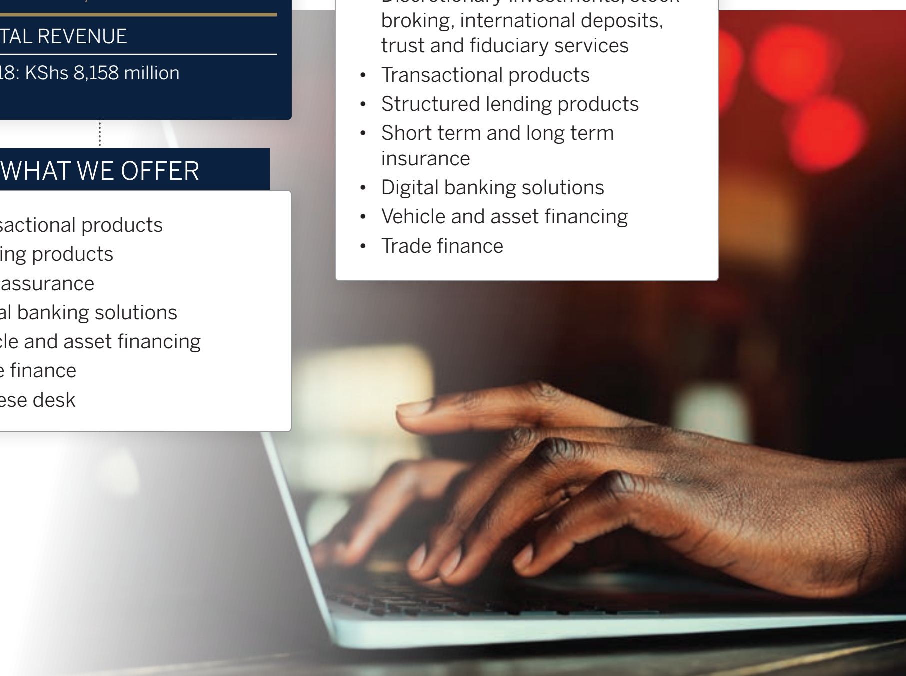
- Transactional products
- Lending products
- Bancassurance
- Digital banking solutions
- Vehicle and asset financing
- Trade finance
- Chinese desk

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.

WHAT WE OFFER

- Discretionary investments, stock broking, international deposits, trust and fiduciary services
- Transactional products
- Structured lending products
- Short term and long term insurance
- Digital banking solutions
- Vehicle and asset financing
- Trade finance



2019 PERFORMANCE HIGHLIGHTS

KShs 303,625 million

TOTAL ASSETS

2018: KShs 290 570 million

KShs 24,781 million

TOTAL REVENUE

2018: KShs 22 104 million

↑ 16.14

EARNINGS PER SHARE

2018: 15.88

↓ 13.6%

RETURN ON AVERAGE EQUITY

2018: 14.3%

↑ 7.05

DIVIDEND PER SHARE

2018: 5.80

↑ KShs 152,817 million

CLIENT LOANS

2018: KShs 146,604 million

↑ KShs 194,222 million

CLIENT DEPOSITS

2018: KShs 191,585 million

↑ 56.2%

COST TO INCOME

2018: 50.2%

OUR STRATEGIC PROGRESS

OUR APPROACH TO VALUE CREATION

OUR CLIENTS

Our clients are at the centre of everything we do.

This is our central organising principle in building a digitally enabled Integrated financial services organisation. It aligns our efforts to change the way we do things, develop our people and shift our culture and ultimately creates a sustainable competitive advantage in a changing industry.

OUR PEOPLE, SHAREHOLDERS AND OTHER STAKEHOLDERS

Our stakeholders are the providers of the financial and non-financial capital we need to create value.

Stakeholder inclusivity and responsiveness and delivering the outcomes our stakeholders expect, enable us to secure and maintain these inputs. It also allows us to identify opportunities and challenges, which inform our strategic decision-making.

Our shared value model
AIR page **20**.

Chairman's statement
AIR page **38**.

GROUP STRATEGY

Our group strategy is focused on creating shared value.

Our group strategy represents our commitment to the shared future we intend to create for our clients, our people and our stakeholders.

Our strategic value drivers and focus areas align our allocation of resources to our strategy. They define and provide the basis for measuring the value we create.

Our group strategy
AIR page **16**.

Our strategic progress
AIR page **26**.

Our performance
AIR page **40**.

RISK APPETITE

Our group strategy is achieved within the parameters of our risk appetite, which is underpinned by conscious risk-taking in pursuit of growth.

We align our risk appetite to changes in our operating context, instil a risk-aware culture throughout the group and continually enhance our risk management capabilities.

Risk overview
AIR page **68**.

GOVERNANCE APPROACH

Governance for shared value

Our governance framework promotes strategic decision-making aimed at achieving the best possible shorter-term and longer-term outcomes for our stakeholders.

Corporate governance overview
AIR page **78**.

An engaged team

We are embedding a culture that combines high performance and ethical behaviour, and creating an environment in which our people are empowered and motivated to deliver exceptional client experiences.

An engaged team
AIR page **52**.

Remuneration overview

Our reward philosophy reflects the group's strategy. We combine reward elements that link directly to our values, our strategic focus areas, value drivers and financial performance criteria and thresholds.

Remuneration overview
AIR page **83**.

ACTING ON OUR MATERIAL ISSUES

Our material issues synthesise the interests of the group and those of our stakeholders, and take into account structural shifts and cyclical pressures in our operating context. They are linked to our strategic value drivers, direct the focus of our strategic planning and management priorities, and inform our reporting to stakeholders.

OUR KEY STAKEHOLDER GROUPS	MATERIAL ISSUES – IMPACTING OUR COMMERCIAL VIABILITY AND SOCIAL RELEVANCE	VALUE DRIVERS – HOW WE DEFINE AND MEASURE VALUE
CLIENTS	• Understanding the needs of our clients. • Providing our clients with a personalised and comprehensive financial services offering. • Empowering our people to better provide an excellent and consistent client experience. • Making it easier, faster and safer to transact by accelerating innovation and digitisation.	**Client focus** Exceptional client experience – placing the client at the centre of everything we do.
		+
EMPLOYEES EMPLOYEE REPRESENTATIVES	• Attracting and retaining deeply committed 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.	**Employee engagement** Making Stanbic Holdings a great place to work.
		+
REGULATORS GOVERNMENTS	• Proactively responding to increased cybersecurity threats and protecting client information. • Maintaining the stability, security and speed of our IT systems. • Conducting our business in a responsible manner by doing the right business the right way. • Responding to the pace, volume and scale of regulatory change. • Supporting steps to combat financial crime, fraud and illicit financial flows.	**Risk and conduct** Doing the right business the right way.
		=
SHAREHOLDERS INVESTMENT ANALYSTS	• Growing our client base, retail franchise and revenues. • Political stability in South Sudan. • Responding to challenging economic conditions. • Maintaining the resilience of our balance sheet. • Resolution of non-performing loans	**Financial outcomes** Delivering superior value to our shareholders.
COMMUNITIES CIVIL SOCIETY	• Investing in the region's infrastructure, notably that of green energy. • Supporting innovation and investment that drives financial inclusion, education and a green economy. • Harnessing the commercial opportunities of addressing societal challenges. • Contribute to job creation and enterprise development.	**SEE impact areas** Creating and maintaining shared value.

For a detailed review of our material issues
AIR page 18.

OUR 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
- Integrated financial services organisation

- DTI : Digital Transformation and Innovation
- IT: Information Technology

OUR STRATEGIC VALUE DRIVERS

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

Client focus + **Employee engagement** + **Risk and conduct** = **Financial outcome** **SEE* impact**

* Social, economic and environmental.

THE WAY WE WORK / THE WAY WE WIN

CLIENT CENTRICITY

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

CLIENT CENTRICITY requires that our people and processes are outwardly 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

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.

INTEGRATION

Our ability to offer an integrated service 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 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 East Africa's leading financial services organisation. 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 people of the region, at heart.

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

- Connect every team's work to the group's larger purpose of **serving our clients with integrity**.
- **Create common goals** across different areas and follow through urgently.
- Enable people to **take ownership** of their work and help to remove obstacles.

HOW OUR MATERIAL ISSUES AFFECT OUR STAKEHOLDERS

The world around us is constantly changing. This section highlights several trends that have a major impact on both our operating environment and what our stakeholders expect of us. Stakeholders are the parties with which we have interdependent relationships. The engagement with these stakeholders has enabled us to gain learning to perfect our decision-making process and improve our capacity to generate shared value. In addition, we believe that cultivating mutual trust and respect with stakeholders is clearly the seed for sustainable performance.

CLIENTS

Client expectations and needs have changed significantly with convenience and ease of banking being foremost. Banking is no longer viewed from the traditional view of simply intermediation but increasingly as an enabler, providing clients with products, services and tools required to pursue their aspirations. Clients expect us to offer them holistic and relevant solutions that meet their needs and provide them with a more personalised experience.

The growth of conscientious clients keenly concerned with the way businesses conduct themselves has given rise to greater impetus for responsible and ethical business practices. This has brought to the fore the role of finance in society and the need for sustainable finance. These emerging expectations continue to evolve as clients and society revise their perspectives on the responsibilities of business and the important place of financial institutions as catalysts of economic progress.

A key response to client expectations is the use of technology to improve operations through increased efficiency and deliver products and services more conveniently through digital channels. Our strategic imperative around digitisation is underpinned by the intention to place the client in the centre of our actions thus being a client centric financial services organization. Client centricity is about delivering value for clients through relevant products. Essentially, we want our clients to know that we are a financial partner who support them by providing products and services that address their needs and enable them to pursue their objectives.

We give credence to the greater concerns about the way we do business by ensuring we observe the highest levels of ethical practices and responsible business practices. This includes areas such as client privacy, responsible lending, fair pricing and proactive communications, and usability and accessibility of our products and services. Transparency and openness are just as important and many stakeholders are increasingly expecting more in this area.

Overall, we intend to build a business that is robust, based on our long track record and strong brand delivering through cutting edge digital channels across our diverse client categories. Client experience through impeccable service is important through intentional client centricity and the delivery of an integrated financial service organisation.

See management response on page 26

EMPLOYEES AND EMPLOYEE REPRESENTATIVES

Our people are the key drivers of our business strategy and the anchor on which delivery of value through our products and services is achieved. Attracting and retaining the best talent is therefore a key strategic imperative for Stanbic. Our strategy on best in class services and client experience and intention to encompass thought leadership and innovation in our offerings requires that we hire the best talent. It also requires that we provide competitive packages and keep them motivated, enabled and energized.

This creates a responsibility on us to provide meaningful work with clear career development opportunities and fulfilment for employees. Our workplace offers employees the opportunity to apply themselves, rewarding excellence, innovation and attainment of agreed performance indicators. We strive to create an entrepreneurial, open, collaborative, innovative and energetic culture that attracts and motivates employees and helps to deliver on our strategy. We offer training and opportunities for staff to develop professionally, improving people's general employability. We see this as part of our responsibility as an employer.

See management response on page 28

REGULATORS AND GOVERNMENT

Governments pay a keen interest in the financial sector since they appreciate the important role played by finance in driving economic progress by availing funds to commercial initiatives. These in turn enable business growth resulting to value for stakeholders including investors, employees, governments, other businesses and society. The financial sector must strive to maintain a reputation as a trusted, respected and solid partner.

Regulators continue to expand their scrutiny over financial institutions. Concerns over the governance of banks and their adherence to established legislation and regulations remains a key focus. Increased scrutiny is also aimed at the ability of the sector to respond to emerging risks and challenges, particularly those related to the use of technology. With most financial institutions resulting to digital channels to deliver value for clients, regulator concerns over issues like cyber security, financial crime, client data protection, corruption, money laundering and terrorism financing are inevitable.

We remain committed to addressing these issues proactively with the highest level of vigilance. We have invested in systems, procedures and processes that aim at addressing these concerns ensuring we remain above board.

In 2019, the fast pace of regulatory change continued. We recognise the importance of the regulatory changes introduced in response to the financial sector stability and support them. Much has been accomplished to increase the resilience of the financial sector and ensure that it can continue to reliably play its role in supporting clients and the development of the economy. Some of the key regulations introduced in the year that touch on the banking sector include:

1. The Kenya Banking Sector Charter published in February 2019
2. CBK Guidance Note on Anti Money Laundering
3. Legal Notice No. 4849 of 31st May 2019 withdrawing existing KShs 1,000 currency note
4. Central Bank of Kenya (Mortgage Refinance Companies) Regulations, 2019
5. Insurance (Amendment) Act, No. 11 of 2019
6. Finance Act, No. 23 of 2019
7. Data Protection Act, No.24 of 2019
8. Cybersecurity Guideline for Payment Service Providers July 2019

See management response on page 31

SHAREHOLDERS AND INVESTMENT ANALYSTS

2019 was a challenging year for business. In Kenya, our key market, the economy continued to experience a slowdown with low liquidity occasioned by delayed government payments to suppliers and tempered growth in private sector credit due to the interest rap cap, only repealed in November. In South Sudan, a fragile peace remained resulting in some improvement in economic conditions with marked uncertainty among investors. This conditions have affected business performance across these markets, while for the banking sector, they have also led to an increase in non-performing loans (NPLs).

However, we have in place a solid strategy that enabled us to register good underlying growth across our businesses and guarantee a sustainable return to our shareholders. Our strategy remains adaptive and responsive to changes in our external context enabling us to pursue opportunities despite the challenges. While interest rate caps resulted into lower margins on interest incomes, we have enhanced our capacity to generated non-funded incomes and improve our service offerings. Our strategy, therefore, is well attuned to our context and permitting us to respond appropriately to the external influences that affect our business.

See management response on page 32

COMMUNITIES AND CIVIL SOCIETY

Sustainability forms an integral part of any economy and this is embedded in our business. Society demands that financial institutions empower people providing financial empowerment tools including products, services and relevant information so that they can make well informed financial decisions. There is also increased pressure on corporates to understand and manage both environmental and social risks. At Stanbic, sustainability is inherent in our SEE strategy where we purpose to operate in a way that meets stakeholder expectations. We are working to minimise any negative social and environmental impacts of our products and services, while maximising the positive aspects. Banks are scrutinised on whether they have robust policies when dealing with sensitive sectors and clients, as well as important topics such as climate change and human rights. Our comprehensive and detailed Environmental and Social Risk (ESR) framework sets out a clear checklist when deciding which companies or activities to finance and under which conditions.

As a bank we are subject to a regulatory framework that focuses on structural measures to reduce systemic risk.

These regulations inform the way we allocate capital. We have increased the strength of our capital base to protect clients and contribute to a sustainable financial environment. At the same time, innovative business developments are also important to stakeholders. We aim to be a leader in transforming banking, staying at the forefront of digital developments. We are also mandated to generate as sustainable return to shareholders through annual dividends as well as meet our tax obligation and champion social initiatives through Corporate Social Investment (CSI) programs. These activities require capital as well as sustained solid financial performance.

See management response on page 34

OUR SHARED VALUE MODEL

Our shared value model connects commercial and social realities in a dynamic of competing stakeholder expectations, competitive forces and regulatory pressures.

OUR INPUTS AND HOW WE ORGANISE OURSELVES

We manage our resources and relationships responsibly in what we do and how we do it. This allows us to deliver the best outcomes for our clients, our people, our shareholders and other stakeholders.

OUR INPUTS

We manage our resources and relationships responsibly in what we do and how we do it, to deliver the best outcomes for our stakeholders.

SC/MC — Clients

- Profitable client relationships.
- 25 branches
- 51 ATMs
- 45 Bulk Note Acceptors
- Client deposits as at end of 2019 was KShs 194bn
- Backup systems to mitigate the risk of business disruption and utility outages.

HC — Employees

- Knowledge, capacity and energy of 945 employees
- KShs 75.8mn invested in training our employees in 2019
- High-performance ethical culture
- Strong executive and leadership teams
- Engaged and proficient employees

IC — Stakeholders

- Reputable and ethical brand
- Strong relationships with regulators and governments
- Modern banking platform supporting innovative client solutions
- Strong strategic partnerships

FC — Shareholders

- Affordable access to capital, and resilient and diverse capital structure which includes an optimised mix of equity and debt.
- CORE CAPITAL KShs 38.9bn
- SUBORDINATED DEBT KShs 7.5bn

SC/NC — Society

- Working with clients to manage environmental risk.
- Investing in renewable energy projects like M-KOPA Solar.
- Collaborative relationships with suppliers and associates.
- Constructive relationships and dialogue with regulators and government.

SC Social and relationship capital | HC Human capital | IC Intellectual capital | FC Financial capital | NC Natural capital | MC Manufactured capital

HOW WE ORGANISE OURSELVES

Implementing our strategy

Our strategy is unchanged. Our business lines and corporate functions are responsible for executing the strategy and, in turn, delivering the outcomes in the desired timeframes.

AIR page 16.

Managing our risks and opportunities

We align our risk appetite to changes in our operating environment, instil a risk-aware culture throughout the group and proactively enhance our risk management capabilities.

AIR page 30.

Embedding good governance

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

AIR page 78.

Measuring our performance

We track the progress we make in executing our strategy according to the outcomes and metrics associated with our value drivers.

AIR page 26.

Business activities

Our business lines and corporate functions work together to deliver our banking and insurance solutions.

As an integrated financial services group with a broad offering of products and services, we are organised to do valuable things for our clients in an integrated way.

OUR OUTPUTS AND OUTCOMES
AIR page 22

EXTERNAL ENVIRONMENT

The drivers of our strategy – the market forces impacting financial services in Kenya, South Sudan, Rwanda, and Uganda and the expectations of our stakeholders.

OUR OUTPUTS AND OUTCOMES

OUR OUTPUTS AND OUTCOMES

We deliver complete solutions that help our clients to transact, earn, grow, insure, save and leave lasting legacies for future generations. We act in a socially responsible manner to drive the financial wellbeing of individuals, businesses and economies, creating sustainable value for the group and our stakeholders.

		WHAT WE DO **Business activities and outputs**	FINANCIAL IMPACT AND ASSOCIATED RISK	VALUE SHARED BETWEEN ALL STAKEHOLDERS
INFLOWS	BANKING ACTIVITIES	**Lend money to our clients**	**Net interest income** Interest income and credit impairments	CLIENTS KShs 24.8bn 2018: KShs 22.1bn
		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 and strategic investments	Other revenue	
	INSURANCE	**Long- and short-term insurance, investment products and advisory services**	Income from investment management and life insurance activities	
−				
OUTFLOWS	BANKING AND INSURANCE	**Invest in our people**	Staff costs	EMPLOYEES KShs 6.6bn 2018: KShs 5.9bn
		Invest in our operations	Other operating expenses	SUPPLIERS AND THIRD-PARTIES KShs 6.1bn 2018: KShs 4.4bn
		Direct and indirect taxes to governments and regulators	Direct and indirect taxes	GOVERNMENTS KShs 1.3bn 2018: KShs 2.7bn
		Returns to shareholders	Dividends	SHAREHOLDERS KShs 2.8bn 2018: KShs 2.3bn
=				
REINVEST		**Reinvested to sustain and grow our business**	Retained equity	KShs 3.5bn 2018: KShs 3.9bn

Associated risks:
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

OUTCOMES

What this means for the group	What this means for our stakeholders
Interest earned on loans granted to clients less loans not repaid.	Individual clients can access financing to pursue their aspirations. Business clients can borrow to grow and invest in their businesses, supporting employment and inclusive economic growth.
Costs incurred on funds raised from depositors and other funders, used by the group to lend to clients who need finance.	Depositors earn a return on the funds they place with the us.
Fee and commission revenue earned for services provided.	Transactional banking facilitates the movement of money, providing clients with convenient access to their funds. Our knowledge-based services allow our clients to benefit from our experience and track record, and enables us to connect them to global pools of capital.
Fees earned from clients who use our platforms to access and trade foreign exchange, commodity, credit, interest rate and equity instruments.	Market access enables businesses to grow, providing a conduit for investment into Kenya, helping monetise resources and diversify. Risk mitigation products enable financial protection and diversification through risk transfer.
Revenue earned from other sources including income from property and private equity.	Strategic investments support inclusive economic activity and enable wealth creation, while also contributing to investments that drive Kenya's socioeconomic development.
Brokerage fees and underwriting profits generated from the wealth offerings provided to clients and earns commission on risk and investment products held by clients.	Insurance, investment and advisory services enable clients to build, diversify and protect their wealth and offer protection from loss of income due to illness, retirement and death.
Cost of the people we rely on to consistently deliver exceptional client experiences and the cost of reskilling and upskilling our people to deal with a changing world of work.	Employees derive value from remuneration and other benefits received, including training that equips them with relevant skills.
Cost of our day-to-day operations, both internal and outsourced.	We hire locally wherever possible and, through our activities, sustain other jobs in local economies.
Cost of operating in the various jurisdictions in which we do business.	Governments earn revenues which support local development.
Charge for the capital made available to the group to enable it to operate.	Shareholders earn a return for their investment in the group, in the form of dividends consistent dividend policy and capital appreciation.
Capital retained to leverage growth going forward.	Capital re-invested to support the future growth of the business, which benefits all stakeholders.

VALUE ADDED STATEMENT

Our Value Added Statement depicts the value that has been created by the Group through the effective acquisition, deployment and management of our capitals – relational, financial, human, intellectual, manufactured and natural - and the resultant distribution of value to our stakeholders. This statement showcases our commitment to creating stakeholder value through our business model and sound business practices.

	2019	2018	2017	2016	2015
Value addition	**KShs. 000'**	KShs. 000'	KShs. 000'	KShs. 000'	KShs. 000'
Interest Income,Fees,Commission and Other income	**32,939,201**	29,654,667	25,429,557	25,121,892	22,632,847
Interest paid to depositors and other costs	**(17,372,325)**	(14,020,221)	(13,150,926)	(12,420,312)	(8,885,055)
Interest paid on borrowings	**(149,246)**	(96,208)	(521,104)	(685,049)	(838,412)
Wealth Created	**15,417,630**	15,538,238	11,757,527	12,016,531	12,909,379
Employee benefits	**(6,633,135)**	(5,894,324)	(5,735,195)	(5,440,584)	(5,035,142)
Government - Tax	**(1,329,148)**	(2,670,591)	(1,091,754)	(1,630,497)	(2,453,680)
Shareholder's Dividends	**(2,787,021)**	(2,292,867)	(2,075,439)	(2,075,439)	(2,431,229)
Retention to support future Business Growth:					
Retained Earnings	**(3,593,595)**	(3,984,300)	(2,234,055)	(2,343,150)	(2,474,505)
Depreciation and Amortisation	**(1,061,834)**	(667,536)	(613,769)	(517,500)	(503,832)
Social Capital-CSI	**(12,897)**	(28,620)	(7,315)	(9,361)	(10,992)
Distribution of wealth	**(15,417,630)**	(15,538,238)	(11,757,527)	(12,016,531)	(12,909,379)

MEASURING OUR STRATEGIC PROGRESS

CLIENT FOCUS

Our clients are at the centre of everything we do. We strive to meet their individual needs by seamlessly delivering relevant and complete solutions using their preferred channel.

What success looks like

We understand our clients and provide them with solutions to support their goals.

We serve our clients quickly, efficiently, reliably and respectfully.

We earn and keep our clients' trust.

How we measure our progress

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

Our indicators

- Net promoter score (NPS) for PBB.
- Client satisfaction index (CSI) for CIB.
- Internal Service Survey (ISS)

KEY CLIENT CONCERNS

- Simplified processes.
- Provision of timely offerings.
- Improving their banking experience.
- Increase points of representation/footprint.
- Cheaper and more convenient banking services.
- Quicker turn around times.

RELATED MATERIAL ISSUES

- Understanding the needs of our clients.
- Providing our clients with a personalised and comprehensive financial services offering.
- Empowering our people to better provide an excellent and consistent client experience.
- Making it easier, faster and safer to transact by accelerating innovation and digitisation.

HOW WE PERFORMED

To address our clients' key concerns and our material issues, we:

- Successfully launched our women's proposition DADA aimed at empowering and supporting women in business.
- Accelerated the penetration and enhanced functionality of digital channels.
- Continued growth in the Wealth pillar with increased client engagement through the financial fitness academies.
- Expanded our PBB offering with the launch of several new solutions and improvements to our existing offerings like agency banking.
- Completed several landmark transactions for our CIB clients.
- Continued our upgrade of branches into digital outlets enhancing the self service capabilities available to clients.
- Simplified processes and increased the use of data analytics to understand and respond more precisely to our clients' needs.
- Improved digital and IT security capabilities including update of our core banking system

Net Promoter Score (NPS) for PBB

Our focus on delivering an exceptional, consistent and seamless client experience that offers value to individuals and businesses have led to an improvement in our NPS score to 35 in 2019 from 32 in the prior year.

Client Satisfaction Index (CSI) for CIB

CSI is a measure of the extent to which our clients are satisfied with the service CIB provides. This is calculated using a ten-point rating scale. The overall client satisfaction index score stood at 8 out of 10.

Internal Service Survey (ISS)

This is an internal survey which is 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 where 1 is poor internal client service and 10 is excellent service. The overall score in 2019 was 8.77 out of a target of 9.

PBB NPS

↑ 35. Target 50 - 70

OVERALL

2018: 33 | 2017: 28

CIB CSI

↑ 8.0, Target 10

OVERALL

2018: 8.1 | 2017: 7.7

Internal Service Survey (ISS)

↓ 8.77, Target 9.5

OVERALL

2018: 9.2 | 2017: 9.0

2020 KEY PRIORITIES

- Interact with our clients to deepen our understanding of their evolving needs and preferred ways of accessing our services, so we can deliver exceptional experiences.
- Offer clients access to relevant products across channels of their choice, taking into consideration the substantial adoption by many of our clients of digital platforms and channels.
- Improve the quality of our digital offerings by improving the stability of our platforms, increasing adoption.
- Leverage data and analytics to proactively deliver personalised offerings to our clients.
- Mature our value chain (ecosystem) approach.
- Continue to review our distribution capabilities given the growing preference for digital transactional services, while also responding to client demand for digital services

TRADE OFFS

- 'Always on and always secure' services require greater investment in infrastructure, which leads to higher running costs.
- Innovative and secure digital development is critical to respond to changing client needs and demand for instant fulfilment, leading to reduced branch visits, reduction in traditional revenue streams and active prioritisation of IT spend.
- The fundamental review and development of new capabilities and skillsets, to deepen our understanding of our clients and serve their needs better, temporarily impacts the working environment and productivity of our people, and may affect client experience as the required changes are made.
- Introducing innovative products in response to client demand and competitor activity leads to improved client retention, albeit at the cost of traditionally higher yielding revenue streams.
- Branch reconfigurations and branch closures resulting from changing client behaviour, require headcount reductions that impact on staff morale, and temporarily escalate costs to accommodate a strategically aligned and more cost-effective outcome for the longer term.

EMPLOYEE ENGAGEMENT

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

What success looks like

We are considered a great place to work and our people feel deeply connected to our purpose, their colleagues and our clients.

Our people are empowered to, and are recognised for, delivering against our strategic priorities 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 remain relevant and achieve their full potential.

Our people are encouraged to speak up and feel heard when they voice their views.

How we measure our progress

Our anchor measure of employee engagement is our eNPS – an indicator of how likely an employee is to recommend the Stanbic Holdings as a good place to work. We measure eNPS annually through a survey of our people's perspectives and opinions.

Indicators of employee engagement:

- eNPS: calculated by subtracting the percentage of survey 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 promotors, insights gained from the responses of detractors and passives, employees who are satisfied but not necessarily enthusiastic, are also assessed for further action.
- Emotional Promoter Score (EPS)
- Employee turnover: measures the percentage of employees who left our employ during the year.
- Diversity and inclusion: measures the representation of people from under-represented groups and also assesses their qualitative experience of the work environment through an in-depth analysis of the employee survey results.
  - Gender equity: measures the representation of women in senior management and executive positions across the group.

KEY EMPLOYEE AND UNION CONCERNS

- Access to career growth opportunities.
- Continuous learning environment to enhance current skills and develop new skills.
- Work - life balance.

RELATED MATERIAL ISSUES

- 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.
- Reorganising the business for growth and optimal performance, ensuring we have the right skills and capabilities to deliver our strategy.

HOW WE PERFORMED

To address the key concerns of our employees and our material issues, we have:

- Continued to invest in skills development to build future skills and empower frontline employees.
- Maintained our focus on identifying and developing diverse talent pools.
- Continued to provide flexi hours to nursing mothers.

eNPS

Kenya +7

eNPS

2018: +32 | 2017: +45

South Sudan +29

eNPS

2018: +45 | 2017: +51

EPS

Kenya +55

South Sudan +58

This is the first year we are including emotional promoter score as a metric.

Our focus remains centred on the entire workplace ecosystem, driven by the personal needs and aspirations of existing and prospective employees, technological advancements and broader societal and economic trends. We expect our leaders to lead differently and ensure a compelling culture that enables all our people to shine. Experimenting with new ways of working and embracing continuous learning are a reality for all our people as they adapt to a constantly evolving and highly competitive world of work. A multi-generational workforce, coupled with shifting client expectations, accelerating digital transformation, predictive analytics and the introduction of robotics, AI and automation are impacting the future size, shape and capabilities of our workforce, prompting the reshaping of the employee experience in the group in a deliberate way.

Employee turnover

↑ 16.4%

OVERALL EMPLOYEE TURNOVER RATE

2018: 9.2% | 2017: 9.2%

↑ 12.1%

VOLUNTARY EMPLOYEE TURNOVER RATE

2018: 5.8% | 2017: 6.4%

↓ 2.1%

VOLUNTARY REGRETTABLE EMPLOYEE TURNOVER RATE

2018: 2.3% | 2017: 1.4%

Diversity and inclusion

Gender equity:
Representation of women

↔ 48%

2018: 48% | 2017: 48%

Number of banking employees

↓ 945

PERMANENT EMPLOYEES

2018: 1 071 | 2017: 1 113

↓ 25

CONTRACT EMPLOYEES

2018: 41 | 2017: 20

↓ 83

COMMISSION EARNERS

2018: 112 | 2017: 176

RISK AND CONDUCT

Effective management of the risks inherent in our business and in our operating environments, and ensuring that our personal, market and societal conduct reflects the highest standards of ethical and responsible business practice, underpin the trust our stakeholders place in us. Our licence to operate is a function of this trust, making compliance with all applicable laws and regulations non-negotiable.

What success looks like

Doing the right business the right way, without exception.

Contributing to safe financial systems in the markets in which we operate.

Resolute compliance with laws and regulations.

Safeguarding our reputation and protecting it from harm.

RISK

How we manage it

Our risk governance process is robust with a well-developed Enterprise Risk Management Framework, which includes mandated committees comprising the relevant skills and expertise.

Our risk measures seek to balance regulatory requirements and shareholder expectations for risk-adjusted returns. We carefully manage our capital, liquidity and funding levels to support business growth, maintain depositor and creditor confidence, and create value for our shareholders and other stakeholders. We closely monitor both financial and non-financial risks to manage operational/business risk. Our risk appetite is measured and monitored against limits set at group, legal entity and business line levels on a monthly basis and includes more detailed portfolio limits.

CONDUCT

How we manage it

Our compliance with laws and regulations is non-negotiable. Any contravention has the potential of financial losses, fines or diminished reputational capital. We manage conduct risk in accordance with our Conduct Risk Governance Framework and are guided by our Group values, code of ethics and applicable statutes/regulations/guidelines.

We continually monitor our progress in managing conduct and culture through a combination of leading and lagging indicators and internal conduct risk management processes. Where deficiencies are identified, we take immediate mitigating and/or remedial measures. There are consequences for non-compliance which include disciplinary measures. Each business line and corporate function is responsible for the oversight and monitoring of conduct risk relevant to their business activities.

KEY GOVERNMENT, REGULATOR AND CIVIL SOCIETY CONCERNS

- Addressing cyber and information risk and the impact on clients.
- Enhancing trust and maintaining stability in the financial sector.
- Improving the control environment.
- Embedding compliance and risk-aware behaviour.
- Ethical and transparent supplier and vendor relationships.
- Debt intervention mechanisms for low-income, financially distressed consumers.
- Treating clients fairly.

RELATED MATERIAL ISSUES

- Proactively responding to increased cybersecurity threats and protecting client information.
- Maintaining the stability, security and speed of our IT systems.
- Conducting our business in a responsible manner by doing the right business the right way.
- Responding to the pace, volume and scale of regulatory change.
- Supporting steps to combat financial crime, fraud and illicit financial flows.

HOW WE PERFORMED

Proactive management of our risk environment ensured that our mitigation strategies were mostly effective, including our exposures in all sectors. There were no breaches of our approved risk appetite and the Bank remains sufficiently capitalised.

↑ 2.1%
CLR
2018: 1.4%

Our indicators

↑ 15.2%
CORE CAPITAL / TOTAL RISK WEIGHTED ASSETS
2018: 14.6%
MINIMUM STATUTORY RATIO: 10.5%

↑ 18.4%
CORE CAPITAL / TOTAL DEPOSIT LIABILITIES
2018: 16.5%
MINIMUM STATUTORY RATIO: 8.0%

↓ 167%
LCY NSFR
2018: 169%
TARGET: 102.5%

↑ 18.3%
TOTAL CAPITAL / TOTAL RISK WEIGHTED ASSETS
2018: 17.4%
MINIMUM STATUTORY RATIO: 14.5%

↑ 58.4%
LIQUIDITY RATIO
2018: 57.9%
MINIMUM STATUTORY RATIO: 20%

↓ 145%
FCY NSFR
2018: 185%
TARGET: 102.5%

HOW WE PERFORMED

All business lines and corporate functions submit quarterly conduct and governance dashboards to the group executive committee, providing a barometer of the prevailing ethical climate. The dashboards, together with other mechanisms, enable us to monitor and report regularly on conduct risk using predictive and retrospective analysis.

Our indicators

- Effectiveness of recruitment.
- Processes and employee resourcing.
- Integration of new employees during onboarding and induction.
- Monitoring transparency and effectiveness of our whistleblowing processes.
- Adherence to compliance training requirements.
- Monitoring employee personal conduct.
- Effectiveness of new client product sales.
- Client satisfaction.
- Effectiveness of money laundering prevention practices.
- Information security processes.

- 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 at 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 adapting business systems to comply with new and emerging legislation, is a necessary condition of ensuring we maintain the reputational benefit of being a trusted organisation.
- Globally, investors and regulators require increased transparency on how businesses are managing non-financial risks, particularly those related to climate change. Our size and footprint places us under constant stakeholder scrutiny. It is therefore imperative that we are able to demonstrate that our business activities create measurable value for all our stakeholders in a socially and environmentally responsible manner.

Risk reflections

The group operates in a constantly changing environment where a complex and inter-related spectrum of existing risks and emerging threats and opportunities influence our business activities and shape our future sustainability.

During 2019, we navigated external risks that included economic impacts such as the slowdown and dislocation in global trade associated with the trade tensions between China and the US; shifting competitive forces as technology companies seek to disintermediate incumbent offerings; the impact of changing weather patterns on insurance claims and risk modelling; increasing regulatory pressure, which included treating clients fairly and caps on rates and fees; and, the rise of investor and societal activism and expectations around ESG risks and the role of business in managing these. Inside the group, we continued to closely manage conduct risk and the risks associated with digitisation, including cyber risks and privacy concerns.

Prevailing and emerging threats in our operating environment are articulated in the group enterprise risk management framework and are understood, embedded and routinely managed.

Our executives, senior management and compliance teams work together to reinforce a compliance culture across the group. Our combined assurance model includes audit, compliance and risk teams, who collaborate to ensure a coordinated approach to providing assurance on whether current risks are being effectively managed throughout the group.

We benchmark best compliance risk management practices and continuously mature our compliance function to remain abreast of international standards in compliance management, and apply enhanced analytics to ensure that these support the delivery of the group's strategic priorities.

TRADE-OFFS

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.

What success looks like

Continuing to demonstrate value creation for all of our stakeholders by delivering growth in profitability and driving ROE to 25+

Maintaining the resilience of our balance sheet to support the execution of our strategy.

How we measure our 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

- **Cost-to-income ratio (CTI):** measures our efficiency in generating revenues relative to the costs we have incurred. Containing our costs is key to growing profit 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.

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.
- **Return on equity (ROE):** measures our profitability in relation to our total assets. We seek to improve our profit each year by continuing to grow our revenue while managing our costs and risks.

Resilience

- Our resilience is measured by LCR and NSFR. More detail can be found in our risk and conduct section from page 30

HOW WE PERFORMED

To address the key concerns of our shareholders and the investment community, and our material issues, we have:

- Focused efforts on managing and containing costs
- Our earnings streams are diversified and the portfolio effect across products and geographies has proven to reduce earnings volatility.
- Focused efforts on ensuring compliance with IFRS

↑ KShs 6.4 billion

PROFIT AFTER TAX

2018: KShs 6.3 b | 2017: KShs 4.3 b

↓ 13.6%

ROE

2018: 14.3% | 2017: 10.4%

↓ 2.1%

ROA

2018: 2.3% | 2017: 1.9%

↓ 56.2%

COST-TO-INCOME

2018: 50.2% | 2017: 57.2%

↑ 2.1%

CLR

2018: 1.4% | 2017: 2.1%

KEY SHAREHOLDER AND INVESTMENT ANALYST CONCERNS

- Revenue pressures in our South Sudan operations.
- Pressure on Net Interest margins (NIMs).
- Growing the retail franchise.
- Challenging operating environment which may impact our results.
- Uptick in Non performing loans and increased provisioning.
- Managing costs and improving our CTI ratio.
- Achieving and maintaining our ROE targets.

RELATED MATERIAL ISSUES

- Growing our client base, retail franchise and revenues.
- Political stability in South Sudan.
- Responding to challenging economic conditions.
- Maintaining the resilience of our balance sheet.

2020 KEY PRIORITIES

- Continue to understand our clients better to deliver value.
- Accelerate digitisation to meet client needs and enhance competitiveness and efficiency.
- Grow our client base.
- 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.
- Continue to faster, more inclusive and more sustainable growth.

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, by continuously and sustainably meeting our clients' needs and strengthening our competitive position, with the costs incurred in doing so. Our largest operating expenses include:

- **Staff costs:** we invest to attract and retain experienced people and to equip them to consistently deliver exceptional client experiences and deal with a challenging work environment.
- **Other operating costs:** we incur several other costs to enable our people, together with our frontline and supporting systems and processes, to deliver exceptional client experiences in a responsible manner.

SEE IMPACT

We are committed to driving sustainable and inclusive economic growth. To achieve this, we must ensure that the clients we bank, and the projects, partnerships and infrastructural developments we finance, create net positive SEE impacts. These considerations are front and centre when we make business decisions.

What guides our management of SEE impacts?

Our SEE management approach is guided by our purpose, our core business and the needs of society. It requires us to take a long-term view, and to assess the positive and negative impacts of our business decisions not just for the group, but for the communities in which we operate. SEE impact management is central to the commercial strategies of our business lines and legal entities. It shapes how we do business, how we generate our income, and the products and services we offer our clients. It also provides the opportunity to grow our business by providing innovative solutions that address societal, economic and environmental challenges in our markets.

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, and making more informed, responsible decisions as a result.

How we measure progress

We are committed to contributing to the communities in which we operate. This is in line with our vision to empower communities and enhance shared value. Our Corporate Social Investment (CSI) is anchored on five areas:

- Financial inclusion
- Job creation and enterprise growth
- Infrastructure
- Trade and investment
- Education

SEE IMPACT AREAS

In line with our purpose, we believe that financial services done well – with conscience and conscientiousness – can improve the lives of people by addressing the pertinent issues that face the communities in the environments in which we operate. Our future depends on aligning our profitability with the sustainability of the complex and dynamic economies and societies we serve.

OUR SEE IMPACT AREAS

Driving Kenya's growth

Financial inclusion

Enable access to financial solutions that support economic development and reduce inequality.

Trade and investment

Facilitate trade and investment flows using innovative trade finance, cross-border payments and investment solutions.

Job creation and enterprise growth

Support SME growth and job creation through finance, mentoring, training and market access.

Education

Support access to inclusive, quality education and lifelong learning opportunities.

Infrastructure

Support infrastructure development for inclusive and sustainable industrialisation, partnering with clients to manage and minimise environmental and social risks.

KEY COMMUNITY AND CIVIL SOCIETY CONCERNS

- Our contribution to economic transformation in the areas that we operate in.
- Investing in our people to ensure decent work and support transformation strategies.
- Accelerating inclusive economic growth, job creation, financial inclusion and transformation.

RELATED MATERIAL ISSUES

- Continuous contribution to economic growth.
- Supporting innovation and investment that drives financial inclusion, education and a green economy.
- Harnessing the commercial opportunities of addressing societal challenges.
- Contribute to job creation and enterprise development.

OUR PERFORMANCE

CHAIRMAN'S STATEMENT

This is my first report to you as Chairman of the Board of Directors. It has been an important transition for me, having served on the Board for the past 12 years.

Kitili Mbathi
Group chairman

I am greatful for the remarkable stewardship offered by the members of the Board who continue to serve with dedication, passion and an enduring sense of purpose.

↑ 7.05

DIVIDEND PER SHARE

2018: 5.80

Operating environment

Global growth declined in 2019 overshadowed by ongoing US-China trade tensions, prospects of a no deal Brexit, weakened growth in China, and high levels of global debt including corporate and national debt. The outbreak of the Covid-19 pandemic in China in December followed by its rapid spread through Asia, Europe and the United States, created an unforeseen risk environment with various sectors being heavily impacted.

Africa's economy grew by 3.4% in 2019 with some key economies in the continent including South Africa, Nigeria and Angola continuing to experience economic slowdown with an average growth rate of 2% while non-resource-intensive countries experienced strong growth averaging about 6%.

Economic growth in Kenya was estimated at 5.6% underpinned by domestic consumption and growth in the services sector. This was a reduction from the 5.9% growth recorded in 2018. The Kenya shilling remained relatively stable averaging about 101 shillings to the dollar during the year. The equities market performance remained varied with key indices indicating an upward trend while the Nairobi Securities Exchange (NSE) 20 index declined.

The launch of the NSE Derivative Market in the year, was an exciting new investment avenue permitting for trading of future contracts although the volumes traded were very low as market players took a cautious approach to the new initiative. Government securities continued to attract investors and were predominantly oversubscribed in 2019.

The regulatory front was highly dynamic with several key changes registered in the course of the year. Pre-eminently, in this regard, was the repeal of the law that instituted the capping of interest rates. In addition, the Central Bank issued the Banking Sector Charter in March 2019 that is aimed at encouraging ethical and responsible banking practices and responsiveness to the needs of clients. In an effort to track illicit financial flows, the Central bank announced a demonetization exercise in May through the introduction of new generation notes and the retirement of the old 1000-shilling notes that ceased to be legal tender at the end of October.

The Data Protection Act (2019) came into effect towards the end of the year and provides the requirements for the protection of personal data processed by public or private entities.

The Board

2019 was a year of transition for the Board as we faced changes in our board composition occasioned by the exit of some Directors. We also undertook an exercise to identify, interview and nominate new board members, in line with the Bank's strategy and in a bid to onboard new skills that are pertinent for driving our strategy. In this regard, I am pleased to introduce our new Directors.

They bring with them exceptional expertise and experience in IT and the new economy, enrichening our Board with skills that are non-traditional to the banking sector and increasing our digital quotient on the Board. We are proud to note that the Board remains well balanced in terms of gender representation, in line with our agenda around gender equality.

As part of the Directors' intent to be proactive in understanding the Group's operations, we organized client visits for our Directors to Gikomba and South Sudan. Both visits highlighted our relevance to client groups that were previously underserved and the importance of digital solutions, which offer 24hours accessibility for these businesses.

These visits validated our strategy that focuses on client centricity, digitisation and integrated solutions, showcasing the importance of providing relevant products and services, offering clients access to a wide variety of services seamlessly and ensuring convenience and value creation for the Group and its clients.

Our performance

We have a precise framework against which we measure our progress in fulfilling our purpose and realising our vision:

CLIENT FOCUS
(value for our clients): delivering relevant and complete digital solutions to our clients.

EMPLOYEE ENGAGEMENT
(value for our employees): shaping a workforce that is ready to meet our clients' needs, now and in the future.

RISK AND CONDUCT
(value for all our stakeholders): doing the right business, the right way.

FINANCIAL OUTCOME
(value for shareholders): striving to meet our medium-term financial targets.

SEE IMPACT
(value for society): driving positive SEE impact.

We have made significant progress in laying the foundations for our strategy and fulfilling our purpose of driving Kenya's growth. Our performance in the year remains flat as compared to 2018, but our underlying business performed very well and remains strong. We enjoyed a number of firsts in the market in 2019 including arranging the first Green Project Bond in East Africa.

We also facilitated one of the biggest equities transaction in Kenya and launched a banking proposition for women based on in-depth research and providing clear services and solutions that appreciate the differences between the genders. Our DADA (Dare to Aspire, Dare to Achieve) proposition not only offers financial services but also embeds non-financial solutions, highlighted by women as being critically important to them.

We have made several investments in our digital channels aimed at improving the overall client experience and increasing our reach. Internally, our business units continue to grow in collaboration, enabling us to offer holistic and integrated financial services to our clients.

The Board continues to pay attention to the future of banking and financial services and to ensure that our strategy is future oriented and able to deliver long term sustainable returns to shareholders and broader stakeholders.

Social, Economic, Environmental (SEE) Impact

SEE is our approach to maximising our value creation impact on our stakeholders. We view our role as financial service providers as catalytic, empowering our stakeholders to attain sustainable growth. This is in line with our corporate purpose, 'Kenya Is Our Home, We Drive Her Growth. SEE enables us to identify business opportunities, evaluate non-financial aspects of our commercial prospects, account for our impacts on society and raise awareness internally of the importance of understanding and assessing SEE impacts.

In essence, it is our way of delivering stakeholder value through social and environmental stewardship while focusing on being a sustainable and profitable business. In 2019, we made important strides in registering and obtaining the necessary approvals for the Stanbic Bank Foundation which once fully established will focus on delivering social value linked to the Bank's core business, ensuring that our expertise benefits society through well-structured social programs.

Moving forward

Global economic prospects in 2020 have been negatively affected by the Covid-19 pandemic. Restrictions on movement of people, goods, services, raw materials, and measures aimed at containment such as city lock downs, factory and service outlet closures have impacted the global economy.

The impact has stretched to other sectors like agriculture, travel, tourism, supply chains, commodities, investments and retail. The Kenyan economy is also expected to bear the brunt of this pandemic, not only through the inevitable direct impacts on health, manufacturing, tourism and labour but also through a slowdown in key economic sectors.

2020 is a critical year for us as we seek to support our clients and employees through difficult times. We also seek to reinforce the benefits of reorganizing the business and deliver a more effective Bank. We are looking to build on the digital transformation journey so that we remain client centric and offer certainty and convenience. We will focus on ensuring that our products and services are appropriate and relevant to our clients addressing their needs in the manner they would like them resolved.

The Bank will enhance the DADA proposition to reach more Women and also provide new and innovative services to this segment of the market.

In closing, I would like to thank the members of the Board who have remained steadfastly focused and disciplined in providing the governance oversight required by the Group. The management has been exemplary in driving the Group's strategy resulting into consistent results and impeccable traction in the transition to a client centric, digital and integrated solutions provider.

Our employees remain a key pillar of our performance and their dedication in the face of stringent competition and challenges has been inspiring. We also thank our clients who have continued to show their confidence in us, providing us with the motivation to deliver quality services conveniently and with excellence.

FINANCIAL REVIEW

Kenya

Performance highlights

In 2019 Kenya took deliberate steps to re- organize its business and position itself for growth in the coming years. There has been significant progress in the execution of our strategy evidenced by significant increase in revenues with over 12% increase in client revenues in Corporate and Investment Banking and strong growth in Personal and Business Banking income driven by revenues from digital channels, growth in lending and deposits as a result of increased utilization of banking solutions by our clients. The Personal and Business Banking business registered over 100% growth in profit after tax despite additional costs incurred because of re -organizing the business in the second half of the year.

Corporate and Investment Banking had a couple of land mark transactions in the year namely; Kenya's First Green bond now listed in the Nairobi Securities Exchange and Kenya's largest equity buy-out transaction. The Balance Sheet continues to show growth year on year and improved profile of client deposits. As a result, the Bank early repaid all its outstanding syndicated loans. Operationally the Bank successfully upgraded its core banking system and fully digitized account opening for individuals. The Bank expanded its network by over 100 points of representation through agency banking model. The Bank is pleased with the progress made in execution of its strategy and confident that it has positioned itself for growth in 2020.

Significant factors affecting our results

The operating environment in Kenya showed some improvement notwithstanding the on-going challenges posed by interest capping law which dampened private sector growth in certain segments in the market for most part of the year, delay in payment of suppliers by the Government which put pressure on the ability of its suppliers to service their loans and increased competition from non-traditional competitors.

Headline inflation was 5.8% year on year within the government target range of between 5% and 7.5%. Food inflation accelerated while housing, transport and clothing prices increased at a slower pace. We expect that inflation will still be within the Government target range.

The Kenya shilling remained stable against major currencies. Foreign exchange reserves remained adequate at USD 8.8bn (equivalent to 5.4 months of import cover) as at December, thanks in large part to the USD 2.1b Eurobonds that the government issued. Even with some Eurobond maturities coming we expect the Kenya shilling to remain relatively stable with a bias of slight weakening on account of improved liquidity as government starts releasing payments to its suppliers as ordered by the President. Global uncertainties such as the US- China trade wars, British exit from the European Union could also put pressure on the currency.

In September 2019 the President assented to the Finance Bill of 2019 that repealed Section 33B of the Banking Act of Kenya which had introduced the maximum interest that can be charged for local currency loans. The repeal required Banks not to adjust the terms of loans that existed before the repeal.

The Monetary Policy Committee (MPC) cut the Central Bank Rate (CBR) by 50 bps, to 8.5%, after the decision by the Government to amend the Banking Act and repeal the capping of Commercial Banking interest rates. We expect to see further cuts in 2020 with the MPC keen on supporting private sector credit growth. While new loans will now follow risk adjusted pricing further cuts mean a reduction of interest rates for old loans previously pegged on CBR.

Non-performing loans (NPLs) in the Banking Sector remain elevated largely due to delayed payment of Government contracts. The implementation of International Financial Reporting Standards (IFRS) 9 in 2018 also impacted available capital for growth and has seen most Banks record stunted growth in client loans and advances. Asset growth in the Banking Sector is expected to resume to normalcy albeit at a slow pace from the period of slow growth after the repeal of the interest capping law. There is political willingness to clearing government arrears owed to the Private Sector and this combined with increased access to credit by the Private Sector and economic growth should lead to gradual recovery and improved NPL levels.

Consolidation in the banking sector continues. Several lower tier Banks have concluded or are in discussions to conclude take overs by bigger Banks.

The execution of our strategy remains critical in achieving our vision of being a leading financial services provider while delivering superior stakeholder value. We have focussed our strategy on clients, digital transformation and delivering a integrated financial services organisation with three phases of fixing, stabilising and transforming.

Client centricity

During the year the Bank launched various client focussed solutions aligned to its strategy. We have transformed our client onboarding process for individuals to a paper free process for personal clients and launched a value proposition for Women. Corporate and Investment Banking continues to execute its client strategy which has seen client revenues increase by 25% year on year. The Bank is currently re- defining its client journeys with the aim of improving client experiences. We expect to launch value propositions for the Youth and Small Medium Sized Enterprises in the next year.

Digitisation

In March 2019, the Bank upgraded its core banking system as part of fixing and stabilizing its digital platforms. Transformation of various bank processes to a digital way is now underway. Targeted client experiences include trade, lending, payments and client on boarding.

Integrated Bank

Critical to our transformation journey is ensuring that the Bank has the right organisational design and culture to deliver on our purpose of driving Kenya's growth. Following a diagnostic review of our business in 2018 we have embarked on a process of changing the way we are organised to be an effective client centric Bank. In 2019 the Bank offered its staff voluntary early retirement as part of the organisational transformation journey. Organisational transformation will continue in the next year with focus on digital transformation and culture.

South Sudan

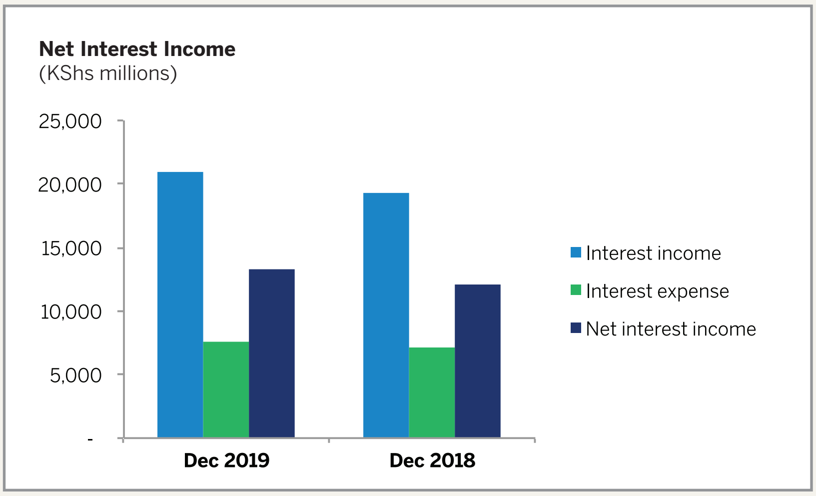
Despite the ongoing economic and political challenges in South Sudan our branch remained profitable with strong growth on client deposits. We believe we have an appropriate client focus strategy, we continue to be proactive in our risk management and remain prudent on costs. Our on the ground activities continue to be transactional and liability led. In addition, we will continue to support the staff of our Corporate clients through work place banking solutions.

South Sudan financial performance was negatively impacted by significant decline in inflation in the last two months of the year which resulted in the branch rebasing its value of Right of use assets as required by IFRS.

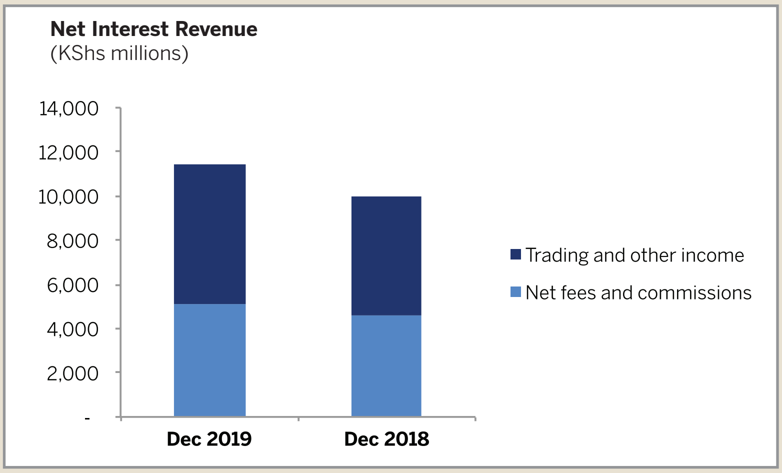
2020 outlook

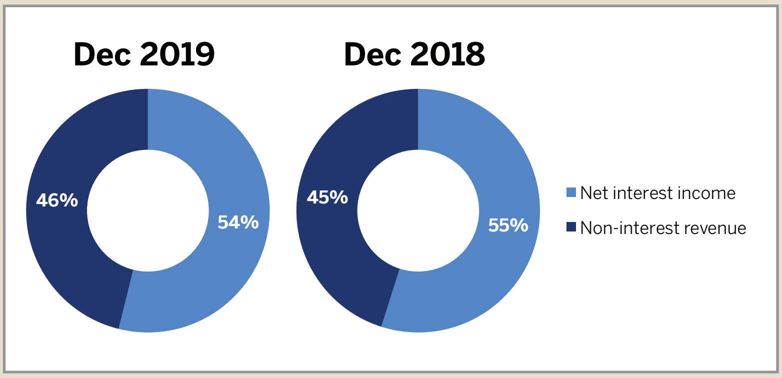
We expect a stunted growth in GDP due to the effects of COVID-19. We also expect the MPC to maintain an accommodative bias for the most part of 2020. In the first half of 2020. The MPC is likely to cut its key policy rate by at least 50 bps. However, a cumulative 100 bps cut is possible.

The Group is well positioned to remain resilient in this challenging operating environment as we continue to focus on client growth by enhancing client experiences, transforming the Bank in the areas of trade finance, digital lending and payments and creating new revenue streams by providing solutions to our clients' problems.



Net interest income increased year on year by 10% explained by growth in loans and advances and partly off set by net interest margin drop.





Net fees and commission income

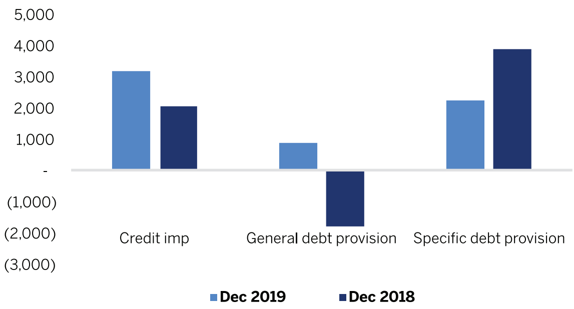
Increase in net fees and commission income explained by:

- Key investment banking deals closed within the year
- Continued growth in electronic banking revenues
- Growth in market share in SBG Securities

Trading revenue and other income

- Growth in trading income due to increase in foreign exchange margins by 16%
- Higher other income as a result of gains from disposal of financial investments

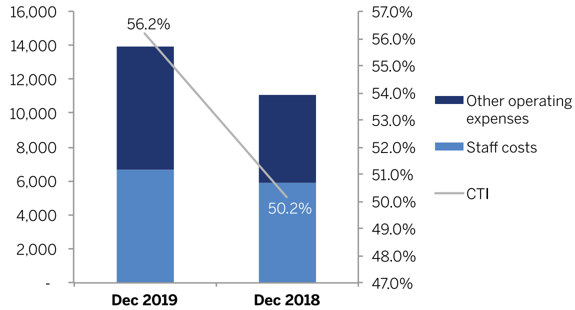
Credit Impairment charges
(KShs millions)



Impairment charges have increased year on year due to:

- Additional provisions on pre 2019 NPL book
- Growth in the performing loan book

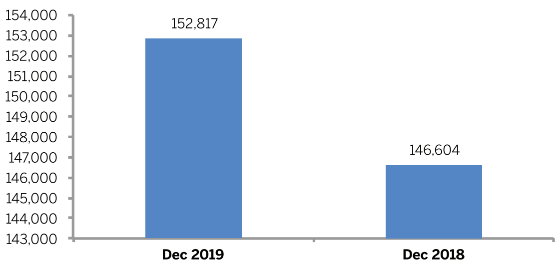
Operating expenses
(KShs millions)



Increase in cost to income due to;

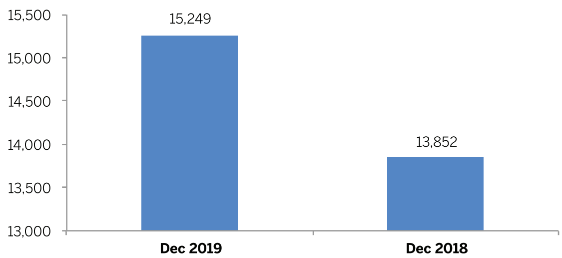
- One off costs arising from reorganizing the business
- One off guarantee payment.

Client loans and advances
(KShs millions)

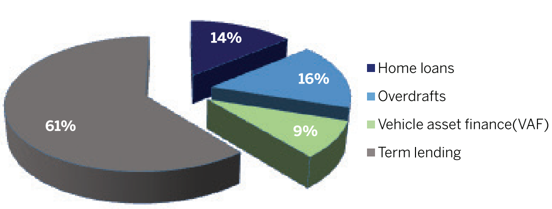


Loans and advances grew by 13% year on year mainly on mortgages and overdrafts facilities.

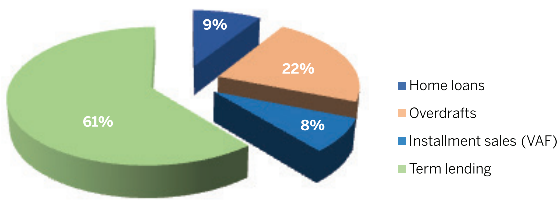
Client loans and advances non-performing loans (NPLS)
(KShs millions)



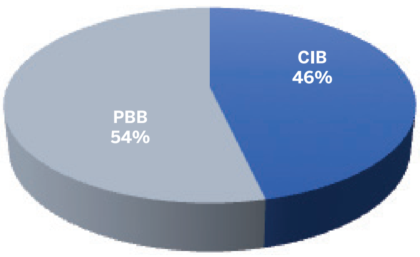
Loans and advances by product



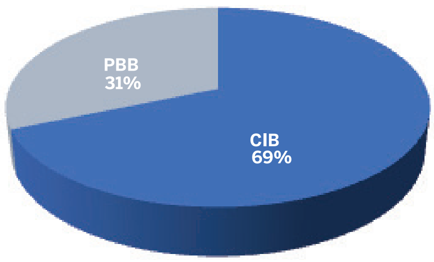
Net NPLs by product



Loans and advances by business unit

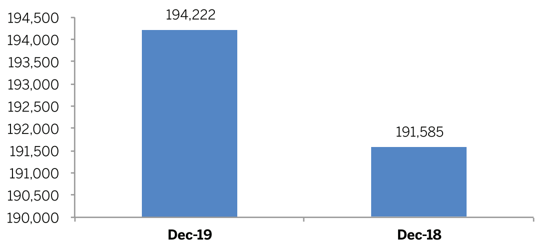


Net NPLs by business unit



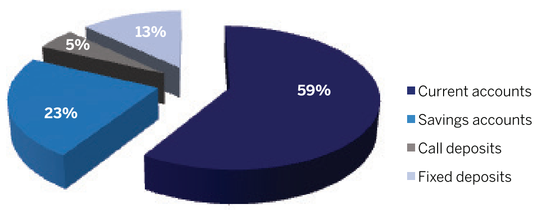
Client deposits

(KShs millions)

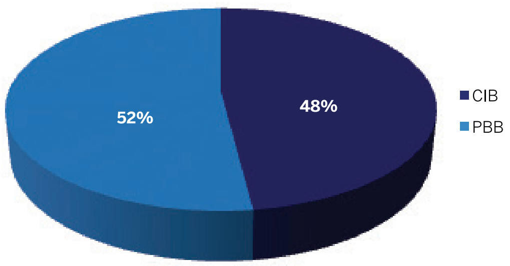


Client deposits grew by 1% year on year with core accounts accounting for 82% of total deposits.

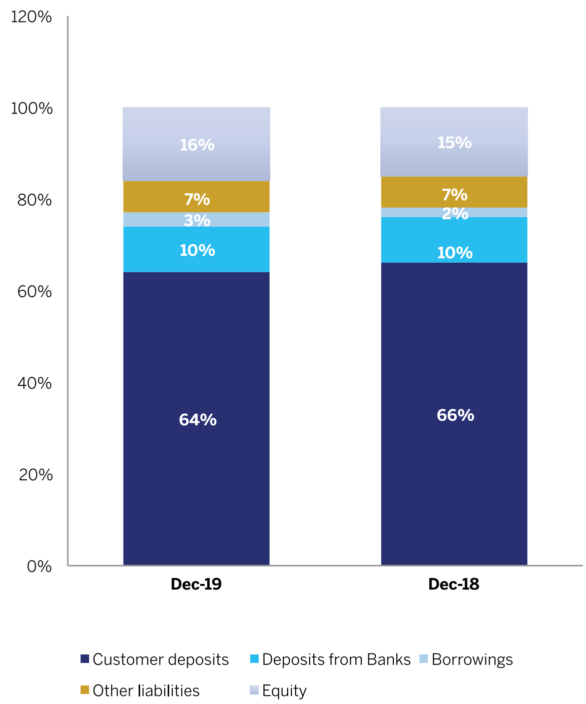
Client deposits per product



Client deposits by business unit

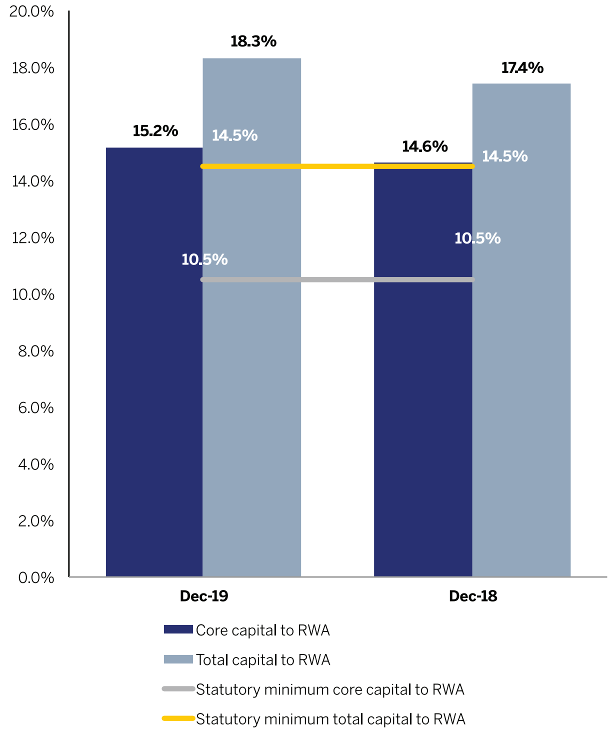


Funding Mix

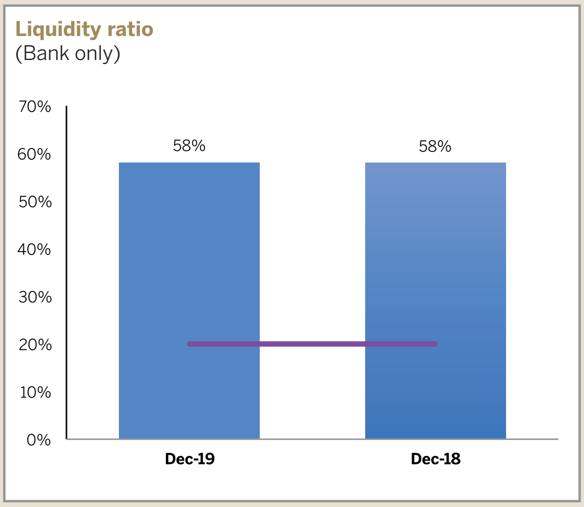


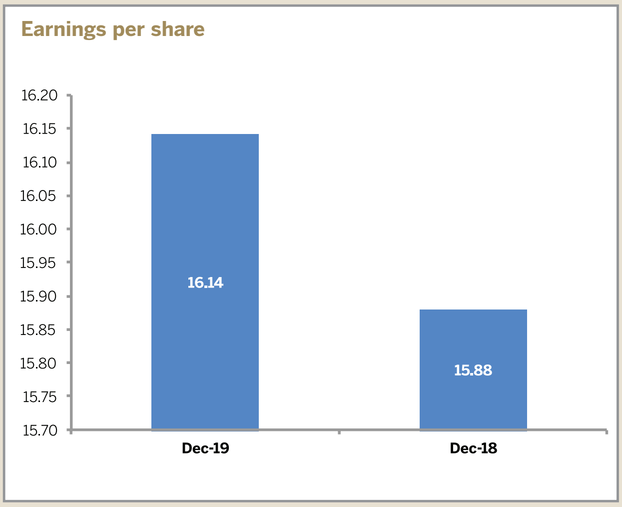
Capital adequacy ratio

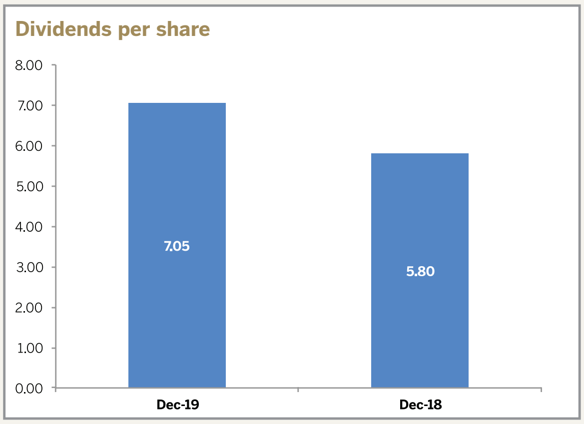
(Bank only)

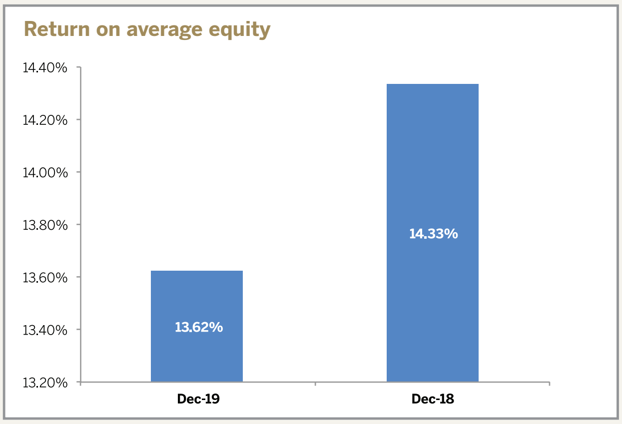


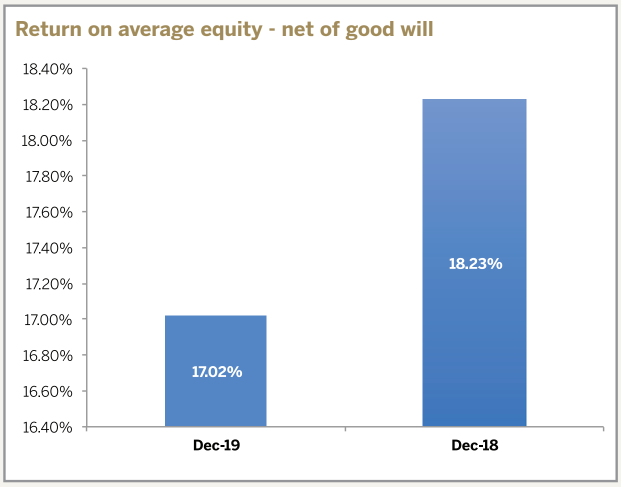
RWA- Risk weighted assets


Liquidity ratio
(Bank only)
70%
60%
50%
40%
30%
20%
10%
0%
58%
58%
Dec-19
Dec-18


Earnings per share
16.20
16.15
16.10
16.05
16.00
15.95
15.90
15.85
15.80
15.75
15.70
16.14
15.88
Dec-19
Dec-18


Dividends per share
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
7.05
5.80
Dec-19
Dec-18


Return on average equity
14.40%
14.20%
14.00%
13.80%
13.60%
13.40%
13.20%
13.62%
14.33%
Dec-19
Dec-18


Return on average equity - net of good will
18.40%
18.20%
18.00%
17.80%
17.60%
17.40%
17.20%
17.00%
16.80%
16.60%
16.40%
17.02%
18.23%
Dec-19
Dec-18

Five-year view of our financial performance

	2019	2018	2017	2016	2015	CAGR
	KShs million	KShs million	KShs million	KShs million	KShs million	%
Income statement						
Profit before tax	**7,710**	8,948	5,401	6,049	7,359	1%
Profit after tax	**6,381**	6,277	4,309	4,419	4,906	7%
Statement of financial position						
Shareholders' equity	**49,035**	44,623	42,956	40,141	38,365	6%
Total assets	**303,625**	290,570	248,739	214,683	208,452	10%
Loans and advances to customers	**152,817**	146,604	130,536	115,588	115,588	7%
Property and equipment	**2,302**	2,186	2,256	2,208	2,245	1%
Customer deposits	**194,222**	191,585	154,661	119,328	119,328	13%
Returns and ratios						
Return on average equity	**13.6%**	14.3%	10.4%	11.3%	13.0%	
Return on total assets	**2.1%**	2.3%	1.9%	2.09%	2.5%	
Costs to income	**56.2%**	50.2%	57.2%	57.9%	51.2%	

CLIENT CENTRICITY

By doing what is valuable to our clients, we will be able to grow and entrench our market position by targeting the right clients, partnering with them for growth in the key growth sectors of Kenya's economy.

The relationships we have matter, and our people strive every day to deliver a great client experience. It's an experience that starts with consistently getting the basics right to ensure banking with us is always simple, easy and personal.

The way our clients bank with us is constantly evolving. Nowadays, they prefer to bank through multiple channels – online, in branches, through our mobile banking app or via ATMs and BNAs. In response to changing client needs, we are putting our clients at the centre of our operations.Listening to them, and asking for feedback, means we can constantly find new ways to improve their experiences across all of our products, services and systems. We strive to make our clients the centre of everything that we do, by delivering excellent service, and making them feel recognised, respected and valued with each interaction.

NPS score of 28

We use the Net Promoter Score (NPS) to help our bankers take greater ownership of the client experience. This score measures the willingness of clients to recommend our products or services to others. It is used as a proxy for gauging our client's overall satisfaction and their loyalty to the brand.

Our bankers access regular client feedback, together with localised scores at each of our branches, contact centres and business banking centres in order to improve client outcomes. Our aim is to have a positive NPS and rank #1 among our major bank peers for our priority client segments.

1 Delivering exceptional service

Putting our clients first is our strategic priority, serving and satisfying them so that they continue to turn to us as their bank of choice. In order to achieve our strategic objectives, as well as fulfil and exceed client expectations, we must continue to engage our clients. Every day, our dedicated relationship managers help guide our clients to make the right decisions to enhance their financial plans and projects. The investment we have made in training our staff is making each conversation more meaningful and personalised.

With the consistent application of simple and innovative technology and services, we are making banking fast, easy, and secure, no matter how clients choose to bank with us.

- Accelerated the penetration and enhanced functionality of digital channels.
- Automated account opening for retail clients. This has reduced the time taken to open an account from 2 days to 10mins.
- Enhanced M-JEKI, our short term loan to distributors, by increasing the limit on the mobile platform.
- Rolled out Africa China Agent Proposition (ACAP), a holistic service proposition for traders who import products from china that offers a seamless experience in sourcing and validating quality goods, safely and efficiently from credible suppliers in China.
- Replaced our cheque clearing solution with an automated cheque processing and clearing system.
- Expansion in our Cash Deposit Machines offer with increased uptake in cash heavy businesses and sectors resulting to a 70% increase in the number of machines availed to clients.
- Simplified processes and increased use of data analytics to understand and respond more precisely to our clients' needs.

2 Resolving client complaints

We have processes and systems designed to address and improve client experiences. Our clients concerns range from:

- Payments which include; failed &/or delayed processing of transactions caused by human error or intermittent system downtime.
- Difficulties accessing product information and time consuming applications.
- Semi automated processes that cause unnecessary delays.

We are focussed on understanding and addressing these concerns and improving the processes and procedures that cause frustration. From an SLA breach management perspective, we continue to track incidents and complaints to ensure comprehensive root cause analysis is done and resolution provided to address the underlying issue and ensure non-recurrence. We analyse our incidences to assess accuracy of root cause and effectiveness of resolution measures.

3 Our Brand

Our brand aims to promote our aspiration to be a partner for growth. One of our key strategic pillars is client centricity and this cements our initiatives in growing brand love through continuous efforts to provide the best experience for everyone who interacts with us across different touch points.

Our brand promise is that as an individual or business we partner with you so that we can all move forward. Every year we monitor brand performance against key metrics through a research known as Africa Brand Tracker and also Net Promoter Score (NPS). Overall in most measures there was good improvement. The comments from the respondents also showed that they found the campaigns we ran last year relevant and appealing to them. Some of the measures with good improvement was spontaneous awareness, consideration amongst others. Feedback from the research shows that our clients believe that we are the bank for businesses, we are the bank for people that want to progress. They believe that we have good products and that we provide solutions, good service, knowledgeable and friendly staff. In 2019, we ran several marketing campaigns across all channels both traditional and non-traditional. We organized several strategic events that were at different segments of business/different sectors like our powerful Economic Forums.

Our efforts to deliver exceptional client service were consistently recognised over the financial year:

RECOGNITION FOR OUR ACHIEVEMENTS

DealMakers Africa

- Best East Africa Transaction Advisor by Deal value -2019
- Second-best East Africa Transaction Advisor by Deal flow - 2019

Think Business

- Best Bank in Mortgage Finance
- Best Bank in Trade Finance

PWM- The Banker

- Best Private Bank in Kenya

EMEA

- Best Investment Bank - Kenya

4 Client lifecycle

In order to ensure we deliver the best client experience possible, we are constantly looking at the journeys our clients take with us. It is important that we are always proactive so as to improve the client experience for interactions like opening an account for their children, planning for business expansion, applying for a mortgage or wealth management. By understanding the client lifecycle, we are also creating a more agile organisation. We are using human-centred design, multi-disciplinary teams and digital enablement that aims to deliver improved services at twice the speed.

5 Client value

Investment in innovation and digitisation helps us deliver great experiences for our clients. We continued to launch unique and client-centric propositions in 2019. These include:

- Digital client onboarding
- Revamp of our mobile banking app
- Mastercard program for the gold credit cards that allows access to over 900 airport lounges in over 145 cities and 130 countries around the world
- New automated supply chain financing platform

We are also exploring new strategic alliances and direct investments which will allow us to fast track client experience improvements and leverage innovative new technology and business models.

6 Client information protection

Our clients trust us to do the right thing and most importantly ensuring their money, personal information and privacy are protected. We are constantly upgrading our client-facing and back-end technology platforms to ensure our clients' information remains safe. We continuously improve on our cyber defence capability, to defend the Group through the detection, prevention and management of sophisticated cyber threats.

TECHNOLOGY AND DIGITISATION

Digitisation is more than just technology. It is about delivering the integrated bank through secure, personalised and relevant experiences to clients and staff real time, all the time.

Stanbic Holdings consistently invests in ICT to improve client experience and operational efficiency while pursuing our digitisation agenda. We are keen to modernize our core banking systems, create new and upgraded business capabilities and ensure that our ICT is cutting edge. Our approach to technology is focussed on three core areas: delivering reliable and stable experiences for our people and clients, continually improving our technology platforms and services to make them simple and agile, and getting products to our clients faster.

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.

Technology upgrade

In 2019, we invested in an upgrade of T24, our core banking, from version R13 to version R17. The upgraded system offers several benefits including flexible business functionality and agility particularly around pricing and concessions. In addition, the update will

- Allow us to respond faster to client needs and trends in the industry by allowing better integration with other systems.
- Integrate data that allows us to better understand our clients.
- Enhance stability of the system ensuring we are always on.
- Reduce costs to operate which we can pass on to our clients.
- Empower our employees through enhanced functionality and fixing identified pain points identified by our employees.

Innovations

We launched a client onboarding platform for Personal Banking clients which allows new clients to open transactional accounts with Stanbic without having to physically visit a branch. Where there are no exceptions, the client is issued with account numbers upon completion of the session. Account opening is real time, automated with instant validation and takes approximately ten minutes. We also undertook an enhancement of our mobile banking app to enhance client experience by increasing the speed of the app, ease of navigation and improve the look and feel in line with our brand. For our insurance business, we launched an inhouse developed solution that manages the bancassurance business from onboarding to fulfilment with an interface to our core banking system for financial transactions. This new system will enable improved product and client administration. Comprehensive reporting, timely notifications and integration to various technology platforms.

Enhancing efficiency

In 2019, we replaced our cheque clearing solution with an automated cheque processing and clearing system. We are now able to participate in the Automated Clearing House (ACH), decentralise cheque capture, which is now done at branches, enable remote cheque capture and integrate with other platforms. For clients, this means they can enjoy real-time clearing for inhouse cheques while the bank benefits from enhanced efficiency and improved risk management.

We also updated our M-Jeki proposition following an end to end process, system and infrastructure review covering client, third party integrators (Service Partners) and Bank. The update resulted into an enhanced client experience with no client failures being experienced on this channel after this review.

ICT Security

We continue to invest in technology, operations and people. This ensures client data and information is protected and used appropriately.

INTEGRATED FINANCIAL SERVICES ORGANISATION

At Stanbic, we aim to deliver financial services seamlessly and efficiently across our wide variety of propositions enabling our clients to enjoy a wide diversity of experiences and services that are relevant to their needs.

As a Integrated financial services organization, we aim to be a one stop shop for all our clients financial needs, providing a vast array of products and services seamlessly, to enable our clients to access financial solutions conveniently. In this regard, we will be looking at actualizing on our capability to deliver on these needs by:

- Understanding the needs of our clients.
- Providing our clients with a personalised and comprehensive financial services offering.
- Empowering our people to better provide an excellent and consistent client experience.
- Making it easier, faster and safer to transact by accelerating innovation and digitisation.

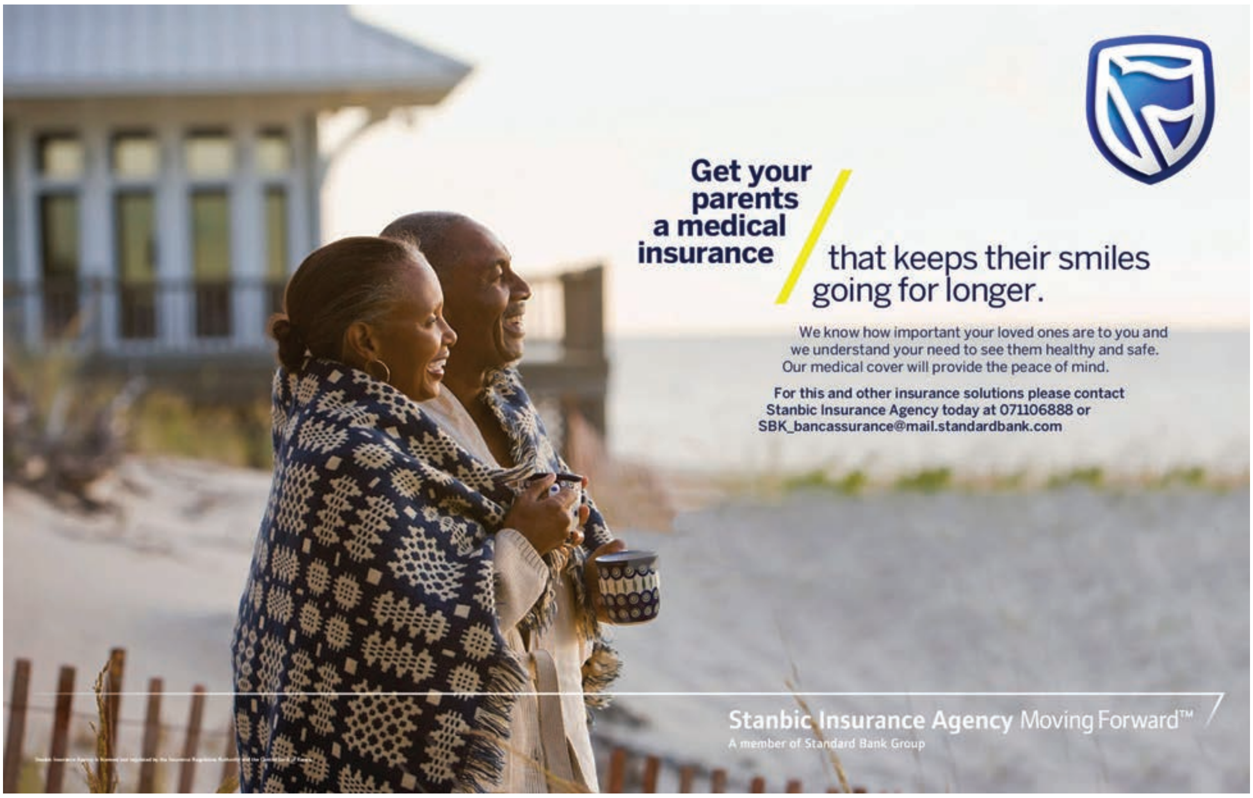
Integrated Banking allows us to look at key clients and choose a strategy for meeting their financial needs such that we can offer custom made value propositions tailored for each of them. For example we can offer a corporate current accounts, credit facilities and money markets products, while also providing its employees with staff salary and savings accounts, debit cards, medical and car insurance; we can offer the executive other products like credit cards, life insurance and professional indemnity covers, mortgages; suppliers can access loans on approved orders all while providing customized digital banking systems that enable the corporate to manage its finances and simplify transactions.

As such Integrated banking is about how well we can meet with the broad financial needs of the client by understanding the client and then offering the full suite of financial services as a one stop shop. It means that our business units have to work proficiently jointly and our client teams must be conversant with our wide offerings. South Sudan is the economy where we have excelled in Integrated Banking for the Group.

Ecosystem banking

We continue to execute well on our ecosystem approach to drive the business as a whole. There are many forms of ecosystems and each is uniquely dependent on the primary client. Under this approach we look at the client as a unique business and ask ourselves, who are the suppliers, who are the employees, who are the clients, who are the regulators, who are the partners? We do an in-depth analysis to gain full understanding how the company operates and what are the interdependencies in their operations. When we look at our clients through this lens, it is evident that all business units, from CIB to PBB to Wealth, will be required to work as a joint force in delivering the desired financial services suite to the client. This automatically ensures that as a Group, we work with the client as the focal point further cementing our client centricity agenda.

The financial fitness academies have become a focal point of collaboration across our business units and broader businesses within the Group, enabling us to leverage relationships with corporate, business and personal clients and pursue expanded mandates with them.



CASE STUDY

First ever **Green Bond**

Company Overview

Acorn Holdings Limited ("AHL") was originally founded in 2001 and became one of the largest and most successful developers in Kenya. It has delivered over 50 projects, valued in excess of US$550 million. These include some of the most iconic projects in the region over the last decade such as the Coca-Cola Regional Head Office, Deloitte Regional Head Office, Equity Centre and UAP Tower.

In 2015, Helios Investment Partners acquired a 50% stake in AHL. After the acquisition, AHL has been developing capabilities in youth and student housing with a strategic focus on Purpose Built Student Accommodation ("PBSA") in Nairobi and its environs..

AHL has rolled out three PBSA properties in Kenya with over 1,600 beds. The intention is to be the largest PBSA provider in the region.

Stanbic Holdings Plc Involvement

Stanbic Holdings has played a key role in executing the first ever green and project bond in East Africa

Stanbic was the Lead Arranger, Placing Agent and Fiscal Agent on the Transaction

Stanbic arranged non-deal and deal roadshows spanning more than 25 different investors.

Acorn was able to raise the full KShs 4.62bn despite the challenging environment in the debt capital markets in Kenya

The notes finally priced at a fixed coupon rate of 12.25%. The subscription book was well diversified with significant interest from Kenyan domestic pension funds, commercial banks, insurance/re-insurance companies and non-resident funds

Highlights/ Key Features

- First Green Bond to be issued in East Africa
- First Project Bond and in the Real Estate Sector, to be issued in East Africa.
- The first corporate bond in Kenya to be to be rated by Moody's Investor Services in East Africa – Bond was rated B1 Global .
- The first corporate bond in Kenya to be approved as a Restricted Public Offer by the Capital Markets Authority.
- First corporate bond to be cross-listed on the Nairobi Securities Exchange ("NSE") and the London Stock Exchange ("LSE").
- The transaction was awarded the Bond Deal of the Year by Bonds, Loans & Sukuk Africa Deals of the Year in December 2019.
- Lastly, the Student accommodation has been certified with the IFC Excellent in Design for Greater Efficiencies (EDGE) certification

AN ENGAGED TEAM

Our people are foundational to the attainment of stakeholder value and achievement of our corporate strategy. Their skills, expertise and commitment enables us to deliver results, build relationships and secure our reputation.

Our employee base

Permanent employee complement

945
(2018: 1 071)

Gender parity

48% : 52%

Gender parity in Senior Management and Board

Senior Management

30 : 41

Board

4 : 4

Age breakdown (%)

Below 30 years: 12%
30-40 years: 63%
Above 40 years: 25%

Management/ Non-Management

Management
35%

Non-Management
65%

New hires

29

Exits

155

Organizational effectiveness

In 2018, we conducted an organizational effectiveness assessment to determine whether the Group was efficient and effective in delivering value for stakeholders and also future fit. Our aim was to determine how we could redesign the organization to streamline for efficiency and effectiveness, kill duplication and ensure that our jobs are optimal. Additionally, we sought to evaluate the organizational structure to determine what was the best fit for our strategy. Culture was also a key concern, to determine the types of behaviours that need to be embedded so as to deliver on the Group's strategy. In 2019, we undertook a Voluntary Early Retirement (VER) program and a total of 88 individuals opted to benefit from the VER exercise.

As at the close of the year, the organizational redesign component was successfully completed. To consolidate this work and reenergize the Group, we held "lifting the mood" sessions for employees.

Culture transformation

The next phase of our organizational optimisation will focus on embedding our corporate culture. We have identified five key values to underpin our culture and reinforce our strategic intentions. These culture principles known as the 5C's are:

- Client centricity;
- Collaboration;
- Courage;
- Continuous improvement and entrepreneurship, and
- Care for colleague.

In 2019, we conducted various culture transformation initiatives and activities to re-energise our employees. These activities will continue in 2020 as we consolidate the team post VER.

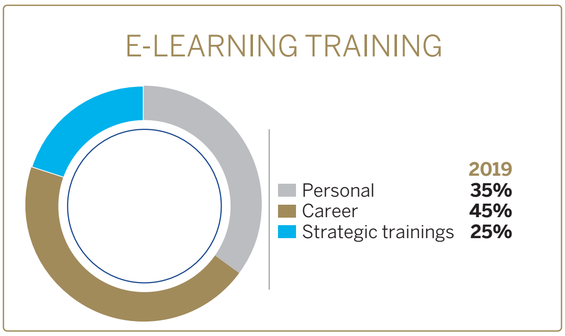
Client centricity speaks to ensuring that our clients remain the key focal point of our actions and their needs and experiences engaging with us are critically important. Collaboration alludes to the need for greater synergies within and outside the Group, resonating with a highly inter-connected world where working together towards common purposes underscores stakeholder value creation.

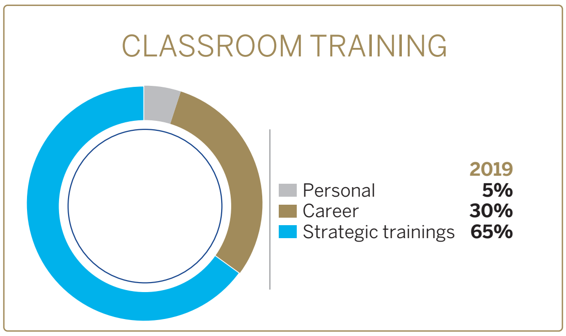
Courage means we intend to be bold in our decisions and actions, taking well considered risks and daring to do things differently, take imitative and even innovate to create new processes, products and solutions. Continuous improvement and entrepreneurship indicate that we are willing to grow, learn and improve while showcasing key business skills. Finally, our colleagues are a critical part of our lives and we show concern for them, ensuring we create a workplace where people are valued and treated with respect.

Diversity and Inclusion

To achieve our overall purpose and strategy, we require a workforce that reflects the communities that we serve and which is inclusive and empowers everyone to contribute their best. Diversity in our workforce is not just a 'nice to have', it's a business imperative and it's everyone's responsibility. By drawing from a diverse pool of individuals within the geographies where we operate, we are able to attract and retain the best employees while offering exceptional value to our clients and stakeholders. These behaviours are enshrined in our formal Code of Business Conduct. At the end of 2019, 48% of employees were women, 75% of the total number of employees were below 40 years and 3 were differently abled employees. We also conducted training sessions for employees focusing on diversity and inclusion to address issues such as unconscious bias and emotional intelligence.Additionally, we hosted Ignite training sessions for women employees. Ignite is a training that empowers women employees to overcome the barriers to their professional development and enhance self-awareness.

Learning and development





We want our employees to have the right skills so as to deliver, not only on our strategy but also for their careers and personal development. We have identified and prioritised the organisational capabilities that are important across the Group and required to execute our strategy and drive growth in each of our markets. We provide our people with targeted, role-based learning and mandatory, role-specific training. This is complemented with formal training and on-the-job skills development driven by the needs of our strategy.

Effective learning can also lead to greater employee motivation and satisfaction as employees feel valued and able to grow and develop throughout their careers. And importantly, learning and change are interlinked because it enables organizations to respond to changes and adapt to an increasingly competitive and ever-changing financial landscape.

In the age of increased automation and smart tools performing job-related tasks, what's important now is soft skills. We're talking about highly-transferable skills like leadership, communication and collaboration that are key to driving businesses forward and leveraging the opportunities presented by new technologies.

In 2019, we enabled employees to undertake 106,948 hours of training on diverse subjects including client focused trainings, digital curriculum, SME development, DADA proposition, leadership development and interpersonal skills.

Prepare for the future of work

The future of work is being shaped by two powerful forces: The growing adoption of technology in the workplace and the arrival of a younger cadre of employees who epitomise the ideal that there are no careers for life. As new technologies like Artificial Intelligence (AI), machine learning and autonomous systems become more mainstream, the workplace will become more.

That means the future skills required will be broader than technical skills including digital competencies as well as key interpersonal skills. In this respect, we have conducted a digital curriculum for our employees aimed at enhancing tech based skills. In addition, we launched an entrepreneurship skills training for employees, enabling them to plan for their future which could be within or outside the Group.

A great place to work

Health initiative: The Group conducts wellness check-ups yearly for employees and their dependants.

Medical: The Group meets the cost of medical expenses of staff and their nuclear family for the permanent staff.

Pension scheme: All permanent Staff are eligible to join the Group's Pension Fund Scheme.

Nursing room is accessible to expectant and nursing mothers.

Break out rooms are provided 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:

248 employees participated in the 35th edition of the Kenya Bankers Association (KBA) interbank games competition. We ranked position 8 out of 37 Banks.

28 employees participated in the Nairobi Basketball League competition. We ranked position 1 with a record of 40 wins and 0 losses.

Our employees also participated in the Mashujaa day tournament in Kisumu and Jamhuri day tournament in Mombasa where we ranked 3rd and 2nd respectively.

End of year party and team building events were organized for staff in the year.

SEE REPORT

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.

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

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.

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.

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

Enable access to financial solutions that support economic development and reduce inequality.

Key focus:

- 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 growth

Support SME growth and job creation through finance, mentoring, training and market access.

Key focus:

- 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

Support infrastructure development for inclusive and sustainable industrialisation, partnering with clients to manage and minimise environmental and social risks.

Key focus:

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

- Roads
- Energy

Trade and investment

Facilitate trade and investment flows using innovative trade finance, cross-border payments and investment solutions.

Trade and investment

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

Education

Support access to inclusive, quality education and lifelong learning opportunities.

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.

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, change in weather patterns, 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.

PROGRESS MADE

Our impact
We enable more people and businesses to access affordable financial products and services, enabling them to manage day-to-day transactions, save and plan for the future, deal with unexpected emergencies and, for entrepreneurs, to achieve business growth.

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.

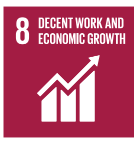
Alignment to United Nations Sustainable Development Goals (SDG):

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

2019 achievements

- We partnered with Kenya Mortgage Refinance Company (KMRC) to support the government agenda of affordable housing.
- Assisted clients to purchase 1,645 homes.

LINK TO SDGs



Our impact

We work with SMEs to understand their challenges and priorities, so that we are able to provide them with appropriate financial solutions, and targeted business support as well as mentoring and training, to drive their growth and expansion into new markets. We also use this knowledge to develop digital solutions that meet their unique needs.

JOB CREATION AND ENTERPRISE GROWTH

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 8.3** - Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

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

2019 achievements

- Supported around 510 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.

LINK TO SDGs

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

INFRASTRUCTURE

Our impact

We work with governments, development finance institutions and other commercial banks to finance large-scale infrastructure projects, addressing Kenya's infrastructure gaps and enabling inclusive and sustainable industrialisation. We partner with our clients to ensure environmental and social risks are appropriately managed and minimised.

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.

2019 achievements

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

LINK TO SDGs

7 AFFORDABLE AND CLEAN ENERGY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Our impact
We facilitate trade and investment flows between Kenya and key global markets including China, through the provision of innovative trade finance solutions and cross-border payments and investment solutions.

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.

2019 achievements

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

LINK TO SDGs

8 DECENT WORK AND ECONOMIC GROWTH

Our impact

We support access to inclusive, quality education, promote lifelong learning opportunities and enable Kenya to harness the opportunities associated with the Fourth Industrial Revolution.

EDUCATION

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.

2019 achievements

- KShs 3 million invested in education in 2019 through Palmhouse Foundation and SOS Children's Village.
- 36 beneficiaries of secondary education under our partnership with Palmhouse Foundation.
- Sponsorship of 20 children in the SOS Children's Village.

LINK TO SDGs

4 QUALITY EDUCATION

CASE STUDY

M-KOPA

Clean and dependable source of power

Stanbic was mandated by M-KOPA Group to raise USD 55 million 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 clients on affordable payment plans.

This was the first solar-home-system deal that the bank concluded and it required innovation in the funding structure to meet the needs of a rapidly-scaling company in a new category. M-KOPA did not immediately meet the conventional corporate borrowing metrics, so we developed a funding structure which took into account the highly cash generative nature of the business. Our evidence is the 100 million plus mobile money payments that have been processed by M-KOPA since inception.

This model has now been used by other solar-home-system providers in fundraising. What attracted Stanbic to M-KOPA was their vision to upgrade people's lives by providing power and productive appliances to 1 million homes in Africa by 2020.

In 2017, M-KOPA had distributed 500,000 units – expanding to 750,000 units by early 2019. Based on the fact that on average, each household has 5 members, M-KOPA is estimated to be impacting over 3.5 million people.

These solar systems allow low-income homes to access clean energy and finance. It is all made possible by harnessing GSM, machine-to-machine communications (M2M) and solar technology.

Access to electricity and decent lighting improves children's ability to study at home after school. Consumers can access mobile phones, TVs and radios, helping them access Africa's burgeoning information economy.

M-KOPA is having a positive impact on the environment. Its solar systems will displace 1.7 million metric tonnes of carbon dioxide and black carbon over their lifetimes. This widespread displacement of toxic kerosene lanterns across East Africa equates to taking a coal-fired power plant offline for 150 days.

The majority of M-KOPA clients report they save money by displacing kerosene and phone charging expenditure. They save approximately USD 650 over the lifetime of their systems, amounting to over USD 400 million in increased household budgets across the current client base,

Household savings translate to family gains. 25% of clients use available cash to purchase food and 24% dedicate extra funds to children's' educations. Many choose to use these savings to acquire additional life-changing assets and services from M-KOPA. More than 140,000 M-KOPA clients directly generate income through local phone charging services, hosting movie screenings, or using solar lighting for a business, increasing household budgets by 32%.

Since inception, M-KOPA has unlocked nearly a quarter of a billion dollars in micro-loans for low-income clients across East Africa, creating a pathway out of poverty.

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 an EMEA Finance Award in the category of Best Local Currency Syndicated Loan for 2017.

STANBIC FOUNDATION

Stanbic Holdings has identified the need to develop entrepreneurs in Agriculture /Agro-processing, Manufacturing, Service and Retail sectors by accelerating entrepreneurial ideas and Small and Medium Enterprises (SMEs) in these sectors. The Group seeks to be the financial service provider of choice to SMEs and has made an inherent commitment to support entrepreneurship and to be integral in the creation of an appropriate ecosystem in Kenya specifically and across the African continent to drive entrepreneurial growth. Women entrepreneurs are a key focus of Stanbic's growth strategy.

Entrepreneurship has widely been recognized as an engine for growth and a means to promote economic development. Legatum's 2010 Prosperity Index report[1] found that "entrepreneurship and opportunity correlate more closely to a nation's overall prosperity than any other factor" and that "a strong entrepreneurial climate in which citizens can pursue new ideas and opportunities for improving their lives leads to higher levels of income and well-being." Indeed, of the top 20 most prosperous countries in the world, 19 out of them also had the highest level of entrepreneurship.

In recognition of these challenges, Stanbic has set up a Corporate Foundation that will be the vehicle to develop an entrepreneurship ecosystem that supports the growth and development of SME's through an accelerator model. Using different tools and partnerships, the accelerator will seek to develop entrepreneurs in four broad categories as highlighted below:

ACCELERATOR

Strategic Pillars

1

WOMEN ENTREPRENEURS

Nurturing mindsets and scaling women owned enterprises

2

BIZ CONNECT

Identify high potential growth businesses for scalability

3

ACCELERATION/ SUPPLY CHAIN DEVELOPMENT

Identify high potential local SMEs for OEM and supply chain integration

4

FINANCIAL LITERACY

To promote inclusive growth across all the pillars

INCLUSIVE GROWTH

SME, WOMEN, YOUTH

At the core, the components will target entrepreneurs at different levels of development and engagement. The accelerator will target visionary entrepreneurs with high potential businesses that can be transformed into medium to large-scale commercial operations. Stanbic Accelerator aims to be the driving force for SME in Kenya. We have mapped our work to SDG's 3, 5, 8, 9, 11 & 17.

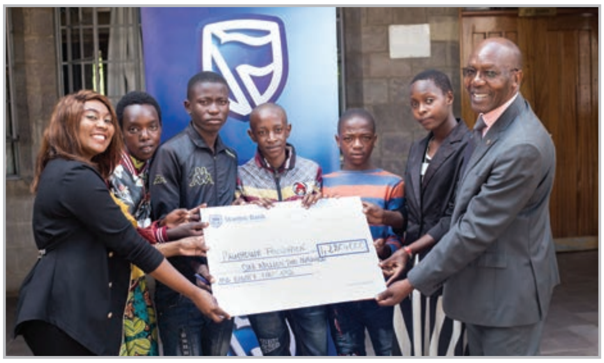
A key goal of the foundation will be to ensure that the accelerated businesses are sustainable through their contribution of supplying services to the Group and other corporate clients. Additionally, the Group will identify opportunities where the accelerator can identify and connect these businesses as preferred service providers. Stanbic also will also encourage some of its large Corporate clients to procure services from participants in the accelerator program through a value chain development program, hence contribution to economic growth, wealth and employment creation

[1] " The 2009 Legatum Prosperity Index: An Inquiry on Global Health and Wellbeing," Legatum Institute, accessed on July 15, 2010, http://www.prosperity.com/downloads/2010Prosperity IndexFullReport.pdf.

CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

(a) Palmhouse Foundation Sponsorship and Mentorship

It has been nine years since we partnered with Palmhouse Foundation to sponsor bright and needy students through their four years of secondary school education. Currently, 20 students are enrolled in various secondary schools across the country with 36 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.



(b) SOS Children's village

The SOS Children's 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 1.8million. 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."

(c) Group CSI activities

- Kenyatta Avenue, Gikomba, Garden City and Buruburu branches collectively donated KShs 385,000 to Maua Primary School. The funds went towards providing the pupils with adequate water supply, this was achieved through resuscitation of the school borehole.
- Meru branch donated KShs 98,541 worth of learning materials to Kimuthii Primary School.
- Chiromo, Waiyaki, Westgate and Warwick branches donated KShs 400,000 to Precious Blood Secondary School Rituta. The funds were used to procure an assortment of science laboratory equipment for the school.
- The Hub branch donated KShs 100,000 to Shining Hope for Communities (SHOFCO). The donation went towards catering for the education of a student.
- Operations department donated KShs 278,000 to Nyumbani Children's Home. the funds were used to procure medical supplies for the kids.

(d) Sponsorships

- **Mwamba Rugby Football club**

  The Group renewed its shirt sponsor for Mwamba Rugby Football Club for yet another year by doubling the sponsorship amount to KShs 6millin for 2 years. 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**

  The Group extended its sponsorship of the Stanbic Bank National 7's Circuit series, a property of the Kenya Rugby Union (KRU), for a further year – reaffirming its commitment to the rugby sport in Kenya.

  Under the new deal, Stanbic increased the sponsorship to KShs 14.35million up from KShs 9million which went towards aiding KRU and its partners to host the series.

  The six hosting clubs will each received KShs 1.4million up from KShs 1 million received last year and compete for a total purse of combined KShs.1million in the super-charged tourney that run from July 20th to September 8th, 2019.

  For the first time in the history of the National Sevens Circuit, the 2019 Stanbic Bank National Sevens Circuit introduced Prize Money to the circuit as well as sponsoring one Women's tournament, during the Christie7s tournament, where the Champions took home KShs 100,000. The Men's prize money for the tournament was KShs 500,000, KShs 250,000 and KShs 150,000 respectively for the champions, runners-up and second runners-up while Division 2 champions and runners-up got KShs 150,000 and KShs 50,000 respectively.

HOLDING OURSELVES ACCOUNTABLE

RISK MANAGEMENT

Risk management remains a critical component in execution of our strategy in a dynamic environment that is impacted by local as well as global-economic, technological and regulatory changes. This necessitated a continuous process for identifying, analysing and mitigating against existing as well as emerging risks that are relevant to our business.

RISK MANAGEMENT OVERVIEW

2019 was a challenging year with regards to the management of risks as a consequence of many global and local developments and disruptions. This impact was evidenced across our credit and operational risk management, in particular. Despite this, the Group continued to effectively manage these risks, whilst at the same time investing in resources for managing compliance risk, cyber and information risk as well as strategic risks. Through our robust Enterprise Risk Management Framework, we have ensured that we have operated well within regulatory thresholds. The impact of our initiatives in the implementation of the Enterprise Risk Management Framework within the year has been:

1. Informing the Bank's adjustments to risk appetite and risk acceptance criteria in order to maintain acceptable returns on equity targets;
2. Development of tools to manage new risks such as, Cyber-crime leading to enhanced investment by the Bank in risk management resources and capabilities;
3. Maintaining an agile business structure that quickly adapts to the ever-changing client needs and business environment; and
4. Increased focus on managing the business across the risk classifications resulting in early identification of risks and implementation of corrective actions.

We operate in a rapidly evolving global market, where we anticipate the following to be the key areas of focus in 2020:

1. Improvement in management of Cyber and Information risk and Conduct Risk;
2. Adoption of regulations impacting the Financial Services Industry (IFRS-9);
3. IT systems stability that is associated with the growing reliance on digital channels for service provision;
4. Outsourcing risk given reliance on third parties for the provision of infrastructure to run digital platforms;
5. Managing systemic risks that arise from exposure to local and international banking systems;
6. Concentration risk and the need to ensure an optimally diversified asset portfolio; and
7. 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.

Introduction

The Bank's governance structures are informed by Kenyan 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 Bank. The Bank'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.

To support the governance structures and processes Stanbic Bank relies on:

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. Policies and procedures implemented and independently monitored by the risk management team. This is to ensure that exposures are within agreed risk appetite parameters.
3. Regular and detailed risk reporting to enable the management and/or identification of emerging risks evident from visible trends.
4. Clear segregation of duties and responsibilities to avoid conflict of interest, ensure independence and objectivity and minimise operational risk.

Enterprise Risk Management Framework

The Group'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

The Company'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 of the Company's banking subsidiary, Stanbic Bank Kenya Limited (the Bank), has delegated its risk-related responsibilities primarily to these five committees: the Board Risk and Technology Committee (BRTC), 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 and Technology Committee and the Board Credit Committee

The two Board sub-committees responsible for risk are the Board Risk and Technology Committee (BRTC) 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.

The Chief Risk Officer (CRO) and Chief Compliance Officer (CCO) have unfettered access to the Chairs of the Board Risk and Technology Committee (BRTC), the Chief Risk Officer has unfettered access to the Chair of the Board Credit Committee (BCC) to ensure independence and objectivity in the execution of their mandates.

Management committees

Executive management has responsibility for all material risk types that have been delegated by either BRTC or BCC to assist the Board subcommittees fulfilling 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 units

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

Governance documents

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

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 lines 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, compliance function, legal 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.

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

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

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:

- **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 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 the 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 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

Stanbic's classification of risks ensures at a minimum to meet the provisions of the Central Bank Risk Management Guidelines among other Kenyan Laws and Regulations: currently Stanbic Bank categorises it's risk as follows:

- Credit Risk
- Country Risk
- Sovereign Risk
- Operational Risk
- Information and Technology Risk
- Financial Crime and Control
- Market Risk
- Liquidity Risk
- Strategic Risk
- Legal Risk
- Compliance Risk
- Reputational 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.

Credit Risk Management

Stanbic Bank manages credit risk in accordance with its credit risk standard and model risk governance standard, which provides for:

1. Maintaining a strong culture of responsible lending as articulated in the Credit Risk Policies;
2. Identification, assessment and measurement of credit risk clearly and accurately from the level of individual facility up to the total portfolio;
3. Accepting and managing the Bank's credit risk in line with the Board approved credit risk appetite framework;
4. Defining, implementing and continually re-evaluating our risk appetite under actual and stressed conditions to effectively align to changes in the market environment;
5. Ensuring that there is expert scrutiny and independent approval of the credit risk assessment models; and
6. Ensuring there is independent review of credit risks and the mitigations put in place to minimise the credit risk. Supported by a robust credit risk reporting and portfolio management function.

Stanbic Bank has an independent credit risk management function embedded within the Corporate and Investment Banking (CIB), Personal and Business Banking (PBB) and Wealth Units.

Focus areas in 2020

Stanbic Bank is focused on proactively managing Credit and operational losses through automation of various manual processes including digital lending. Other focus areas include:

1. Embedding and enhancing our Enterprise Risk Management framework with particular emphasis on Non-Financial Risks.
2. Pursuing our Digital Lending journey.
3. Enhancing our cyber and information risk management controls and tools.

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 risk, Legal risk, Fraud risk, Compliance risk, Model risk, Technology risk, Cyber risk, Tax risk, Third Party risk, Business Disruption risk, Human Capital risk, Accounting and Financial risk, Physical Assets Risk, Environmental and Social Risk. Conduct risk, which entails the way in which the Bank and its staff relate to clients and the wider society, is embedded in other Operational Risk sub-risk types.

This definition excludes business risk, strategic risk and reputational risk; the reputational effects of operational risk events are however considered for management information.

Operational risk is categorised under the following four broad themes:

- **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 Bank (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.

Operational Risk Management Framework

The Bank has developed, implemented and maintained an enterprise-wide operational risk management framework that is fully integrated into the Bank's overall risk management processes. This framework sets out the governing principles for operational risk management and sets out the basic components for the identification, assessment, and management, monitoring and reporting of operational risk in a consistent manner across the Bank. The operational risk management framework is further supported by a comprehensive operational risk management policy.

The practice of operational risk in the Bank is overseen by an independent Integrated Operational Risk function. Importantly, the Integrated Operational Risk function is charged with the responsibility of ensuring that the process for identifying, assessing, measuring, monitoring, controlling and reporting of operational risk is in line with the risk management and business strategies. Independent assurance on the management of operational risks is further provided by Internal Audit.

The Bank recognises the evolving nature of operational risks and continues to aim at improving the identification and oversight of operational risk. Both qualitative and quantitative measures are employed in operational risk identification and measurement and include:

Risk and control self-assessments (RCSAs): Analysis of business activities and critical processes to identify the key operational risks to which the business is exposed to and assess the adequacy and effectiveness of their controls. For any area where management conclude that the level of residual risk is beyond an acceptable level, action plans are defined to reduce the level of risk. The RCSAs embed a process that identifies, and rates risks, causes and controls in a consistent and structured manner.

Key Risk Indicators (KRIs): These are quantitative measures based on the key risks and controls. Relevant indicators are used to monitor key business environment and internal control factors that may influence the Bank's operational risk profile. Each indicator has trigger thresholds to provide early warning signals of potential risk exposures and/or a potential breakdown of controls. When a breach is observed action is promptly taken to control the potential risk.

Operational risk incidents: The Bank has put in place a structured process around incident management aimed at ensuring that operational risk incidents are identified, recorded, managed and reported timeously. Reported incidents help the Bank identify trends, providing foresight into emerging operational risk frontiers and/or control lapses. The Integrated Operational Risk and Internal Control functions maintain a database that includes losses, non-financial impacts and near misses which provides input into the operational risk decision process.

External data: The Bank analyses external industry incidents and loss data through a combination of publicly available data and the confidential loss data. This information which is shared across the Standard Bank Group enhances the identification and assessment of new and emerging risks and provides additional information for RCSAs, scenarios, indicators and for benchmarking purposes.

Governance and controls

Operational risk arises in all parts of the Bank; all senior management are thus responsible for consistently implementing and maintaining policies, processes and systems for managing operational risk in all of material products, services, activities, processes and systems. The ultimate responsibility for establishing, approving and periodically reviewing the operational risk framework lies with the Board. The Board oversees senior management to ensure that the framework is implemented effectively at all decision levels.

Operational risk is managed to acceptable levels by continuously monitoring and enforcing compliance with relevant policies and control procedures. In addition to the operational risk management framework and policy, there is an operating manual and detailed procedures' documents to guide application of the framework and policy principles. Compliance with these governance documents is continuously monitored and exceptions are assessed against an approved materiality matrix which provides guidelines on the escalation and reporting required on operational risk matters. The Bank also uses the new and amended business, products or services process to identify and assess risks associated with new and/or amended products or services.

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 Bank 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.

Due to the nature of operational risk, the setting of appetite is ultimately based on the judgment and experience of senior management. Operational risk tolerance is expressed in terms of the following types of measures:

- **Operational risk limit:** the maximum level of exposure that is tolerated for operational risk and which should not normally be exceeded.
- **Operational risk threshold:** the level of exposure which, with appropriate approvals, can be exceeded, but which will trigger certain actions. These have been set using historic operational losses and adjusted for growth.
- Qualitative measures indicating 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) and other risk reviews.

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 third party 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 operational risk sub-types, the Bank has established specific policies under which they are managed such as third-party risk management policy, fraud risk policy, business resilience policies, information and cyber risk policies etc.

THIRD PARTY RISK

The Bank recognises that outsourcing and other third party arrangements are an accepted practice, and 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 third-party risks which serve to ensure that there is alignment of the third-party arrangements with the Bank's business objectives, potential risks addressed, costs and benefits evaluated, responsibilities clearly understood, and regulatory requirements complied with.

Business Resilience (BR)

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 information technology (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 disaster recovery system functionality tests to ensure preparedness in the event of a disaster as a part of its assurance process.

INFORMATION AND TECHNOLOGY RISK & CYBER RISK

Information risk is defined as the risk of accidental or intentional unauthorized 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.

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

Cyber risk continues to increase 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 prioritized and cost-effective way.

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 Bank or its stakeholder and/or to manipulate or circumvent the established rules of the Bank or legislative requirements applicable to the Bank.

Investigations and Fraud Risk Management

The Investigations and Fraud Risk (IFR) function manages fraud risk from a second line perspective and follows an agile approach to safe, secure and client-focused banking. This means anticipating or responding quickly and effectively to new threats to fraud risks management supported by strong controls established by the first line of defence (LoD) as well as independent audit from the third line of defence. The investigation function is mandated to manage all investigation matters pertaining to internal and external fraud, misconduct, dishonesty and conflict of interest by employees, clients, suppliers, business partners, stakeholders and third parties across the group. In addition, the function performs investigations across financial crime matters on bribery and corruption and referrals by Compliance on money laundering, sanctions and other relevant matters. The function also performs and / or manages investigations on High Risk Reputational and / or Regulatory incidents.

The Bank maintains a zero-tolerance approach towards fraud and dishonesty. The Investigations and Fraud Risk team, with the other functions within operational risk maintain 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 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. The Bank manages market risk through the following four principles.

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 employees 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 financial operational risk, price testing reports and profit and loss decomposition reports. For the purpose of identification, market risk has been categorised as follows:

I. **Market risks in the Trading Book:** These risks result from the trading activities where the primary focus is client facilitation. All trading activities are carried out within the Bank's CIB division with respect to banking operations.

II. **Interest Rate risk in the Banking Book:** This risk results from the different repricing characteristics of banking assets and liabilities. It includes endowment risk, repricing risk, basis risk, optionality risk and yield curve risk.

III. **Foreign currency risk:** The Bank's primary exposure to foreign currency risk arises as a result of the translation effect on the Bank's net assets in foreign operations, intra-group foreign-denominated debt and foreign-denominated cash exposures and accruals.

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.). The Bank uses a variety of metrics and models to measure and control market risk exposures. These measurements are selected based on an assessment of the nature of risks in a particular activity. The principal measurement techniques are Present Value at one basis point change (PV01), Value at Risk (VaR), stress testing, sensitivity analysis, simulation modelling, and gap analysis. Models are independently validated prior to implementation and are subject to formal periodic review.

General Measurement Definitions:

a. **Value at Risk ("VaR")** is the loss with a given probability defined as the confidence level, over a given period of time.

b. **Historical VaR ("HVaR")** is the calculation of the VaR using historically observed rate changes with a defined holding period (typically 1day or 10day) and for a specific date range (typically 1 year and 5 years).

c. **Expected Tail Loss ("ETL")** is the average of returns that exceed VaR (also known as expected shortfall).

Market Risk Management

The Bank manages market risk through a specification of risk appetite in form of market risk limits. It uses a suite of risk measurement methodologies and tools to establish limits, including Value at Risk (VaR), Expected Tail Loss (ETL), Securities revaluation models (Present Value One Basis Point - PV01), stress testing, scenario analysis, stop loss triggers, back-testing, model validation, price verification, business units sign off of positions and P&L's on a regular intervals and other basic risk management measures.

Market risk exposure on trading activities The Bank's policies, processes and controls for trading activities are designed to achieve a balance between pursuing profitable trading opportunities and managing earnings volatility within a framework of sound and prudent practices. Trading activities are primarily client focused, but also include a proprietary component. Market risk arising from the Bank's trading activities is managed in accordance with Board- approved policies, and aggregate VaR and stress testing limits. The quality of the Bank's VaR is validated by regular back-testing analysis, in which the VaR is compared to theoretical and actual profit and loss results. A VaR at the 95% confidence interval is an indication of the probability that losses will exceed the VaR if positions remain unchanged during the next business day. The Bank also calculates a Stressed VaR which uses the same basic methodology as the Normal VaR. However, Stressed VaR is calculated using 10 day holding period for the last 1,250 business days.

Calculation of market risk capital for trading The assessment of market risk capital for trading activities can be aggregated using general market risk VaR and specific risk. The Bank 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 assets throughout the bank. Specific Risk refers to potentially adverse movement in the price of an individual loan/debt owing to factors related to the individual issuers. Specific risk does not affect foreign exchange. This is because changes in FX rates are completely dependent on general market movements.

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. This structural interest rate risk is caused by the differing re-pricing characteristics of banking assets and liabilities. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk. The governance framework adopted for the management of structural interest rate risk mirrors that of liquidity risk management in terms of committee structures and the setting of standards, policies and limits. This is also true for the monitoring process and internal controls. 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.

Derivative instruments and structured transactions

- **Derivatives:** The Bank uses derivatives to meet client needs, generate revenues from trading activities, manage market and credit risks arising from its lending, funding and investment activities, and to lower its cost of capital. The Bank uses several types of derivative products, including interest rate swaps and options, to hedge interest rate risk exposure. Forward contracts, swaps and options are used to manage foreign currency risk exposures. Market risk arising from derivatives transactions is subject to the control, reporting and analytical techniques noted above in the Trading activities section. Additional controls and analytical techniques are applied to address certain market related risks that are unique to derivative products.

- **Structured Transactions:** Structured transactions are specialised transactions that may involve combinations of cash, other financial assets and derivatives designed to meet the specific risk management or financial requirements of clients. These transactions are carefully evaluated by the Bank to identify and address the credit, market, legal, tax, reputational and other risks, through a new product process (NPC process). These transactions are also subject to a cross-functional review and sign-off by expertise from the Bank and Standard Bank Group.

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.

BOARD OF DIRECTORS

Our directors have deep experience and diverse skills, enabling the Board to provide informed counsel, rigorous oversight and independent interrogation in leading integrated thinking in the Group and guiding the executive committee in the design and delivery of the Group's strategy.

1

Kitili Mbathi
Chairman

2

Gregroy R. Brackenridge*
Chief Executive

3

Christopher J. Blandford –Newson**
Non-Executive Director

4

Rose W Kimotho
Non-Executive Director

5

Ruth T Ngobi
Non-Executive Director

6

Peter Nderitu Gethi
Non-Executive Director

7

Rose Bosibori Osoro
Non-Executive Director

8

Dorcas Florence Kombo
Non-Executive Director

9

Lillian Mbindyo
Company Secretary

***Mr Gregroy R. Brackenridge** - Retired as Chief Executive of Stanbic Holdings Plc on 3rd March 2020 but has remained on the Board as a Non-Executive Director

****Christopher J. Blandford – Newson** - Resigned on 4th March 2020 to focus on other commitments

GENDER

4 / 4 /

NATIONALITIES

7 1 1

AGE

1 Between 40 – 50 years

3 Between 50 – 60 years

4 Older than 60 years

STANBIC HOLDINGS PLC DIRECTOR PROFILES

Kitili Mbathi, 61
Chairman
Appointed 2008

Mr Mbathi is a Non-Executive Director and was appointed as Chairman on the Board of Stanbic Holdings Plc on 9th May 2020. 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 on the Board of Stanbic Bank Kenya Limited and served as Chairman on the Boards of SBG Securities Ltd and Stanbic Insurance Agency Ltd. Mr Mbathi served as Director-General of the Kenya Wildlife Service from February 2016 to July 2017. 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

Gregroy R. Brackenridge, 62
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.

Mr Brackenridge served as the Regional Chief Executive, East Africa for the Standard Bank Group, responsible for operations in Kenya, Ethiopia, South Sudan, Tanzania and Uganda from 2015 until the end of 2019. He has extensive banking experience having first joined the group in 1992 since which date he held various senior executive positions in West Africa, South Africa and Zimbabwe. Mr Brackenridge is an Associate of the Institute of Bankers.

Christopher J. Blandford – Newson, 55
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 also served as a Non-Executive Director on the Board of Stanbic Bank Kenya Limited. 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 the Board of Bayport Management Limited in 2019.

Rose W Kimotho, 64
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 of Stanbic Bank Kenya Limited, Population Services International, Rhino Ark and Three Stones Limited. 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, 59
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 until 2010 when she founded 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 and SBG Securities Limited.

Peter Nderitu Gethi, 54
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, 48
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 on 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 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 and Stanbic Insurance Agency Limited.

Dorcas Florence Kombo, 67
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 organizations across Africa. She is a Fellow, Chartered Association of 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, Hospital Holdings Investment B.V., 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

Standard Bank Group Limited: An Overview

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

The Standard Bank 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. Stanbic Holdings Plc, as a member of the Standard Bank Group, is guided by these principles in its governance framework.

Stanbic 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 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 Standard Bank Group's risk appetite and governance framework, the Group is constantly monitoring its practices to ensure that they are the best fit for its businesses and serve to enhance business and community objectives.

Codes and Regulations

The Group complies with all applicable legislation, regulations, standards and codes, with the Board continually monitoring regulatory compliance. There were no known insider dealings in the year under review. A governance audit for the Company was conducted for the years 2018 and 2019 by law firm TripleOK Law and the Company was found to have sound corporate governance and to be largely compliant with the main corporate governance regulatory framework.

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

The Company is led by a highly competent and diverse board, with the majority consisting of non-executive directors who, by their skills and diversity, contribute to the efficient running of the Company.

The Board is responsible for the overall corporate governance of the Company, ensuring that appropriate controls, systems and practices are in place.

Skills and experience 2019

	Competencies	Kitili Mbathi	Gregroy Brackenridge	Ruth Ngobi	Rose Kimotho	Peter Gethi	Chris Newson	Rose Osoro	Dorcas Kombo
1.	Financial Services/ Insurance/Asset Management	●	●			○	●		
2.	Client/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.	Digital & New Economy					●			
15.	Directors Age	61	62	59	64	54	55	48	66
16.	Directors Tenure	12	10	9	12	7	6	2	2

● Primary Skill ○ Secondary Skill

Board Composition

The Board comprised eight directors as at 31st December 2019, consisting of seven Non-Executive Directors and an 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. A number of committees have been established that 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.

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 Group Board Nominations Committee (the Nominations Committee), which is chaired by an Independent Non-Executive Director. Apart from a candidate's experience, availability and fit, the Nominations 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 Prudential Guidelines and by the South Africa Reserve Bank regulations. The Committee also considers appropriate demographic and gender diversity in its assessment.

Suitable candidates are nominated for Board consideration and appointed in terms of the Company's Articles of Association, under which 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, upon recommendation by the Board. The appointments comply with the requirements of the Companies Act and the Capital Markets Act of Kenya and related regulations.

Two additional directors were appointed to the Board on 3rd March 2020, Patrick Mweheire as the Chief Executive of Stanbic Holdings Plc and Ory Okolloh as an Independent Non-Executive Director.

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 is provided to new directors on their appointment and an induction programme is also conducted immediately thereafter.

To ensure maximum participation in ongoing director training, themes for training are scheduled in advance and form part of the Board approved annual calendar.

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

The Board of Stanbic Holdings Plc continuously enhances its knowledge to hone its effectiveness in overseeing the Company. In 2019 the Board trainings met the 12 hour requirement by the Capital Markets Authority and were as follows:

- Board Training on IFRS 9 – 14th March 2019
- Board Training on Anti-Money Laundering – 14th May 2019
- Digitisation Workshop – 20th June 2019
- Board Training on the King IV Code on Corporate Governance – 23rd July 2019
- Board Training Environmental & Social Risk Management – 17th September 2019

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 provides further constructive feedback separately to each director, derived from the results of the peer evaluations, regarding their contribution to the Board.

A Board Evaluation for the year 2019 was conducted by an independent third party consultant, and consisted of an evaluation of the Board and its committees, an evaluation of the performance of the individual directors by their peers, as well as an evaluation of the Chairman of the Board, the Chief Executive and the Company Secretary. The results of the evaluation were presented to and discussed by the Board during the Board Evaluation Session held on 27th February 2020.

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 Non-Executive 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 amount paid to directors is included in Note 14 which represents the total remuneration paid to Executive and Non-Executive Directors for the year under review, in compliance with the Companies Act, 2015.

Social Responsibility

The Company 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 in jurisdictions they operate in.

In line with this, the Company's banking subsidiary has established a foundation, incorporated on 27th February 2019 as a company limited by guarantee. The foundation, Stanbic Kenya Foundation Limited, is 100% owned by Stanbic Bank Kenya Limited (the Bank). The sole purpose of the new subsidiary is to be a foundation for the implementation of corporate social investment programmes.

Shareholder Relations

The Board of Directors recognises the importance of continued interaction and provision of information to shareholders, as well as the wider group of stakeholders; 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.

Board meetings

The Company is governed 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 Company. The Group Boards have 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 done 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 2019					
	NAME	Q1, FEBRUARY 28, 2019	Q2, MAY 3, 2019	Q3, AUGUST 6, 2019	Q4, NOVEMBER 27, 2019
		ATTENDANCE	**ATTENDANCE**	**ATTENDANCE**	**ATTENDANCE**
1	Fred Ojiambo	P	P	N/A	N/A
2	Greg Brackenridge	P	P	AP	P
3	Christopher Newson	P	P	P	P
4	Kitili Mbathi	P	AP	P	P
5	Rose Kimotho	P	P	P	P
6	Edward Njoroge	AP	P	N/A	N/A
7	Ruth T. Ngobi	P	P	P	AP
8	Peter Gethi	P	P	P	P
9	Rose Osoro	P	P	P	P
10	Dorcas Kombo	P	P	P	P

P = Present; AP = Absent with Apology; N/A = was not a Member

REPORT BY THE BOARD AUDIT COMMITTEE

During the year ended 31 December 2019, amongst other matters, the Committee considered the following:

a) In respect of the External Auditors and the external audit:

- Approved the reappointment of PricewaterhouseCoopers (PwC) as external auditors for the financial year ended 31 December 2019, in accordance with all applicable legal requirements
- Approved the External Auditors' 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 Auditors that their independence was not impaired
- Confirmed that no significant irregularities were identified and reported by the external auditors
- 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 Auditors in two formal exclusive meetings

b) In respect of the 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 the basis on which the Company was determined to be a going concern
- 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 Auditors' audit report
- Considered and made recommendations to the Board on the interim and final dividend payments to shareholders.

c) In respect of internal control, internal audit and financial crime control:

- Reviewed and approved the annual Internal Audit 2019 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 2019, 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 are 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 auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the Company
- the Auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the Auditors
- the Auditors' 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.

ON BEHALF OF THE BOARD AUDIT COMMITTEE

Chairman, Board Audit Committee
27 February 2020

	NAME	Q1, FEBRUARY, 27, 2019	Q3, AUGUST, 5, 2019
		ATTENDANCE	**ATTENDANCE**
1	Dorcas Kombo (Chairman)	P	P
2	Kitili Mbathi	P	N/A
3	Rose Osoro	P	P
4	Chris Newson	P	P

REPORT BY THE BOARD NOMINATIONS COMMITTEE

The role of the Board Nominations Committee is to assist the boards of Stanbic Holdings Plc (the Company) and of its subsidiaries in discharging their obligations regarding appointments, succession planning and development of the directors on these boards.

During the year ended 31 December 2019 the Committee considered the following:

- Determined and evaluated the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the Company and of its subsidiaries;
- Carried out its duties as dictated by its Mandate;
- Reviewed its Mandate and submitted the same to the Boards of the Company and of its banking subsidiary for approval;
- Analysed the existing skills on the Boards and skills gaps in line with the Company's strategy;
- Engaged a third-party consultant to identify suitable candidates to fill the skill gaps;
- Interviewed and nominated candidates for consideration for appointment by the Boards of the Company and of its banking subsidiary;
- Considered and nominated successors for the Chairmen of the Boards of the Company and its subsidiaries, for approval by the Boards;
- Considered and nominated a successor to the Chief Executive of the Company for approval by the Board of the Company;
- Reviewed and recommended the reconstitution of the Committees of the Boards of the Company and of its banking subsidiary, for approval by the Boards of the two companies;
- Reviewed the Remuneration report for the Board of the Company for inclusion in the Annual Report;
- Reviewed and endorsed amendments to the Board Remuneration Policy for submission to the Board of the Company and of its banking subsidiary for approval;
- Reviewed and made a recommendation to the Boards of the Company and of its subsidiaries on the remuneration for Directors for the year 2020; and
- Considered and endorsed the Group Stakeholder Engagement Guideline for submission to the Boards of the Company and its banking subsidiary for approval.

The Committee composition in the first quarter of 2019 consisted of three members, namely: two Independent Non-executive Directors (one being the Chairman of the Boards of the Company and its banking subsidiary) and the Chief Executive of the Company. Following, the first meeting of the year, the Committee was reconstituted to comprise four members, namely: two Independent Non-executive Directors, one Non-Executive Director (the Chairman of the Boards of the Company and its subsidiaries) and the Chief Executive of the Company.

The Committee held the two scheduled meetings during the year, as well as four special meetings to consider, interview and nominate candidates for appointment as members of the Boards of the Company and of its banking subsidiary. The attendance of meetings by members was as follows:

	NAME	Q1, February,15, 2019
		ATTENDANCE
1	Fred N. Ojiambo (Chairman)	P
2	Gregroy Brackenridge	P
3	Ruth Ngobi	P

	NAME	Q2, June, 20, 2019	Q2, July, 29, 2019	Q3, August, 22,2019	Q3, September, 23, 2019	Q4, November, 5, 2019
		ATTENDANCE	**ATTENDANCE**	**ATTENDANCE**	**ATTENDANCE**	**ATTENDANCE**
1	Ruth Ngobi (Chairman)	P	P	P	P	P
2	Gregroy Brackenridge	P	P	P	P	P
3	Kitili Mbathi	P	P	P	P	P
4	Rose Osoro	P	P	P	P	P

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 92 -93 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
- **Integrated 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 92 -93 of the financial statements.

GOVERNANCE POLICIES

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 organisations. 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 on a pro-rata basis and a sitting allowance for meetings attended each quarter. Additional sitting allowance is paid for any necessary special Board meeting held. 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.

Environmental and Social Risk Standard and Policy

Environmental and social risk to the Bank stems from the environmental and social issues that are related to their stakeholders and client's operations.

Stanbic Holdings is committed to mitigating potential environmental and social (E&S) risks, as well as identifying positive opportunities, impacting our business, clients and stakeholders. This has resulted in a new group-wide E&S Standard and Policy being developed.

The Standard: provides an overall E&S Management Framework for the consistent and unified governance, identification, measurement, management and reporting of E&S risk. It supports conscious risk-taking and encourages positive/green/social finance in seamlessly delivering client solutions whilst enhancing the trust, reputation and sustainability of SBK.

The Policy: compliments and gives effect to the principles outlined in the Standard by providing a comprehensive E&S Risk framework and promoting a positive impact. It highlights roles and responsibilities, E&S assessment methodologies, E&S governance, the transaction life cycle and monitoring.

Governance Framework

In line with the requirements of King III, the Standard Bank Group (SBG) implemented the first Subsidiary Governance Framework for key operating subsidiaries in 2012. Following the publication and SBG adoption of King IV and taking into account feedback received from the group's subsidiaries in various jurisdictions across the group's footprint, the Subsidiary Governance Framework has been reviewed.

In terms of King IV, the board of the holding company must assume responsibility for governance across the group and set direction for how the relationships and exercise of power within the group should be approached and conducted.

In developing the Subsidiary Governance Framework, care has been taken to, as far as possible, remove conflicts with subsidiaries' founding documents including articles of associations. The Governance Framework does not replace local corporate governance codes but sets the basic standard expected of group entities on governance arrangements.

The Subsidiary Governance Framework objectives are to:

- Establish a common standard of corporate governance across the Standard Bank Group subsidiaries;
- Align governance practices to ensure discipline in the execution of the group's strategy;
- Provide a framework for oversight;
- Create transparency across the group; and
- Meet regulatory requirements.

Operational Risk Management Policy, Governance Framework and User Guide

Stanbic Group Kenya subscribes to sound governance principles, one of which is the use and application of the Operational Risk Management Policy, Governance Framework and User Guide which define and articulate principles within which the Group will operate.

1. Operational Risk Management Policy

The purpose of the Operational Risk Management Policy is to ensure that operational risk management is implemented appropriately within the Bank. The policy aims to address handling of incidents that occur within the Bank, treatment of incidents that share boundary with other risk types, how to account for the incidents, key processes to be applied in risk identification and control processes, management and validation of risk data, mapping of gross income and operational losses into the eight business line categories as defined by Basel and the allocation and calculation of capital through the scenario analysis process.

2. Integrated Operational Risk Governance Framework

This framework covers all the risk types within the Operational Risk definition and the document also includes the concept of risk appetite. The governance framework supports an integrated approach to the wider operational risk taxonomy, including top and emerging risks, leveraging a risk-based approach to prioritise risk in a consistent manner. This framework provides overarching principles that facilitate a consistent and fit for purpose approach to operational risk across the Bank, Business Units and Corporate Functions.

3. Operational Risk Management Manual (User Guide)

The ORM Manual or User Guide has been developed for the business units to effectively manage operational risk through use of risk management tools namely Incident Management, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), Business Environment and Control Factors (BEICFs), Scenario Analysis and Data management & validation.

The purpose of the document is to assist in ensuring that all business units identify, assess, measure, manage, monitor and report risks in a consistent manner across the Bank and ultimately in Standard Bank Group.

Information Technology standards

Stanbic Holdings subscribes to sound corporate governance principles, one of which is the use and application of Information Technology (IT) standards which define and articulate principles within which the Group will operate.

1. Architecture Technology Standard

The purpose of the Architecture Technology Standard to provide guiding principles that are to be applied when architecture is designed, built and operates as intended, to document the roles and responsibilities of key players considered in the standard and to outline standard principles to be followed in technology architecture.

2. Cloud Computing Technology Standard

The purpose of the Cloud Computing standard is to articulate principles and give effect to the Bank's direction regarding cloud computing.

3. Cyber Resilience Technology Standard

The Cyber Resilience minimum standard provides a framework to govern how the Bank protects its IT assets which includes systems in production, systems under development and systems hosted by third parties in a systematic and consistent manner.

This Standard mandates the IT security function to establish and uphold a culture of security across the Bank, provide assurance on a robust control environment, ensure that stakeholder requirements for the protection of data are continually met, focusing on confidentiality (the risk of unauthorised access to data and IT systems), integrity (the risk of data being manipulated) and availability (the risk of data and IT systems being unavailable when needed).

4. Endpoint Security Minimum Controls Standard

This Standard defines the minimum-security controls set out for compliance to manage data breach, financial malware, extortion/ransomware and distributed denial of service risks on endpoints.

5. Engineering Technology Standard

The purpose of the Engineering Technology standard is to provide direction to the Bank regarding technology engineering. This Standard provides engineering principles that are to be applied holistically and in such a way that is commensurate with the size and complexity of the legal entity, business line or corporate function.

6. Service Management Standard

This standard governs service management, ensuring that technology services are aligned to customer and regulatory needs and to enable the monitoring and improvement of service quality.

7. Technology Finance Standard

This standard defines the technology cost management principles to be followed to ensure that spend is responsibly invested and for the achievement of the broader financial outcomes of the Bank.

8. Bank Ways of Work Standard

The purpose of the Ways of Work Standard is to articulate and give effect to the Bank regarding Ways of Work. This standard provides guidance in the use of Scaled Agile Framework (SAFe), and corresponding SAFe foundation principles.

Procurement Policy

Stanbic Bank Kenya Limited (the Bank) requires that its resources be used effectively and efficiently to create value for money for its shareholders by ensuring appropriate levels of segregation and proper governance are in place while engaging third-party suppliers and this is supported through appropriate procurement policy and governance structures.

The Procurement Policy reflects a lean-yet-effective governance structure that puts the Bank in the best possible position to get products and services that it needs at the right time, in the right quantity, at the right quality and at the right cost, while at the same time ensuring that appropriate governance guidelines and processes are being followed.

Accordingly, the Bank:

- supports the competitive procurement of goods and services from the market;
- seeks to promote local industries while not compromising its corporate image;
- strives to procure goods and services that have minimum impact on the environment, as well as on the health and safety of workers and communities;
- promotes objectivity, transparency and fairness in line with sound corporate governance principles and at all times upholds the highest procurement and ethical standards.

Promotion of Diversity Policy

Stanbic Group Kenya recognises the importance of, and value added by diversity in the composition of a Board of Directors. As a group with operations in several jurisdictions, we recognise that diversity of skills, experience, background, knowledge, thought, culture, race and gender strengthens the board's ability to effectively carry out its duties and add value to the group. It mitigates the risk of 'group think' and improves the group's resilience.

This policy seeks to articulate the group's approach regarding the promotion of diversity on its Boards of Directors in compliance with the CMA Corporate Governance Code and King IV Report, and must specifically consider the promotion of gender, age, skills, ethnic and race diversity.

Board Dispute Resolution Policy

Stanbic Holdings recognises that group dynamics underpin the Board's ability to effectively execute its responsibilities. A Board's contribution is made through incisive questioning and constructive debate. It is expected that directors will not agree on everything. They are encouraged to express their views candidly, debate them rigorously and find consensus. On occasion, rigorous debate can lead to a dispute between Board members. At times, a dispute will arise between Directors from factors outside of the group. As a group, we advocate prompt and fair resolution of any disputes, conflicts, or disagreements that may arise from time to time, and that may threaten or disrupt proper functioning of the Board.

The policy sets to provide guidance on the dispute resolution process and to ensure that the process adopted by the Board best serves the interest of the Company whilst preserving stakeholder relationships.

Stakeholder Engagement Guidelines

Stanbic Holdings recognises that effective stakeholder engagement is essential to achieving our purpose "Kenya is our home, we drive her growth". It is also at the heart of our Values and Code of Ethics. Stakeholder engagement maintains and strengthens our legitimacy and social licence to operate, builds trust with stakeholders and enhances our reputation as a socially-relevant and responsible corporate citizen wherever we operate. We have a responsibility to minimise any harmful impacts, and optimise the positive impacts, on our stakeholders. These Guidelines are intended to assist and guide Group entities in their stakeholder engagement activities based on the Group's stakeholder engagement principles.

Stanbic Holdings Board Dispute Resolution Policy

Stanbic Holdings recognises that group dynamics underpin the Board's ability to effectively execute its responsibilities. A Board's contribution is made through incisive questioning and constructive debate. It is expected that directors will not agree on everything. They are encouraged to express their views candidly, debate them rigorously and find consensus. On occasion, rigorous debate can lead to a dispute between Board members. At times, a dispute will arise between directors from factors outside of the group. As a group, we advocate prompt and fair resolution of any disputes, conflicts, or disagreements that may arise from time to time, and that may threaten or disrupt proper functioning of the Board.

This policy sets to provide guidance on the dispute resolution process and to ensure that the process adopted by the Board best serves the interest of the Company whilst preserving stakeholder relationships.

Whistle blower policy

How to report unethical behaviour

Stanbic Holdings is committed to establishing a culture of integrity, transparency, openness and compliance, in accordance with the values and Code of Ethics adopted by the Bank.

The Whistle-blowing Policy provides for the protected disclosure of any attempted, suspected or actual and/or unlawful, irregular or unethical behaviour that they come across in the Bank by providing a framework for whistle-blowers to report their concerns internally at the Bank or externally.

If you suspect theft, fraud or corruption by any of our employees, customers or suppliers, report it immediately to our independent Whistleblowing line. You may remain anonymous by calling 0800 221 3268 or sending an email of what you suspect to whistleblowingline@kpmg.co.za.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112,000
255,000
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434,322
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ANNUAL FINANCIAL STATEMENTS

CORPORATE INFORMATION

Chairman:	Kitili Mbathi (Appointed on 09 May 2019) Fred N. Ojiambo, MBS, SC (Retired on 09 May 2019)
Chief Executive:	Greg Brackenridge*
Chief Executive of Stanbic Bank Kenya Limited:	Charles Mudiwa***
Non-Executive Directors:	Rose W. Kimotho Edward W. Njoroge (Retired on 09 May 2019) 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 LLP 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 72833 00200 Nairobi, GPO

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2019, 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 and increased trading revenues 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 6,380,616,000 (2018:KShs 6,277,166,149)

b) Net interest income for the year grew to KShs 13,347,740,000 compared to KShs 12,129,645,312 over the same period in 2018 on the back of growth in average balance sheet;

c) Non interest revenue grew to KShs. 10,494,372,000 from Kshs. 9,906,050,000 in 2018 on successful closure of key deals in Investment Banking and gains made from disposal of financial investments.

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 customer deposits. The Group continues to be proactive in its risk management and prudent on costs. The on ground activities continue to be transactional and liability led.

The Group continues to focus on executing its strategy in the year 2020 by simplifying its processes, tightening operational controls, onboarding target clients in Corporate and Investment Banking and scaling up Personal and Business Banking. The Group will continue to proactively monitor some of its customers 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 1.25 (2018: KShs 2.25) per ordinary share amounting to KShs 494,152,000 (2018: KShs 889,475,000).

Subject to the approval of the shareholders at the 2019 Annual General Meeting to be held on 26 June 2020, the Directors recommend payment of a final dividend of KShs 5.80 (2018: KShs 3.55) per ordinary share equivalent to a total sum of KShs 2,292,869,000 (2018: KShs 1,403,392,000). The total dividend for the year, therefore, will be KShs 7.05 (2018: KShs 5.80) for every ordinary share amounting to KShs 2,787,021,000 (2018: KShs 2,292,867,000).

Share capital

The total number of authorised shares as at 31 December 2019 was 473,684,211 (2018: 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 page 76.

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 that would require adjusting or disclosure in the financial statements.

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 LLP 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 2020.

By Order of the Board,

Lillian N. Mbindyo
Company Secretary

STATEMENT OF THE 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 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.

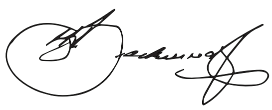
Having made an assessment of the Group's and Company's ability to continue as a going concern, the Directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group's and Company's ability to continue as a going concern.

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 2020 and signed on its behalf by:

Chairman
Kitili Mbathi

Director
Dorcas Kombo



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.

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 120,000 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 09 May 2019, the shareholders approved the payments of directors fees for the year ended 31 December 2018.

At the Annual General Meeting to be held on 26 June 2020, approval will be sought from shareholders to pay director fees for the financial year ended 31 December 2019.

Information subject to audit (continued)

Year ended 31 December 2019

Name	Category	Retainer	Sitting allowance	Total Company	Total Group subsidiaries	Total Group
Fred Ojiambo	Chairman Non - Executive	200 000	540 000	740 000	2 902 000	3 642 000
Greg Brackenridge	Chief Executive	-	-	-	2 500 000	2 500 000
Kitili Mbathi	Non - Executive	350 000	600 000	950 000	8 515 500	9 465 500
Christopher Newson	Non - Executive	300 000	750 000	1 050 000	5 157 000	6 207 000
Edward W. Njoroge	Non - Executive	150 000	240 000	390 000	887 500	1 277 500
Rose Kimotho	Non - Executive	300 000	600 000	900 000	4 143 000	5 043 000
Ruth T. Ngobi	Non - Executive	300 000	480 000	780 000	6 223 000	7 003 000
Peter Nderitu Gethi	Non - Executive	300 000	600 000	900 000	5 223 000	6 123 000
Rose Osoro	Non - Executive	300 000	840 000	1 140 000	4 643 000	5 783 000
Dorcas Kombo	Non - Executive	300 000	870 000	1 170 000	3 275 000	4 445 000
Total		**2 500 000**	**5 520 000**	**8 020 000**	**43 469 000**	**51 489 000**

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**

*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

INDEPENDENT AUDITOR'S REPORT

to the shareholders of Stanbic Holdings Plc

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Stanbic Holdings Plc (the Company) and its subsidiaries (together, the Group) set out on pages 99 to 228, which comprise the consolidated statement of financial position at 31 December 2019 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2019, and the Company statements of profit or loss, other comprehensive income, changes in equity, and 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 2019 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

With effect from 11 December 2019, PricewaterhouseCoopers, a partnership carrying on business under registration number BN.287839 was converted to PricewaterhouseCoopers LLP (LLP-2Y1AB7), a limited liability partnership under the Limited Liability Partnerships Act, 2011.

PricewaterhouseCoopers LLP. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963 – 00100 Nairobi, Kenya
T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke

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

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INDEPENDENT AUDITOR'S REPORT

to the shareholders of Stanbic Holdings Plc

Key audit matters (continued)

Key audit matter	How our audit addressed the matter
Credit risk and provision for expected credit losses (ECL) on loans and advances As explained in notes 3.10 of these financial statements, determining ECL is complex, judgmental and involves estimation uncertainty. As required by the standard, the ECL is based on a 3-stage model approach where the loans and advances are categorised in stage 1, 2 and 3 depending on whether the facilities have experienced significant increase in credit risk, are in default or neither. 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: • estimation of default events that may happen during the lifetime of the instruments, and the probability weighting thereof; • application of qualitative information in determining staging of exposures; • 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; • determination of the forward-looking parameters to be incorporated in the estimation of expected credit losses including multiscenario weightings. • estimation of the expected cash flows (including from collateral realization) used in the determination of the loss given default for stage 1 and 2 facilities and in estimating the recoverable amount of stage 3 facilities.	• We tested the reasonableness of the quantitative and qualitative criteria used in the classification of loans and advances into various staging categories based on our knowledge of the Group and industry. • As the quantitative basis of classification of loans and advances is reliant on information systems, we understood and tested key information technology general and application controls including the accurate calculation of the number of days past due. • For a sample of loan contracts, we tested management's application of the qualitative criteria in the classification of loans and advances. This was done through 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. • We tested the data used for estimating probability of default, loss given default and exposure at default to give a sense of reliability. • We tested the forward-looking parameters considered by management, application of scenarios and their relevant weighting. • We assessed overlays made by management over and above the formulae computed ECLs. • For stage 3 facilities, we selected a sample of loans and advances and tested the expected future recoverable amounts as assessed by management to support the calculation of the ECL thereon. • For secured facilities, we agreed the collateral values used in the impairment model to valuation reports.

INDEPENDENT AUDITOR'S REPORT

to the shareholders of Stanbic Holdings Plc

Key audit matters (continued)

Key audit matter	How our audit addressed the matter
Goodwill impairment assessment	
As described in Note 29 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 the 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 checked the reliability of forecasted 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 gross margin and pretax discount rate which were more sensitive assumptions used in the computations 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.

INDEPENDENT AUDITOR'S REPORT

to the shareholders of Stanbic Holdings Plc

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.

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.
- 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.

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INDEPENDENT AUDITOR'S REPORT

to the shareholders of Stanbic Holdings Plc

Auditor's responsibilities for the audit of the financial statements (continued)

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 directors' report on pages 89 to 90 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 92 to 93 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP (LLP-2Y1AB7)
Certified Public Accountants
Nairobi **02 March 2020**

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

Group and Company statement of profit or loss

		GROUP		COMPANY	
		Year ended 31 December		Year ended 31 December	
	Notes	**2019 KShs'000**	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Interest income	6	**20 960 926**	19 247 721	**1 579**	16 214
Interest expense	7	**(7 613 186)**	(7 118 076)	**-**	-
Net interest income		**13 347 740**	12 129 645	**1 579**	16 214
Credit impairment losses	23 (d)	**(3 150 559)**	(2 064 462)	**-**	-
Net income after credit impairment losses		10 197 181	10 065 183	1 579	16 214
Fees and commission revenue	8	**5 652 635**	4 997 605	**-**	-
Fees and commission expense	9	**(545 202)**	(442 225)	**-**	-
Net fees and commission income		**5 107 433**	4 555 380	**-**	-
Trading revenue	10	**5 386 939**	5 350 670	**-**	-
Net income from financial instruments at fair value through profit and loss	11 (a)	**172 942**	40 938	**-**	-
Other income	12	**48 760**	16 842	**1 924 000**	2 500 016
Other gains and losses on financial instruments	11 (b)	**716 999**	891	**-**	-
Net trading and other income		**6 325 640**	5 409 341	**1 924 000**	2 500 016
Total income		**21 630 254**	20 029 903	**1 925 579**	2 516 230
Employee benefits expense	13	**(6 633 135)**	(5 894 324)	**-**	-
Depreciation and amortisation expense	26. 28	**(704 364)**	(667 536)	**-**	-
Depreciation on right-of use assets	30	**(357 470)**	-	**-**	-
Other operating expenses	14	**(6 076 275)**	(4 424 078)	**(21 769)**	(26 866)
Finance costs	15	**(149 246)**	(96 208)	**(738)**	(860)
Total operating expenses		**(13 920 490)**	(11 082 146)	**(22 507)**	(27 726)
Profit before income tax		**7 709 764**	8 947 757	**1 903 072**	2 488 504
Income tax expense	16	**(1 329 148)**	(2 670 591)	**(555)**	(4 938)
Profit for the year		**6 380 616**	6 277 166	**1 902 517**	2 483 566
Earnings per share Basic and diluted (KShs per share)	17	**16.14**	15.88	**4.81**	6.28

Group and Company statement of other comprehensive income

		GROUP		COMPANY	
		Year ended 31 December		Year ended 31 December	
	Notes	**2019 KShs'000**	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Profit for the year		**6 380 616**	6 277 166	**1 902 517**	2 483 566
Other comprehensive income for the year, net of income tax					
Items that may be reclassified to profit or loss					
Currency translation differences for foreign operations		**(84 724)**	(270 472)	**-**	-
Net gain/(loss) in debt financial assets measured at fair value through other comprehensive income (FVOCI)	21,2	**11 723**	(320 469)	**-**	-
Net loss on financial assets reclasified to statement of profit or loss	21,2	**-**	(891)	**-**	-
Total other comprehensive income for the year, net of income tax		**(73 001)**	(591 832)	**-**	-
Total comprehensive income for the year		**6 307 615**	5 685 334	**1 902 517**	2 483 566

Group and Company statement of financial position

		GROUP		COMPANY	
		Year ended 31 December		Year ended 31 December	
	Notes	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Assets					
Cash and balances with Central Bank of Kenya	19	17 251 087	22 061 875	-	-
Financial investments – FVTPL	20 (a)	34 159 611	31 202 035	-	-
Financial investments – (FVOCI)	21	21 028 242	17 857 417	-	-
Financial investments – (amortised cost)	22	14 890 068	23 200 956	-	-
Derivative assets	33	1 611 661	1 515 466	-	-
Loans and advances to banks	23 (a)	38 378 001	28 380 593	136 851	130 867
Loans and advances to customers	23 (b)	152 816 570	146 604 117	-	-
Other assets and prepayments	24	4 911 019	3 727 559	20 000	-
Investment in subsidiaries and other investments	25	17 500	17 500	18 217 512	18 217 512
Property and equipment	26	2 301 693	2 186 370	-	-
Right-of-use leasehold land	27	45 041	47 994	-	-
Other intangible assets	28	1 024 310	1 250 731	-	-
Intangible assets - goodwill	29	9 349 759	9 349 759	-	-
Right-of-use assets (buildings)	30	1 315 356	-	-	-
Current tax asset	37	-	-	15 349	15 713
Deferred tax asset	38	4 397 153	3 167 882	-	38
Asset classified as held-for-sale	49	127 521	-	-	-
Total assets		303 624 592	290 570 254	18 389 712	18 364 130
Equity and liabilities					
Liabilities					
Derivative liabilities	33	2 756 760	1 881 658	-	-
Financial liabilities – FVTPL	20 (b)	1 486 826	10 040 568	-	-
Deposits from banks	34 (a)	30 450 594	27 909 239	-	-
Deposits from customers	34 (b)	194 222 319	191 584 675	-	-
Borrowings	35	9 127 015	7 064 013	-	-
Other liabilities and accrued expenses	36	14 725 225	6 426 698	130 010	109 553
Current tax liability	37	397 781	1 039 983	-	-
Deferred tax liability	38	25 273	-	-	-
Lease liabilities	31	1 370 953	-	-	-
Liabilities directly associated with assets classified as held-for-sale	49	27 081	-	-	-
Total liabilities		254 589 827	245 946 834	130 010	109 553
Equity					
Ordinary share capital	32 (b)	1 976 608	1 976 608	1 976 608	1 976 608
Ordinary share premium	32 (c)	16 897 389	16 897 389	16 897 389	16 897 389
Other reserves	44	(162 566)	(83 175)	-	-
Revenue reserves		28 030 465	24 429 206	(2 907 164)	(2 022 812)
Proposed dividend	18	2 292 869	1 403 392	2 292 869	1 403 392
Total shareholders' equity		49 034 765	44 623 420	18 259 702	18 254 577
Total equity and liabilities		303 624 592	290 570 254	18 389 712	18 364 130

The financial statements on pages 99 to 228 were approved for issue by the Board of Directors on 28 February 2020 and signed on its behalf by:

Kitili Mbathi
Chairman ....
Name: Kitili Mbathi

Chief Executive ....
Name: Greg Brackenridge

Director ....
Name: Dorcas Kombo

Company Secretary ....
Name: Lillian Mbindyo

Group statement of changes in equity

For the year ended 31 December 2019	Notes	Share Capital KShs'000	Share Premium KShs'000	Other Reserves KShs'000	Accumulated losses KShs'000	Proposed Dividend KShs'000	Total Equity KShs'000
At 1 January 2019		1 976 608	16 897 389	(83 176)	24 429 207	1 403 392	44 623 420
Profit for the year		-	-	-	6 380 616	-	6 380 616
Other comprehensive income, net of tax		-	-	(80 664)	7 662	-	(73 001)
Transfer of statutory credit risk reserve		-	-	-	-	-	-
Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group							
Dividend payment	18	-	-	-	(494 152)	(1 403 392)	(1 897 544)
Proposed dividend	18	-	-	-	(2 292 869)	2 292 869	-
Equity-settled share-based payment transactions	45	-	-	1 274	-	-	1 274
Total transactions with owners of the Group		-	-	1 274	(2 787 021)	889 477	(1 896 270)
At 31 December 2019		1 976 608	16 897 389	(162 566)	28 030 464	2 292 869	49 034 765

For the year ended 31 December 2018	Notes	Share Capital KShs'000	Share Premium KShs'000	Other Reserves KShs'000	Accumulated losses 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 IFRS9		-	-	(73)	(1 565 568)	-	(1 565 641)
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	45	-	-	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**

Company statement of changes in equity

For the year ended 31 December 2019	Notes	Share Capital KShs'000	Share Premium KShs'000	Revenue Reserves KShs'000	Proposed Dividend KShs'000	Total Equity KShs'000
		Attributable to equity holders				
At 1 January 2019		1 976 608	16 897 389	(2 022 813)	1 403 392	18 254 577
Profit for the year		-	-	1 902 517	-	1 902 517
Contribution and distributions to owners						
Dividends to equity holders - dividend paid	18	-	-	(494 152)	(1 403 392)	(1 897 543)
Dividends to equity holders -proposed dividend	18	-	-	(2 292 869)	2 292 869	-
Total contributions by and distributions to owners		-	-	(2 787 021)	889 477	(1 897 543)
At 31 December 2019		1 976 608	16 897 389	(2 907 317)	2 292 869	18 259 551

For the year ended 31 December 2018	Notes	Share Capital KShs'000	Share Premium KShs'000	Revenue Reserves KShs'000	Proposed Dividend KShs'000	Total Equity KShs'000
		Attributable to equity holders				
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
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

Group and Company statement of cashflows

		GROUP		COMPANY	
		Year ended 31 December		Year ended 31 December	
	Notes	**2019 KShs'000**	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Cash flows from operating activities	39 (a)	**9 449 325**	9 959 878	**1 903 072**	2 488 504
Income tax paid	37 (a)	**(3 197 531)**	(1 577 646)	**-**	(2 432)
Cash flows from operating activities before changes in operating assets and liabilities		**6 251 794**	8 382 232	**1 903 072**	2 486 072
Changes in operating assets and liabilities:					
Loans and advances to customers		**(6 212 453)**	(18 304 930)	**-**	-
Financial assets – FVOCI		**8 954 758**	23 739 044	**-**	-
Financial assets – fair value through profit or loss		**4 417 727**	7 425 131		
Deposits held for regulatory purposes (Restricted cash)		**(2 337 726)**	(6 127 940)	**-**	-
Other assets and prepayments		**(1 183 460)**	(506 989)	**(20 000)**	-
Deposits with banks		**4 424 230**	(8 917 831)	**-**	-
Other liabilities and accrued expenses		**8 298 527**	829 868	**20 457**	3 753
Customer deposits		**2 637 644**	36 923 903	**-**	-
Trading liabilities		**(8 553 742)**	9 677 938	**-**	-
Net cash generated from operating activities		**16 697 299**	53 120 426	**1 903 529**	2 489 825
Cash flows from investing activities:					
Financial assets – at amortised cost		**8 310 888**	(17 756 778)	**-**	-
Additions to property and equipment	26	**(541 042)**	(362 603)	**-**	-
Additions to intangible assets	28	**(64 575)**	(145 907)	**-**	-
Proceeds from sale of property and equipment		**6 400**	7 745	**-**	-
Payment of lease liabilities	31	**(346 143)**	-	**-**	-
Net cash used in investing activities		**7 365 528**	(18 257 543)	**-**	-
Cash flows from financing activities:					
Dividends paid		**(1 897 544)**	(2 470 761)	**(1 897 545)**	(2 470 761)
Increase of borrowings		**2 063 002**	3 074 770	**-**	-
Net cash received from/(used in) financing activities		**165 458**	604 009	**(1 897 545)**	(2 470 761)
Net increase in cash and cash equivalents		**24 228 285**	35 466 893	**5 984**	19 064
Effect of exchange rate changes		**(57 992)**	(282 950)	**-**	-
Cash and cash equivalents at start of year		**61 040 397**	25 856 454	**130 867**	111 803
Cash and cash equivalents at end of year	39 (b)	**85 210 690**	61 040 397	**136 851**	130 867

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 Group provides personal and business banking; corporate and investment banking services.
The financial statements for the year ended 31 December 2019 were approved for issue by the Board of Directors on 15 May 2020. Neither the entity's owners nor others have the power to amend the financial statements after issue. For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and 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

The annual financial statements (AFS) are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, and the Kenyan Companies Act, 2015. The annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position, which are measured at fair value, (FVTPL):

- Fair value OCI financial assets, financial assets and liabilities at fair value through profit or loss and liabilities forcash-settled and equity-settled share-based payment arrangements (accounting policy 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:

- 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 2.6);

- 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 2.8 and 2.9);

- the portfolio exception to measure the fair value of certain groups of financial assets and financial iabilities on a net basis (accounting policy 2.6); and

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

Notes (continued)

2. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in applying the accounting policies. These judgements and estimates used to prepare these 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 the South Sudan Branch, Kenya Shillings (KShs) for Kenya operations, Uganda Shillings (UShs) for Uganda operations and Rwanda Francs (Rwf) for Rwanda operations.

c) Changes in accounting policies and disclosures

(i) Standards and interpretations that have been published but are not yet effective

The Group has not applied the following new and revised standard and interpretations that have been published before 31 December 2019 but are effective for the year beginning on or after 1 January 2020.

Amendments to IFRS 3 'Definition of a Business' (issued in October 2018) applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 'Definition of Material' (issued in October 2018) applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS.

The ammendentments aligns the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

The directors do not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods. The group plans to apply the changes above from their effective dates.

Notes (continued)

2. Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

IFRS 17 'Insurance Contracts' (issued in May 2017) effective for annual years beginning on or after 1 January 2021 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The standard is not applicable to the bank.

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

Certain new accounting standards and interpretations were effective for the accounting period beginning on or after 1 January 2019. The Group's assessment of the impact of these new standards and interpretations is set out below:

International Financial Reporting Standard 16 (IFRS 16) Leases

From 1 January 2019, to comply with IFRS 16, Leases, which replaced IAS 17, Leases, the Group now recognises lease liabilities relating to leases under which the Group is the lessee that had previously been classified as operating leases (other than leases with less than 12 months to run from 1 January 2019 and leases of low value items). Such liabilities have been measured at 1 January 2019 at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate as at 1 January 2019. Corresponding right-of-use assets have been recognised, measured as if the Group's new accounting policy had been applied since the commencement of each lease but discounted using the group's incremental borrowing rate as at 1 January 2019. The difference between the lease liabilities and right-of-use assets at 1 January 2019 has been recognised as an adjustment to retained earnings at that date.

As permitted by the transition provisions in the new standard, comparative amounts have not been restated. The group's accounting policy for leases under which the group was lessee was, up to 31 December 2018, as follows:

- Leases of property, plant and equipment including hire purchase contracts where the Group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease Property, plant and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.

- Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

The measurement of assets and liabilities that were recognised as finance leases under the previous accounting policy has continued unchanged, but the assets have been reclassified from Property, plant and equipment to Right-of-use assets (see Note 30). Right-of-use assets and lease liabilities in respect of operating leases (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) in force at 1 January 2019 have been recognised in accordance with the transition requirements of IFRS 16, as described above.

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)

The resulting adjustment passed at 1 January 2019 as a result of applying IFRS 16, was as follows:

	KShs'000
Operating lease commitments disclosed as of 31 December 2018	(1 219 055)
Discounted using the lessee's incremental borrowing rate at the date of initial aplication	116 092
Add: Adjustment as a result of South Sudan lease renewal during the year	(640 276)
Less: Low value lease not recognised as liability	26 143
Lease liabilities recognised as of 01 January 2019	(1 717 096)
Right-of-use assets	1 717 096
Net adjustment to retained earnings at 1 January 2019	-

As at the same date prepaid operating leases of KShs. 47,994,000 were reclassified into right-of-use assets (Note 27).

Other standards and amendments

The following, which became effective from 1 January 2019, have been adopted but have not had a significant impact on the group's financial statements.

- **Amendments to IAS 12 'Income Taxes'** effective for annual periods beginning on or after 1 January 2019. The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Management has performed an assessment of IAS 12 amendments and the impacted is not significant.

- **Amendments to IAS 19 'Employee Benefits'** effective for annual periods beginning on or after 1 January 2019. The amendments addresses the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment specifies that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset). The amendment had no impact on the Group's financial statements as it did not have any plan amendments, curtailments or settlements during the period.

- **Amendments to IAS 23 'Borrowing Costs'** effective for annual periods beginning on or after 1 January 2019. The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The amendments have no impact on Groups financial statements.

- **Amendments to IFRS 9 'Financial Instruments'** effective for annual periods beginning on or after 1 January 2019. Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

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)

Other standards and amendments (continued)

Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instruments, the Bank assesses the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion. These amendments had no impact on the financial statements of the Bank.

- **IFRIC 23 'Uncertainty over Income Tax Treatments' (**issued June 2017) effective for annual periods beginning on or after 1 January 2019. The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation specifically addresses the following:

  - 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;
  - How an entity considers changes in facts and circumstances.

  The Group has determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation did not have an impact on the Group's financial statements.

New standards, amendments and interpretations issued but not effective

At the date of authorisation of these consolidated financial statements the following standards and interpretations, which have not been applied in these consolidated financial statements, were in issue but not yet effective for the year presented:

- **Amendments to IFRS 10 and IAS 28** 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (issued in September 2014) applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

- **IFRS 17 'Insurance Contracts'** (issued in May 2017) effective for annual periods beginning on or after 1 January 2021 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Group does not issue insurance contracts.

New standards, amendments and interpretations issued but not effective (continued)

- **Amendments to IFRS 3 'Definition of a Business'** (issued in October 2018) applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

- **Amendments to IAS 1 and IAS 8 'Definition of Material'** (issued in October 2018) applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS.

The directors do not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods. The group plans to apply the changes above from their effective dates.

Notes (continued)

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.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.1 Consolidation (continued)

(i) Subsidiaries (continued)

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).

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 held to collect and sell financial assets are recognised 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.2 Translation of foreign currencies (continued)

(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 2.10 – 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.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.3 Net interest income (continued)

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.

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.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.4 Non-interest revenue (continued)

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.

2.6 Financial instruments

(i) Initial recognition and measurement

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).

Financial assets are classified under the following categories;

Notes (continued)

2. Summary of significant accounting policies (continued)

2.3 Net interest income (continued)

Financial assets

Financial assets are classified under each categories are disclosed under Note 40.

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. his 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.
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. Financial assets that are not classified into one of the above mentioned financial asset categories.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (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:

Nature	
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 (FVOCI)	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.
Fair value through profit or loss (FVTPL)	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)

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 (as defined below) • significant financial difficulty of borrower and/or modification • 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 eorganisation; • 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.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.6 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 assets 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.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

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 liability's cash flows.
Amortised cost	All other financial liabilities not included in the above categories.

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.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

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 the Group 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.	

Notes (continued)

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial guarantee contracts

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

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.

Notes (continued)

2. Summary of significant accounting policies (continued)

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.

Notes (continued)

2. Summary of significant accounting policies (continued)

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.

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
Right-of use assets - Land	over the lease period
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 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.

Notes (continued)

2. Summary of significant accounting policies (continued)

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 Group 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.

2.10 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.

Notes (continued)

2. Summary of significant accounting policies (continued)

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 Accounting for leases

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the Group recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the Group is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used.

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.

For leases that contain non-lease components, the Group allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

Leasehold land and buildings are subsequently carried at revalued amounts, based on periodic valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the Group at the end of the lease term, the estimated useful life would not exceed the lease term.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.12 Leases (continued)

Group as lessee

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are recognised in profit or loss. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset recognised in profit or loss and depreciation based on the asset's original cost (excess depreciation) is transferred from the retained earnings to revaluation surplus reserve.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

The above accounting policy has been applied from 1 January 2019. Note 2 c) ii) sets out the equivalent policy applied in the previous year and the impact of the change in accounting policy.

IAS 17 - 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) Bank as lessee

Leases, where the Bank 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 Bank'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.

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.

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.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.13 Provisions, contingent assets and contingent liabilities (continued)

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group 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

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 Group 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.

Notes (continued)

2. Summary of significant accounting policies (continued)

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.

(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.

Notes (continued)

2 Summary of significant accounting policies (continued)

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 Group'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.

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.

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.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies

In preparing the financial statements, estimates and judgement are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain 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.

During the year, the directors resolved to strategically review the operating model of the branches of SBG Securities Limited. This discussions significantly affect the long term operating structure of SBG Securities in the Uganda and Rwanda markets. Consequently, the financial statements of SBG Securities Limited (Rwanda Branch) have been prepared on a break-up basis while the Uganda Branch has been accounted for as held for sale. Further details are disclosed under note 49.

3.2 Impairment of fair value through OCI

The Group reviews its debt securities classified as FVOCI/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.

3.3 Impairment of amortised cost

The Group reviews its debt securities classified as amortised cost 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 2019 was a profit of KShs nil (2018: KShs nil).

Additional disclosures on fair value measurements of financial instruments are set out in notes 2.6 and 4.6.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.5 Development costs

The Group capitalises software development costs for an intangible assets in accordance with the accounting policy detailed in note 2.8. 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 45 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 four 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 37 and note 38, 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 Group in order to utilise the deferred tax assets.

Note 38 summarises the details of the carrying amount of the deferred tax assets. Accounting policy 2.14 provides further detail regarding the Group's deferred tax accounting policy.

3.8 Hyperinflation

The Bank's South Sudan Branch is registered and operates in South Sudan. The economy of South Sudan was assessed to be hyperinflationary, effective 1 January 2016, and the hyperinflation accounting was applied since.

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)

3.8 Hyperinflation (continued)

Following management's assessment, the Bank's South Sudan branch 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
31 December 2019	2018	5 834,35	69.14%
30 November 2019	2018	5 788,05	67.80%
30 November 2018	2017	3 348,92	53.71%

The impact of adjusting the Group's results for the effects of hyperinflation is set out below:

	2019 KShs'000	2018 KShs'000
Impact on statement of profit or loss		
Profit for the year before hyperinflation	**6,437.546**	6,286.582
Net monetary (loss)*	**(56,930)**	(9,416)
Profit for the year after hyperinflation	**6,380,616**	6,295.998

* The loss in monetary value arises out of restatement of non-monetary assets and liabilities in the statement of financial position of the South Sudan Branch.

3.9 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.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.10 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 assets.
- 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.

Treasury

For debt securities in the treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency. Refer to 4.3.4 (b) for Group's rating method.

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.

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.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.10 Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

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 Group'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 Group'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 Group'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.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.10 Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

CIB

Negligible impact as CIB's client ratings, typically included forward looking expectations.

Lifetime LGD work out

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).

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 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 Group'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.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.10 Expected credit loss (ECL) on financial assets - IFRS 9 drivers (continued)

Curing (continued)

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.

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.

Out of the above factors that drive the ECL, the most significant source of uncertainty is credit ratings allocated to counterparties which drive this assigned probability of default. The PDs in turn incorporate assessment for significant increase in credit risk, default risk assessment, forward looking information and probability weighted scenarios. At 31 December 2019, had the average credit ratings for all counterparties shifted one notch down expected credit losses would have increased by KShs 1,579,303,000 (2018: KShs 1,208,698,000) higher where if the credit ratings had shifted one notch up the excpected credit losses would have decreased by KShs 278,190,000 (2018: KShs 435,562,000).

3.11 Credit impairment lossses on loans and advances

Specific loan impairments

Non-performing loans include those loans for which the Group 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 76,285,000 higher or KShs 76,285,000 lower (2018: KShs 76,988,000 higher or KShs 76,988,000 lower) respectively.

Notes (continued)

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.

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.

Notes (continued)

4 Financial risk management (continued)

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 2019;
- A core capital (tier 1) of not less than 10.5% (2018: 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% (2018: 8%)of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 14.5% (2018: 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.

Notes (continued)

4 Financial risk management

4.2 Capital management- Group

c) Regulatory capital assessment - Stanbic Bank Kenya Limited

Sanbic Bank Kenya Limited, which is the Group's key subsidiary, had the following capital adequacy levels:

	2019 KShs'000	2018 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	30 010 858	26 381 053
Less: Deferred tax asset	(710 461)	
Total Tier 1 capital (Core capital)	36 156 585	33 237 241
Tier 2 capital		
Regulatory credit risk reserve	938 245	938 245
Qualifying subordinate liabilities	6 599 487	5 380 886
Total Tier 2 capital	7 537 732	6 319 131
Total capital (Tier 1 + Tier 2)	43 694 317	39 556 372
Risk - weighted assets		
Operational risk	36 363 233	33 099 577
Market risk	4 101 726	3 674 497
Credit risk on-statement of financial position	164 175 797	158 484 199
Credit risk off-statement of financial position	33 583 238	32 035 934
Total risk - weighted assets	238 223 994	227 294 207
Capital adequacy ratios		
Core capital / total deposit liabilities	18.4%	16.5%
Minimum statutory ratio	8.0%	8.0%
Core capital / total risk - weighted assets	15.2%	14.6%
Minimum statutory ratio	10.5%	10.5%
Total capital / total risk - weighted assets	18.3%	17.4%
Minimum statutory ratio	14.5%	14.5%

The Bank's branch (Stanbic Bank Kenya Limited (South Sudan Branch)) is required at all times to maintain United States Dollar 30 million with the Bank of South Sudan.

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 Group'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.

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.

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

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:

- Quarterly Board Credit Committee Report;
- Quarterly Board Audit Committee Report;
- Quarterly Board Risk Committee Report;
- Monthly Credit Risk Management Committee 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.

4.3.4 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.

Notes (continued)

4 Financial risk management (continued)

4.3.4 Credit risk measurement (continued)

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

Stanbic Bank Kenya Limited's internal 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-		Close monitoring
Default	C	D	D	D	D

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.

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

a) Credit tailored to customer profile (continued)

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.

Corporate and Investment Banking (CIB): Corporate, sovereign and bank portfolios (continued)

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.

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.

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

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.
Vehicle and asset finance	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.

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)

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.

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, 86% (2018: 74%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures above 50% collateral coverage category is 100% (2018: 100%). Of the Group's total exposure, 44% (2018: 47%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

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)

31 December 2019	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Collateral coverage - Total: Greater than 0% to 50%	Greater than 50% to 100%	Greater than 100%
Asset class								
Corporate	79 762 491	7 136 559	72 625 932	-	72 625 932	-	72 625 932	-
Sovereign	70 080 218	70 080 218	-	-	-	-	-	-
Loans and advances to banks	38 378 001	38 378 001	-	-	-	-	-	-
Group	27 077 379	27 077 379	-	-	-	-	-	-
Other banks	11 300 622	11 300 622						
Retail	87 225 115	15 392 189	71 832 926	-	71 832 926	-	71 832 926	-
Retail mortgage	25 580 324	-	25 580 324	-	25 580 324	-	25 580 324	-
Other retail	61 644 791	15 392 189	46 252 602	-	46 252 602	-	46 252 602	-
Total	275 445 825	130 986 967	144 458 858	-	144 458 858	-	144 458 858	-
Less: Impairments for loans and advances	(14 173 333)							
Total exposures	261 272 492							

31 December 2018	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Collateral coverage - Total: 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	72 276 765	72 276 765	-	-	-	-	-	-
Loans and advances to banks	28 381 759	28 381 759	-	-	-	-	-	-
Group	21 111 825	21 111 825	-	-	-	-	-	-
Other banks	7 269 934	7 269 934						
Retail	77 735 645	9 937 397	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	56 721 948	9 937 397	46 784 551	-	36 623 813	-	36 623 813	-
Total	258 513 105	124 766 630	133 746 475	-	123 585 737	-	123 585 737	-
Less: Impairments for loans and advances	(11 267 987)							
Total exposures	247 245 118							

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 36 (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)

Foreclosed collateral

Assets foreclosed 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:

	2019 KShs'000	2018 KShs'000
Residential property	50,175	86,973
Other	202,120	294,908
	312,295	381,881

It is the Group's policy to dispose of foreclosed 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 foreclosed 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.

	2019 KShs'000	2018 KShs'000
Personal and Business Banking		
Instalment sales and finance leases	947 490	969 259
Other loans and advances	4 484 729	7 827 828
Corporate and Investment Banking		
Corporate lending	-	
	5 432 219	8 797 087

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).

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.6 Default and provisioning policy (continued)

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.

4.3.7 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:

- 63% of the total maximum exposure is derived from loans and advances to customers (2018: 62%); 26% represents investments in debt securities (2018: 28%);
- 75% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2018: 86%);
- 88% of the loans and advances portfolio are considered to be neither past due nor impaired (2018: 89%); and
- 99% of all the debt securities, which the Group has invested in, are issued by the Central Bank of Kenya (2018: 99%).

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 2019	Gross Carrying amount KShs'000	SB 1 - 12 Stage 1 KShs'000	SB 1 - 12 Stage 2 KShs'000	SB 13 - 20 Stage 1 KShs'000	SB 13 - 20 Stage 2 KShs'000	SB 21-25 Stage 1 KShs'000	SB 21-25 Stage 2 KShs'000	Default Stage 3 KShs'000	Default Purchased/ originated credit impaired KShs'000	Total gross carrying amount of default exposures KShs'000	Securities and expected recoveries on default exposures KShs'000	Interest in suspense on default exposures KShs'000	Balance sheet expected credit loss on default exposures KShs'000	Gross default coverage %	Gross default coverage %
Loans and advances to customers															
PBB	87 225 131	-	-	59 547 466	-	-	21 824 538	5 853 127	-	5 853 127	2 652 815	815 975	3 041 169	-	7%
Mortgage loans	25 580 323	-	-	16 225 648	-	-	7 510 948	1 843 727	-	1 843 727	1 001 934	293 266	526 836	38%	7%
Vehicle and asset finance	15 145 671	-	-	10 981 969	-	-	2 767 929	1 395 773	-	1 395 773	340 284	202 732	925 239	71%	9%
Card debtors	652 544	-	-	416 218	-	-	214 238	22 088	-	22 088	4 128	-	17 960	100%	3%
Other loans and advances	45 846 593	-	-	31 923 631	-	-	11 331 423	2 591 539	-	2 591 539	1 306 469	319 977	1 571 134	65%	6%
CIB	79 762 475	10 438 409	-	44 684 044	10 277 287	58 474	812 589	13 491 672	-	13 491 672	6 521 264	2 414 230	4 717 239	45%	17%
Corporate	79 762 475	10 438 409	-	44 684 044	10 277 287	58 474	812 589	13 491 672	-	13 491 672	6 521 264	2 414 230	4 717 239	45%	17%
	166 987 606	10 438 409	-	104 231 510	10 277 287	58 474	22 637 127	19 344 799	-	19 344 799	9 174 079	3 230 205	7 758 408	49%	12%
Loans and advances to banks															
Bank	38 378 650	26 850 977	-	11 527 673	-	-	-	-	-	-	-	-	649	0%	0%
Gross carrying amount	205 366 256	37 289 386	-	115 759 183	10 277 287	58 474	22 637 127	19 344 799	-	19 344 799	9 174 079	3 230 205	7 759 057	49%	9%
Less: Total expected credit losses for loans and advances	(14 171 685)														
Net carrying amount of loans & advances measured at amortised cost	191 194 571														

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

b) Credit quality by class (continued)

Year ended 31 December 2019	Gross Carrying amount KShs'000	SB 1 - 12 Stage 1 KShs'000	SB 1 - 12 Stage 2 KShs'000	SB 13 - 20 Stage 1 KShs'000	SB 13 - 20 Stage 2 KShs'000	SB 21-25 Stage 1 KShs'000	SB 21-25 Stage 2 KShs'000	Default Stage 3 KShs'000	Purchased/ originated credit impaired KShs'000
Financial investments measured at amortised costs									
Corporate	**661 295**	661 295	**-**	-	**-**	-	**-**	-	**-**
Sovereign	**14 231 070**	14 231 070	**-**	-	**-**	-	**-**	-	**-**
Gross carrying amount	**14 892 365**								
Less: Total expected credit losses for loans and advances (Note 22.1)	**(2 297)**								
Net carrying amount of financial investments measured at amortised costs	**14 890 068**								
Financial investments at fair value through OCI									
Corporate	**-**	-	**-**	-	**-**	-	**-**	-	**-**
Sovereign	**21 030 546**	-	**-**	-	**-**	-	**-**	-	**-**
Gross carrying amount	**21 030 546**	21 030 546	**-**						
Add: Fair value reserve relating to fair value adjustments (before the ECL balance) (Note 21.1)	**(2 304)**								
Net carrying amount of financial investments measured at fair value through OCI	**21 028 242**								

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 2018	Gross Carrying amount KShs'000	SB 1 - 12 Stage 1 KShs'000	SB 1 - 12 Stage 2 KShs'000	SB 13 - 20 Stage 1 KShs'000	SB 13 - 20 Stage 2 KShs'000	SB 21-25 Stage 1 KShs'000	SB 21-25 Stage 2 KShs'000	Default Stage 3 KShs'000	Default Purchased/ originated credit impaired KShs'000	Total gross carrying amount of default exposures KShs'000	Securities and expected recoveries on default exposures KShs'000	Interest in suspense on default exposures KShs'000	Balance sheet expected credit loss on default exposures KShs'000	Gross default coverage %	Gross default coverage %
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	6 063 606	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	6 063 606	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														

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

b) Credit quality by class (continued)

Year ended 31 December 2018	Gross Carrying amount KShs'000	SB 1 - 12 Stage 1 KShs'000	SB 1 - 12 Stage 2 KShs'000	SB 13 - 20 Stage 1 KShs'000	SB 13 - 20 Stage 2 KShs'000	SB 21-25 Stage 1 KShs'000	SB 21-25 Stage 2 KShs'000	Default Stage 3 KShs'000	Default Purchased/ originated credit impaired KShs'000
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 relating to fair value adjustments (before the ECL balance) (Note 21.1)	(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)

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		
Year ended 31 December 2019	**1 to 29 days KShs'000**	30 to 59 days KShs'000	**60 to 89 days KShs'000**	90 to 180 days KShs'000	**More than 180 days KShs'000**	Total KShs'000
Personal and Business Banking	**7 533 081**	2 799 640	**8 538 303**	-	**-**	18 871 024
Mortgage lending	**1 626 465**	748 313	**302 675**		**-**	2 677 453
Vehicle and asset finance	**1 867 141**	997 901	**240 745**	-	**-**	3 105 787
Other loans and advances	**4 039 475**	1 053 426	**7 994 883**	-	**-**	13 087 784
Corporate and Investment Banking	**1 753 202**	197 506	**271**	-	**-**	1 950 979
Corporate lending	**1 753 202**	197 506	**271**			1 950 979
Total recognised financial instruments	**9 286 283**	2 997 146	**8 538 574**	-	**-**	20 822 003

Year ended 31 December 2018						
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
Vehicle and asset finance	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

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.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

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.

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.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.5 Approach to managing market risk in the trading book (continued)

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.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.5 Approach to managing market risk in the trading book (continued)

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 2019 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.

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.

Notes (continued)

4 Financial risk management (continued)
4.4 Market risk (continued)
4.4.6 Foreign exchange risk (continued)

The table below summarises the Group's exposure to foreign exchange risk at 31 December 2019.

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 2019	USD	GBP	EUR	Others	Total
Assets					
Cash and bank balances with banks abroad	18 831	1 089	435	1 815	**22 170**
Loans and advances	62 073	850	3 812	19	**66 754**
Balances due from group companies	21 939	-	-	564	**22 503**
Other foreign currency assets	3 177	98	274	326	**3 875**
Total foreign currency denominated financial assets	**106 020**	**2 037**	**4 521**	**2 724**	**115 302**
Liabilities					
Amounts due to banking institutions abroad	14 433	147	7 093	386	**22 059**
Deposits	68 485	9 676	8 133	987	**87 281**
Loans and advances	5 132	-	-	-	**5 132**
Balances due to group companies	12 963	-	4 018	-	**16 981**
Other foreign currency liabilities	11 297	95	387	1 316	**13 095**
Total foreign currency denominated financial liabilities	**112 310**	**9 918**	**19 631**	**2 689**	**144 548**
Net on balance sheet financial position	(6 290)	(7 881)	(15 110)	35	**(29 246)**
Off balance sheet net notional position	4 995	7 937	15 752	(213)	**28 471**
Overall net position	**(1 295)**	**56**	**642**	**(178)**	**(775)**

Notes (continued)

4 Financial risk management (continued)
4.4 Market risk (continued)
4.4.6 Foreign exchange risk (continued)

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	**66 814**
Investment in Government Securities	5 177	-	-	664	**5 841**
Balances due from group companies	20 048	3	-	950	**21 001**
Other foreign currency assets	2 326	-	295	588	**3 209**
Total foreign currency denominated financial assets	**109 276**	**1 594**	**4 564**	**3 854**	**119 288**
Liabilities					
Amounts due to banking institutions abroad	23 476	10	531	707	**24 724**
Deposits	70 116	9 422	5 865	1 446	**86 849**
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	**9 259**
Total foreign currency denominated financial liabilities	**114 627**	**9 435**	**10 212**	**3 279**	**137 553**
Net on balance sheet financial position	(5 351)	(7 841)	(5 648)	575	**(18 265)**
Off balance sheet net notional position	6 351	7 858	5 862	1 073	**21 144**
Overall net position	**1 000**	**17**	**214**	**1 648**	**2 879**

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.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.6 Foreign exchange risk (continued)

Year ended 31 December 2019	Increase in currency rate in % 2019	Effect on profit before tax 2019 KShs'000	Effect on equity 2019 KShs'000	Decrease in currency rate in % 2019	Effect on profit before tax 2019 KShs'000	Effect on equity 2019 KShs'000
Currency						
USD	**0.98%**	**(12 621)**	**(8 834)**	**1.04%**	**(13 398)**	**9 378**
GDP	**4.01%**	**2 270**	**1 589**	**3.63%**	**2 052**	**(1 437)**
EUR	**1.92%**	**12 322**	**8 626**	**2.20%**	**14 119**	**(9 884)**

Year ended 31 December 2018	Increase in currency rate in % 2018	Effect on prof-it before tax 2018 KShs'000	Effect on equity 2019 KShs'000	Decrease in currency rate in % 2018	Effect on profit before tax 2018 KShs'000	Effect on equity 2018 KShs'000
Currency						
USD	0.92%	9 225	6 457	1.09%	10 929	7 650
GDP	2.70%	606	424	2.34%	525	367
EUR	2.19%	5 407	3 785	2.01%	4 963	3 474

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.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.7 Interest rate risk (continued)

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.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.7 Interest rate risk (continued)

Hedging of endowment risk (continued)

Year ended 31 December 2019	Increase in basis points 2019	Sensitivity of net interest income 2019 KShs'000	Sensitivity of other comprehensive income 2019 KShs'000	Decrease in basis points 2019	Sensitivity of net interest income 2019 KShs'000	Sensitivity of other comprehensive income 2019 KShs'000
Currency						
KShs	**200**	**694 184**	**(16 653)**	**(200)**	**(677 205)**	**16 653**
Others*	**100**	**(98 089)**	**-**	**(100)**	**80 528**	**-**

Year ended 31 December 2018	Increase in basis points 2018	Sensitivity of net interest income 2018 KShs'000	Sensitivity of other comprehensive income 2018 KShs'000	Decrease in basis points 2018	Sensitivity of net interest income 2018 KShs'000	Sensitivity of other comprehensive income 2018 KShs'000
Currency						
KShs	250	815 205	(22 084)	200	(542 511)	17 668
Others*	100	3 250	-	100	(33 954)	-

* 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 low requirements, and monitoring adherence to prudential and internal requirements and setting deposit rates as informed by ALCO.

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

- **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.

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.

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

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.

Notes (continued)

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:

	2019 %	2018 %
At 31 December	**58.4**	57.9
Average for the year	**54.1**	58.0
Maximum for the year	**59.1**	65.8
Minimum for the year	**44.6**	58.0
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 2019 KShs'000	Gross nominal inflow/ (outflow) 2019 KShs'000	Redeemable on demand 2019 KShs'000	Maturing within 1 month 2019 KShs'000	Maturing after 1 month but within 6 months 2019 KShs'000	Maturing after 6 months but within 12 months 2019 KShs'000	Maturing after 12 months but within 5 years 2019 KShs'000	Maturing after 5 years 2019 KShs'000
Non- derivative financial assets								
Cash and balances to banks	17,251,087	17,251,087	17,251,087	-	-	-	-	-
Financial assets held for trading	34,159,611	25,099,585	-	4,000,396	19,106,279	1,970,795	22,115	-
Financial assets at FVOCI	21,028,242	16,670,539	-	7,780	578,753	838,391	8,793,457	6,452,158
Financial assets at amortised cost	14,890,068	32,416,353	-	-	4,528,248	4,460,873	10,217,791	13,209,441
Loans and advances to banks	38,378,001	44,596,191	-	40,034,388	266,615	215,865	4,079,323	-
Loans and advances to customers	152,816,570	176,070,602	21,785,212	3,149,160	16,398,345	18,894,961	115,842,924	-
Other assets	4,911,019	4,911,019	3,291,879	-	-	-	-	-
	283,434,598	317,015,376	42,328,178	47,191,724	40,878,240	26,380,885	138,955,610	19,661,599
Derivative assets:	1,611,661							
- 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
	1,611,661	1,724,678	-	128,412	307,517	110,118	667,913	510,718
Non- derivative financial liabilities								
Amounts due to other banks	(30,450,594)	(29,064,646)	-	(4,706,848)	(6,355,078)	(5,491,292)	(9,156,679)	(3,354,749)
Customer deposits	(194,222,319)	(187,513,026)	(170,706,851)	(6,294,944)	(5,610,838)	(4,138,015)	(762,378)	-
Financial liabilities – Held for trading	(1,486,826)	(1,401,393)	-	(136,252)	(479,054)	(786,087)	-	-
Borrowings	(9,127,015)	(8,982,749)	-	(60,970)	(288,026)	(307,067)	(5,035,081)	(3,291,605)
Other liabilities	(14,866,471)	(14,866,471)	(12,608,465)	-	-	-	-	-
	(250,153,225)	(241,828,285)	(183,315,316)	(11,199,014)	(12,732,996)	(10,722,461)	(14,954,138)	(6,646,354)
Derivative liabilities:	(2,756,760)							
- Inflows		373,803	-	15,916	67,264	96,152	152,506	41,965
- Outflows		(2,486,121)	-	(170,592)	(705,316)	(629,985)	(561,514)	(418,714)
	(2,756,760)	(2,112,318)	-	(154,676)	(638,052)	(533,833)	(409,008)	(376,749)

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities - GROUP (continued)

	Carrying value 2018 KShs'000	Gross nominal inflow/ (outflow) 2018 KShs'000	Redeemable on demand 2018 KShs'000	Maturing within 1 month 2018 KShs'000	Maturing after 1 month but within 6 months 2018 KShs'000	Maturing after 6 months but within 12 months KShs'000	Maturing after 12 months but within 5 years 2018 KShs'000	Maturing after 5 years 2018 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	18 461 685	-	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	307 517	110 118	667 913	510 718
Non- derivative financial liabilities								
Amounts due to other banks	(27 909 239)	(30 313 729)	-	(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)	(248 809 131)	(182 418 900)	(8 958 967)	(18 162 146)	(10 705 061)	(25 272 452)	(3 291 605)
Derivative liabilities:	(1 881 658)							
- Inflows	-	373,803	-	15 916	67 264	96 152	152 506	41 965
- Outflows	-	(2,486,121)	-	(170 592)	(705 316)	(629 985)	(561 514)	(418 714)
	(1 881 658)	(2 112 318)	-	(154 676)	(638 052)	(533 833)	(409 008)	(376 749)

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 bank.

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 KShs'000
At 31 December 2019	
Cash and balances to banks	**136 851**
Other liabilities	**(130 010)**
	6 841

Company	0-3 months KShs'000
At 31 December 2018	
Cash and balances to banks	130 867
Other liabilities	(109 553)
	21 314

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.

Notes (continued)

4 Financial risk management (continued)

4,6 Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements (continued)

As at 31 December 2019, the Bank had cash margins of KShs 1,517,139,000 (2018: KShs 1,331,651,000) held as collateral against loans and advances to customers. Therefore, the credit facilities secured by cash margins can be settled at net.

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	Banking Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banks Act requirements.
Deposits and current accounts	Banking 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.

Notes (continued)

5 Operating Segments (continued)

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.

Corporate and Investment Banking (CIB)

CIB provides commercial and investment banking services to larger corporates, financial institutions, and international counter-parties. The products offered include:

- **Global Markets** – includes foreign exchange and debt securities trading.
- **Transactional products and services** – includes transactional banking and investor services.
- **Investment Banking** – includes project finance, advisory, structured finance, structured trade finance, corporate lending, primary markets and property finance.

The Group does not have any one major customer that contributes more than 10% of the Group's revenues. However, the Group has one major customer whose deposits contribute 10.7% of total deposits as at December 2019 (2018: 10.7%). The interest expense paid to this customer is reported under the Corporate and Investment Banking segment.

Notes (continued)

5 Operating Segments (continued)

(a) Results by business units

Income Statement	Total 2019 KShs'000	Total 2018 KShs'000	CIB 2019 KShs'000	CIB 2018 KShs'000	PBB 2019 KShs'000	PBB 2018 KShs'000
Interest income	20 960 926	19 247 721	11 617 708	11 322 422	9 343 218	7 925 299
Interest expense	(7 613 186)	(7 118 076)	(5 185 038)	(4 910 442)	(2 428 148)	(2 207 634)
Net interest income	13 347 740	12 129 645	6 432 670	6 411 980	6 915 070	5 717 665
Credit impairment losses	(3 150 559)	(2 064 462)	(1 575 258)	(809 143)	(1 575 301)	(1 255 319)
Net income after credit impairment losses	10 197 181	10 065 183	4 857 412	5 602 837	5 339 769	4 462 346
Fees and commission revenue	5 652 635	4 997 605	2 661 619	2 244 668	2 991 016	2 752 937
Fees and commission expense	(545 202)	(442 225)	(190 211)	(125 035)	(354 991)	(317 190)
Net fees and commission income	5 107 433	4 555 380	2 471 408	2 119 633	2 636 025	2 435 747
Trading revenue	5 386 939	5 350 670	5 386 939	5 350 670	-	-
Net income from financial instruments at fair value through profit and loss	172 942	40 938	172 942	40 938	-	-
Other income	48 760	26 288	48 760	21 382	-	4 906
Other gains and losses on financial instruments	716 999	891	709 093	891	7 906	-
Net trading and other income	6 325 640	5 418 787	6 317 734	5 413 881	7 906	4 906
Total income	21 630 254	20 039 350	13 646 554	13 136 351	7 983 700	6 902 999
Employee benefits expense	(6 633 135)	(5 840 859)	(2 875 792)	(2 443 280)	(3 757 343)	(3 397 579)
Depreciation and amortisation expense	(704 364)	(667 536)	(245 936)	(261 711)	(458 428)	(405 825)
Depreciation on right-of use assets	(357 470)	-	(60 485)	-	(296 985)	-
Other operating expenses	(6 076 275)	(4 486 990)	(3 716 706)	(2 313 094)	(2 359 569)	(2 173 896)
Finance costs	(149 246)	(96 208)	(57 655)	(94 745)	(91 591)	(1 463)
Profit before income tax	7 709 764	8 947 757	6 689 980	8 023 521	1 019 784	924 236
Income tax expense	(1 329 148)	(2 670 591)	(1 357 702)	(2 354 547)	28 554	(316 044)
Profit for the year	6 380 616	6 277 166	5 332 278	5 668 974	1 048 338	608 192

Notes (continued)

5 Operating Segments (continued)

(a) Results by business units (continued)

Statement of financial position	Total 2019 KShs'000	Total 2018 KShs'000	CIB 2019 KShs'000	CIB 2018 KShs'000	PBB 2019 KShs'000	PBB 2018 KShs'000
Assets						
Cash and balances with Central Bank of Kenya	**17 251 087**	22 061 875	**11 978 572**	15 754 092	**5 272 515**	6 307 783
Financial investments	**70 077 921**	72 260 408	**70 077 921**	72 260 408	**-**	-
Derivative assets	**1 611 661**	1 515 466	**1 611 661**	1 515 466	**-**	-
Loans and advances to banks	**38 378 001**	28 380 593	**37 720 224**	27 778 160	**657 777**	602 433
Loans and advances to customers	**152 816 570**	146 604 117	**70 858 522**	75 017 036	**81 958 048**	71 587 081
Other assets and prepayments	**4 911 019**	3 727 559	**2 326 373**	370 601	**2 584 646**	3 356 958
Investment in subsidiaries and other investments	**17 500**	17 500	**17 500**	17 500	**-**	-
Property, equipment and other intangible assets	**3 371 044**	3 485 095	**1 320 231**	1 336 268	**2 050 813**	2 148 827
Intangible assets - goodwill	**9 349 759**	9 349 759	**8 882 271**	8 882 271	**467 488**	467 488
Right-of-use assets (buildings)	**1 315 356**	-	**570 875**	-	**744 481**	-
Current tax asset	**-**	-	**-**	-	**-**	-
Deferred tax asset	**4 397 153**	3 167 882	**2 952 715**	2 179 472	**1 444 438**	988 410
Asset classified as held-for-sale	**127 521**	-	**127 521**	-	**-**	-
Total assets	**303 624 592**	290 570 254	**208 444 386**	205 111 274	**95 180 206**	85 458 980
Liabilities						
Deposits from customers	**194 222 319**	191 584 675	**93 981 420**	101 263 763	**100 240 899**	90 320 912
Deposits from banks	**30 450 594**	27 909 239	**30 450 594**	27 909 239	**-**	-
Lease liabilities	**1 370 953**	-	**620 607**	-	**750 346**	-
Current tax liability	**397 781**	1 039 984	**373 735**	742 739	**24 046**	297 245
Deferred tax liability	**25 273**	-	**6 742**	-	**18 531**	-
Derivative liabilities	**2 756 760**	1 881 658	**2 756 760**	1 868 003	**-**	13 655
Financial liabilities – FVTPL	**1 486 826**	10 040 568	**1 486 826**	10 040 568	**-**	-
Other liabilities and accrued expenses	**14 725 225**	6 426 697	**9 654 075**	3 661 863	**5 071 150**	2 764 834
Borrowings	**9 127 015**	7 064 013	**5 339 828**	1 737 539	**3 787 187**	5 326 474
Liabilities directly associated with assets classified as held-for-sale	**27 081**	-	**27 081**	-	**-**	-
Total liabilities	**254 589 827**	245 946 834	**144 697 668**	147 223 714	**109 892 159**	98 723 120
Shareholders' equity	**49 034 765**	44 623 420	**32 780 750**	29 512 853	**16 254 015**	15 110 568
Funding	**-**	-	**30 965 968**	28 374 708	**(30 965 968)**	(28 374 708)
Total equity and liabilities	**303 624 592**	290 570 254	**208 444 386**	205 111 274	**95 180 206**	85 458 980

Notes (continued)

5 Operating Segments (continued)

(b) Results by geographical area

Income Statement	Total 2019 KShs'000	Total 2018 KShs'000	Kenya 2019 KShs'000	Kenya 2018 KShs'000	South Sudan 2019 KShs'000	South Sudan 2018 KShs'000
Interest income	20 960 926	19 247 721	20 957 302	19 246 098	3 624	1 623
Interest expense	(7 613 186)	(7 118 076)	(7 597 158)	(7 111 291)	(16 028)	(6 785)
Net interest income	13 347 740	12 129 645	13 360 144	12 134 807	(12 404)	(5 162)
Credit impairment losses	(3 150 559)	(2 064 462)	(3 145 537)	(2 113 139)	(5 022)	48 677
Net income after credit impairment losses	10 197 181	10 065 183	10 214 607	10 021 668	(17 426)	43 515
Fees and commission revenue	5 652 635	4 997 605	4 882 066	4 306 231	770 569	691 374
Fees and commission expense	(545 202)	(442 225)	(542 164)	(438 547)	(3 038)	(3 678)
Net fees and commission income	5 107 433	4 555 380	4 339 902	3 867 684	767 531	687 696
Trading revenue	5 386 939	5 350 670	5 025 433	4 909 965	361 506	440 705
Net income from financial instruments at fair value through profit and loss	172 942	40 938	172 925	40 938	17	-
Other income	48 760	16 841	34 824	16 841	13 936	-
Other gains and losses on financial instruments	716 999	891	716 999	891	-	-
Net trading and other income	6 325 640	5 409 340	5 950 181	4 968 635	375 459	440 705
Total income	21 630 254	20 029 903	20 504 690	18 857 987	1 125 564	1 171 916
Employee benefits expense	(6 633 135)	(5 892 324)	(6 285 130)	(5 582 175)	(348 005)	(312 149)
Depreciation and amortisation expense	(704 364)	(667 536)	(699 326)	(663 280)	(5 038)	(4 256)
Depreciation on right-of use assets	(357 470)	-	(315 822)	-	(41 648)	-
Other operating expenses	(6 076 275)	(4 424 078)	(5 711 913)	(4 070 895)	(364 362)	(353 183)
Finance costs	(149 246)	(96 208)	(35 442)	(56 785)	(113 804)	(39 423)
Profit before income tax	7 709 764	8 947 757	7 457 057	8 484 852	252 707	462 905
Income tax expense	(1 329 148)	(2 670 591)	(1 241 764)	(2 604 689)	(87 384)	(65 902)
Profit for the year	6 380 616	6 277 166	6 215 293	5 880 163	165 323	397 003

Notes (continued)

5 Operating Segments (continued)

(b) Results by geographical area (continued)

Statement of financial position	Total 2019 KShs'000	Total 2018 KShs'000	Kenya 2019 KShs'000	Kenya 2018 KShs'000	South Sudan 2019 KShs'000	South Sudan 2018 KShs'000
Assets						
Cash and balances with Central Bank of Kenya	17 251 087	22 061 875	15 797 542	20 062 020	1 453 545	1 999 855
Financial investments – FVTPL	-	-	-	-	-	-
Financial investments	70 077 921	72 260 408	70 077 921	72 260 408	-	-
Derivative assets	1 611 661	1 515 466	1 611 661	1 515 466	-	-
Loans and advances to banks	38 378 001	28 380 593	24 578 842	15 056 486	13 799 159	13 324 107
Loans and advances to customers	152 816 570	146 604 117	152 802 134	146 591 893	14 436	12 224
Other assets and prepayments	4 911 019	3 727 559	6 775 144	3 680 786	(1 864 125)	46 773
Investment in subsidiaries and other investments	17 500	17 500	17 500	17 500	-	-
Property equipment and other intangible assets	3 371 044	3 485 095	3 240 317	3 404 498	130 727	80 597
Intangible assets - goodwill	9 349 759	9 349 759	9 349 759	9 349 759	-	-
Right-of-use assets (buildings)	1 315 356	-	945 639	-	369 717	-
Current tax asset	-	-	-	-	-	-
Deferred tax asset	4 397 153	3 167 882	4 409 000	3 158 662	(11 847)	9 220
Asset classified as held-for-sale	127 521	-	127 521	-	-	-
Total assets	303 624 592	290 570 254	289 732 980	275 097 478	13 891 612	15 472 776
Liabilities						
Deposits from customers	194 222 319	191 584 675	184 724 430	180 953 083	9 497 889	10 631 592
Deposits from banks	30 450 594	27 909 239	28 757 048	26 822 398	1 693 546	1 086 841
Lease liabilities	1 370 953	-	988 482	-	382 471	-
Current tax liability	25 273	-	25 273	-	-	-
Deferred tax liability	397 781	1 039 983	388 483	975 595	9 298	64 388
Derivative liabilities	1 486 826	10 040 568	1 486 826	10 040 568	-	-
Financial liabilities – FVTPL	2 756 760	1 881 658	2 756 760	1 881 658	-	-
Other liabilities and accrued expenses	9 127 015 -	7 064 013	9 127 015	7 064 013	-	-
Borrowings	14 725 225	6 426 698	13 408 922	3 649 540	1 316 303	2 777 158
Liabilities directly associated with assets classified as held-for-sale	27 081	-	27 081	-	-	
Total liabilities	254 589 827	245 946 834	241 690 320	231 386 855	12 899 507	14 559 979
Shareholders' equity	49 034 765	44 623 420	48 042 660	43 710 623	992 105	912 797
Total equity and liabilities	303 624 592	290 570 254	289 732 980	275 097 478	13 891 612	15 472 776

Notes (continued)

5 Operating Segments (continued)

(b) Results by geographical area (continued)

Reconciliation of reportable assets and liabilities

	GROUP	
	2019 KShs'000	2018 KShs'000
Assets		
Total assets for reportable segments	**303 624 592**	305 410 533
Elimination of inter-branch balances with South Sudan	**-**	(14 840 279)
Entity's assets	**303 624 592**	290 570 254
Liabilities		
Total liabilities and equities for reportable segments	**303 624 592**	305 410 533
Elimination of inter-branch balances with South Sudan	**-**	(14 840 279)
Entity's liabilities and equities	**303 624 592**	290 570 254

6 Interest income

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Loans and advances to customers	**16 305 930**	14 589 388	**-**	-
Financial assets – (FVOCI)	**1 947 256**	2 362 958	**-**	-
Financial investments – (amortised cost)	**2 146 283**	1 982 526	**-**	-
Placements and other bank balances	**561 457**	312 849	**1 579**	16 214
	20 960 926	19 247 721	**1 579**	16 214

7 Interest expense

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Current accounts	**1 439 624**	1 222 518	**-**	-
Savings and term deposit accounts	**3 803 446**	3 277 462	**-**	-
Deposits and placements from other banks	**1 396 315**	1 935 371	**-**	-
Interest on borrowed funds	**848 549**	682 725	**-**	-
Interest expense on lease liabilities	**125 252**	-	**-**	-
	7 613 186	7 118 076	**-**	-
Net interest income	**13 347 740**	12 129 645	**1 579**	16 214

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.

Notes (continued)

8 Fees and commission revenue

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Account transaction fees	**1 673 586**	1 499 767	**-**	-
Knowledge based fees and commission	**1 705 569**	1 309 297	**-**	-
Electronic banking fees	**644 985**	545 982	**-**	-
Foreign service fees	**403 448**	540 178	**-**	-
Documentation and administration fees	**346 969**	286 904	**-**	-
Brokerage commission	**318 333**	270 812	**-**	-
Other	**559 745**	544 665	**-**	-
	5 652 635	4 997 605	**-**	-

9 Fees and commission expense

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Card based commission	**199 545**	165 407	**-**	-
Knowledge based fees and commission	**122 035**	90 199	**-**	-
Other bank - related fees and commission	**223 550**	186 619	**-**	-
Card based commission expense	**72**	-	**-**	-
	545 202	442 225	**-**	-

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 288,001,164 (2018: KShs 305,885,000).

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		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Net foreign exchange income	**5 386 939**	5 350 670	**-**	-

11 (a) Net income from financial instruments at fair value through profit and loss

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Fixed Income-financial assets-(FVTPL/ Held for trading)	**172 942**	40 938	**-**	-

Notes (continued)

11 (b) Other gains and losses on financial instruments

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Net gain on disposal of financial assets - FVTPL	**716 999**	-	**-**	-
Net gain on disposal of financial assets - FVOCI	**-**	891	**-**	-
	716 999	891	**-**	-

12 Other income

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Gain on disposal of property and equipment	**-**	2	**-**	-
Dividend income	**-**	95	**1 924 000**	2 500 016
Miscellaneous income	**48 760**	16 745	**-**	-
	48 760	16 842	**1 924 000**	2 500 016

13 Employee benefits expense

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Salaries and wages	**5 296 314**	5 491 091	**-**	-
Retirement benefit costs	**424 913**	403 233	**-**	-
Voluntary early retirement costs	**911 908**	-	**-**	-
	6 633 135	5 894 324		

	GROUP		COMPANY	
Included in retirement benefit costs are:	**2019 KShs'000**	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Defined contribution scheme	**422 249**	400 310	**-**	-
National Social Security Fund	**2 664**	2 923	**-**	-
	424 913	403 233		

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Management	**341**	353	**-**	-
Supervisory	**442**	485	**-**	-
Clerical	**214**	234	**-**	-
Other categories	**27**	40	**-**	-
Total	**1 024**	1 112	**-**	-

Notes (continued)

14 Breakdown of expenses by nature

Profit before tax has been arrived at after charging:	Notes	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Employees benefit	13	**6 633 135**	5 894 324	**-**	-
Audit fees		**38 200**	39 387	**2 801**	2 278
Directors' fees		**51 489**	44 754	**8 230**	9 085
Depreciation of property and equipment	26	**444 990**	414 148	**-**	-
Depreciation on right-of use assets	30	**357 470**	-	**-**	-
Amortisation of right-of-use leasehold land	27	**2 953**	2 953	**-**	-
Amortisation of intangible assets	28	**256 425**	250 435	**-**	-
Franchise fees	42 (j)	**733 929**	-	**-**	-
Information technology	42 (j)	**199 444**	-	**-**	-
Advance payment guarantee claim		**1 505 422**	-	**-**	-

15 Finance costs

Profit before tax has been arrived at after charging:	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Bank charges	**92 318**	86 792	**738**	860
Loss in monetary value	**56 928**	9 416	**-**	-
	149 246	96 208	**738**	860

16 Income tax expense

		GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Current income tax		**2 540 724**	2 728 485	**517**	4 773
Current year charge	37	**2 540 724**	2 973 709	**517**	4 773
Previous year current income tax over provision		**-**	(245 224)	**-**	-
Deferred income tax		**(1 211 576)**	(57 894)	**38**	165
Current year charge asset (credit)/debit	38 (a)	**(1 236 718)**	(664 388)	**38**	165
Previous year deferred income tax under provision	38 (a)	**(131)**	606 494	**-**	-
Current year charge liability (credit)/ debit	38 (b)	**25 273**	-	**-**	-
Income tax expense for the year		**1 329 148**	2 670 591	**555**	4 938

Notes (continued)

16 Income tax expense (continued)

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Profit before income tax	**7 709 764**	8 947 757	**1 903 072**	2 488 504
"Tax at statutory tax rate of 30% (2018: 30%)"	**2 312 929**	2 684 327	**570 922**	746 551
Tax effect of:				
Income not subjected to tax	**(789 797)**	(594 089)	**(577 200)**	(750 005)
Expenses not deductible for tax purposes	**299 428**	154 495	**6 833**	8 392
Previous year's current tax over provision	**(630 478)**	(245 224)	**-**	-
Previous year's deferred income tax under provision	**-**	606 494	**-**	-
Effect of tax paid in other jurisdictions	**(2 232)**	64 588	**-**	-
Income tax expense	**1 189 850**	2 670 591	**555**	4 938

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	
Earnings (Profit after tax)	**2019 KShs'000**	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Earnings for the purposes of basic earnings per share (KShs' 000)	**6 380 616**	6 277 166	**1 902 517**	2 483 566
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	**16.14**	15.88	**4.81**	6.28

There were no potentially dilutive shares as at 31 December 2019 or 31 December 2018. Therefore, diluted earnings per share are the same as basic earnings per share.

18 Dividend

	GROUP AND COMPANY	
	2019 KShs'000	2018 KShs'000
The calculation of dividends per share is based on:		
Dividends for the year attributable to ordinary shareholders:		
Interim dividend paid (KShs '000)	**494 152**	889 475
Final dividend proposed (KShs '000)	**2 292 869**	1 403 392
	2 787 021	2 292 867
Number of ordinary shares at issue date (thousands)	**395 322**	395 322
Dividends per share – KShs	**7.05**	5.80

At the annual general meeting to be held on 26 June 2020, a final dividend in respect of the year ended 31 December 2019 of KShs 5.80 (2018: KShs 3.55) per share amounting to a total of KShs 2,292,869,000 (2018: KShs 1,403,392,000) 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 1.25 (2018: KShs 2.25) per share, amounting to a total of KShs 494,152,000 (2018: KShs 889,475,000) was paid. The total dividend for the year, if the final dividend will be declared, will therefore be KShs 7 (2018: KShs 6) per share, amounting to a total of KShs 2,787,021,000 (2018: KShs 2,292,867,000).

Payment of dividends is subject to withholding tax at a rate of either 10% or 15% depending on the residence of the respective shareholders.

Notes (continued)

19 Cash and balances with Central Bank of Kenya

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Cash in hand	**2 737 198**	2 024 503	**-**	-
Balances with Central Bank of Kenya	**14 513 889**	20 037 372	**-**	-
	17 251 087	22 061 875		

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 2019, the cash reserve requirement was 5.25% of the eligible deposits (2018: 5.25%).

The cash reserve requirement balance for the year ended 31 December 2019 is KShs. 9,700,376,333 (2018: KShs 9,017,102,168).The Central Bank allows a daily minimum of 3% (2018: 3%) of CRR when the average total reserving for the month is above KShs 5,250,000,000. The Bank therefore held KShs 5,543,072,190 as at 31 December 2019 (2018: KShs 5,152,629,810) to fulfil this prudential requirement.

20 Financial investments and liabilities – FVTPL

20 (a) Financial investments – FVTPL

	GROUP	
Debt securities	**2019 KShs'000**	2018 KShs'000
Government treasury bills and bonds	**34 159 611**	31 202 021
Corporate bonds	**-**	14
	34 159 611	31 202 035

	GROUP	
Maturity analysis:	**2019 KShs'000**	2018 KShs'000
Maturing within 1 month	**13 354 457**	-
Maturing after 1 months but within 6 months	**15 104 917**	23 059 441
Maturing after 6 months but within 12 months	**5 542 901**	7 196 326
Maturing after 12 within	**157 336**	946 268
	34 159 611	31 202 035

The maturities represent periods to contractual redemption of trading assets recorded. Trading assets had a redemption value at 31 December 2019 of KShs 34,625,634,000 (2018: KShs 32,147,772,000). The weighted average effective interest yield on debt securities held for trading at 31 December 2019 was 7.61% (2018: 10.28%).

Notes (continued)

20 Financial investments and liabilities – FVTPL (continued)

20 (b) Financial liabilities – FVTPL

Debt securities	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Unlisted	**1 486 826**	10 040 568
Maturity analysis:		
Maturing within 1 month	**139 280**	1 349 175
Maturing after 1 months but within 6 months	**464 094**	7 844 401
Maturing after 6 months but within 12 months	**781 120**	846 992
Maturing after 12 months	**102 332**	-
	1 486 826	10 040 568

The maturities represent periods to contractual redemption of trading liabilities recorded. Dated trading liabilities had a redemption value at 31 December 2019 of KShs. 1,448,797,000(2018: KShs 10,296,401,000). The weighted average effective interest cost on debt securities held for trading at 31 December 2019 was 8.30% (2018: 6.91%).

21 Financial investments – (FVOCI)

	Note	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Financial assets - (FVOCI)	21 (a)	**20,453,551**	15,994,375
Pledged assets - (FVOCI)	21 (b)	**574,691**	1,863,042
		21,028,242	17,857,417

21 (a) Financial assets – (FVOCI)

	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Listed	**55**	2 374 913
Unlisted	**20 455 800**	13 621 224
	20 455 855	15 996 137
Government bonds	**55**	2 374 913
Government treasury bills	**20 455 800**	13 615 324
Equities	**-**	5 900
	20 455 855	15 996 137

Allowances for impairments	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Expected credit loss for debt securities measured at fair value through OCI (IFRS 9)	**(2 304)**	(1 762)
Credit impairment losses	**(2 304)**	(1 762)
Net pledged assets at FVOCI	**20 453 551**	15 994 375

Notes (continued)

21 (a) Financial assets – (FVOCI) (continued)

Maturity analysis:		
Maturing within 1 month	**2 975 794**	1 465 376
Maturing after 1 months but within 6 months	**9 092 097**	12 062 516
Maturing after 6 months but within 12 months	**8 385 660**	1 879 025
Maturing after 12 months	**-**	587 458
	20 453 551	15 994 375

Financial investment securities had a redemption value at 31 December 2019 of KShs. 21,684,000,000 (2018: KShs 16,285,000,000).

21 (b) Pledged assets – (FVOCI)

	GROUP	
	2019 KShs'000	2018 KShs'000
Fair value through OCI	574 691	1 863 042
	574 691	1 863 042

	GROUP	
	2019 KShs'000	2018 KShs'000
Maturity analysis:		
Maturing after 6 months but within 12 months	**-**	1 863 042
Maturing after 12 months but within 5 years	**574 691**	-
	574 691	1 863 042

Dated pledged assets at fair value through OCI had a redemption value at 31 December 2019 of KShs. 534,000,000 (2018: KShs 2,000,000,000).

The weighted average effective interest yield on investment securities at FVOCI on 31 December 2019 was 7.7% (2018:10.77%). A fair value gain of KShs. 11,723,000 (2018: loss of KShs 320,469,000) has been recognised in the statement of other comprehensive income. A realised gain of KShs. Nil (2018: KShs 891,000) 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.

Notes (continued)

21 (a) Financial assets – (FVOCI) (continued)

21.1 Reconciliation of expected credit losses for debt financial investments measured at fair value through OCI:

Group	Opening ECL 1 January 2019 KShs'000	Total transfers between stages KShs'000	Income statement movements: ECL on new exposure raised KShs'000	Income statement movements: Change in ECL due to modifications KShs'000	Income statement movements: Subsequent changes in ECL KShs'000	Income statement movements: 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 December 2019 KShs'000
Pledged assets (Fair value through OCI)										
Sovereign	(317)	-	-	-	-	317	317	-	-	-
Stage 1	(317)	-	-	-	-	317	317	-	-	-
Financial investments (Fair value through OCI)										
Sovereign	(1 445)	-	(2 193)	-	12	-	(2 181)	1 322	-	(2 304)
Stage 1	(1 445)	-	(2 193)	-	12	-	(2 181)	1 322	-	(2 304)
Total	(1 762)	-	(2 193)	-	12	317	(1 864)	1 322	-	(2 304)

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note)

Group	Opening ECL 1 January 2018 KShs'000	Total transfers between stages KShs'000	Income statement movements: ECL on new exposure raised KShs'000	Income statement movements: Change in ECL due to modifications KShs'000	Income statement movements: Subsequent changes in ECL KShs'000	Income statement movements: 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 December 2018 KShs'000
Pledged assets (Fair value through OCI)										
Sovereign	-	-	(317)	-	-	-	(317)	-	-	(317)
Stage 1	-	-	(317)	-	-	-	(317)	-	-	(317)
Financial investments (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)

Notes (continued)

21 (a) Financial assets – (FVOCI) (continued)

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 201 9 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 2019 KShs'000**
Group							
Sovereign	**(21 957)**	**-**	**(11 723)**	**-**	**-**	**-**	**(33 680)**
Total	**(21 957)**	**-**	**(11 723)**	**-**	**-**	**-**	**(33 680)**

	Balance at beginning of the year 201 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 2019 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)

	Note	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Pledged assets - (amortised cost)	22 (a)	**4,186,089**	14,890,068
Financial assets - (amortised cost)	22 (b)	**10,703,979**	19,288,898
		14,890,068	23,200,956

22 (a) Pledged assets - (amortised cost)

		GROUP 2019 KShs'000	GROUP 2018 KShs'000
Amortised cost/held to collect debt securities		**4,186,154**	3,913,272
Gross pledged assets at amortised cost		**4,186,154**	3,913,272
Allowances for impairments			
Expected credit loss for financial investments measured at amortised cost (IFRS 9)	22.1	(65)	(1,214)
Credit impairment losses		(65)	(1,214)
Net pledged assets at amortised cost		4,186,089	3,912,058
Maturity analysis:			
Maturing after 1 months but within 6 months		500,171	-
Maturing after 6 months but within 12 months		-	2,902,127
Maturing after 12 months but within 5 years		3,685,918	1,009,931
		4,186,089	3,912,058

Dated pledged assets at amortized cost had a redemption value at 31 December 2019 of KShs. 4,604,000,000 (2018: KShs 4,000,000,000).

These transactions are conducted under terms that are usual and customary to security lending, and security borrowings and lending activities.

Notes (continued)

22 Financial investments – (amortised cost) (continued)

22 (b) Pledged assets - (amortised cost)

	Note	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Debt securities:			
Listed		**10,706,211**	18,841,855
Unlisted		**-**	463,356
Gross financial investments at amortised cost		**10,706,211**	19,305,211
Allowances for impairments			
Expected credit loss for financial investments measured at amortised cost (IFRS 9)	22.1	**(2,232)**	(2,232)
Credit impairment losses		**(2,232)**	(2,232)
Net pledged assets at amortised cost		**10,703,979**	19,288,898
Comprising:			
Government bonds		**9,890,491**	17,845,822
Government treasury bills		**-**	463,356
Corporate bonds		**815,720**	979,720
		10,706,211	19,288,898
Maturity analysis:			
Maturing within 1 month		**-**	-
Maturing after 1 month but within 6 months		**661,296**	3,578,824
Maturing after 6 months but within 12 months		**274,693**	509,026
Maturing after 12 months but within 5 years		**4,768,780**	3,543,021
Maturing after 5 years		**5,001,442**	11,658,027
		10,706,211	19,288,898

Dated held to collect assets had a redemption value at 31 December 2019 of KShs. 10,537,975,000 (2018: KShs 19,069,656,000).

The weighted average effective interest yield on held to collect investment securities at 31 December 2019 was 11.88% (2018: 10.31%).

Notes (continued)

22 Financial investments – (amortised cost) (continued)

22.1 Reconciliation of expected credit losses for debt financial investments measured at amortised cost

Group	Opening ECL 1 January 2019 KShs'000	Total transfers between stages KShs'000	Income statement movements: ECL on new exposure raised KShs'000	Income statement movements: Change in ECL due to modifications KShs'000	Income statement movements: Subsequent changes in ECL KShs'000	Income statement movements: 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 December 2019 KShs'000
Sovereign	(647)	-	-	-	-	647	-	-	-	-
Stage 1	(647)	-	-	-	-	647	-	-	-	-
Financial investments Amortised cost										
Sovereign	(15 665)	-	(1 190)	-	(1 039)	13 584	(2 232)	-	-	(2 232)
Stage 1	(15 665)	-	(1 190)	-	(1 039)	13 584	(2 232)	-	-	(2 232)
Corporate	(1 215)	-	(65)	-	-	1 215	(65)	-	-	(65)
Stage 1	(443)	-	(65)	-	-	443	(65)	-	-	(65)
Stage 2	(772)	-	-	-	-	772	-	-	-	-
Total	(17 527)	-	(1 255)	-	1 039	15 446	(2 297)	-	-	(2 297)

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note).

Group	Opening ECL 1 January 2018 KShs'000	Total transfers between stages KShs'000	Income statement movements: ECL on new exposure raised KShs'000	Income statement movements: Change in ECL due to modifications KShs'000	Income statement movements: Subsequent changes in ECL KShs'000	Income statement movements: 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 December 2018 KShs'000
Sovereign	(245)	-	446	64	-	-	(402)	-	-	(647)
Stage 1	(245)	-	446	64	-	-	(402)	-	-	(647)
Financial investments Amortised cost										
Sovereign	(11 021)	-	(10 960)	-	3 946	2 358	(4 656)	-	11	(15 666)
Stage 1	(11 010)	-	(10 960)	-	3 946	2 358	(4 656)	-	-	(15 666)
Stage 1	(11)	-	-	-	-	-	-	-	11	-
Corporate	(3 725)	-	2 416	-	95	-	2 511	-	-	(1 214)
Stage 1	(537)	-	-	-	95	-	95	-	-	(442)
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).

Notes (continued)

23 Loans and advances

23 (a) Loans and advances to banks

		GROUP		COMPANY	
	Note	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Balances with banks		11,301,271	7,269,351	136,851	7,269,35
Balances due from Group banks	42 (a)	27,077,379	21,111,825	136,851-	130,867
		38,378,650	28,381,176	136,851	130,867
Allowances for impairments					
Impairment Stages 1 & 2 (performing loans)		(649)	(583)	-	-
Impairment Stage 3 (non-performing loans)		-	-	-	-
Credit impairment losses		(649)	(583)	-	-
Net loans and advances		38,378,001	28,380,593	136,851	130,867
Maturity analysis:					
Redeemable on demand		35,328,870	6,560,349	136,851	130,867
Maturing within 1 month		-	21,820,244	-	-
Maturing after 1 month but within 12 months		49,131	-	-	-
Maturing after 12 months but within 5 years		3,000,000	-	-	-
Net loans and advances to banks		38,378,001	28,380,593	136,851	130,867

Notes (continued)

21.1 Reconciliation of expected credit losses for loans and advances to banks measured at amortised cost:

			Income statement movements							
Banks	**Opening ECL 1 January 2019 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 December 2019 KShs'000**
Stage 1	53, 130	-	-	-	2,714	-	2,714	-	(2,648)	53,196
Stage 2	(52,547)	-	-	-	-	-	-	-	-	(52,547)
Stage 3	-	-	-	-	-	-	-	-	-	-
Total	583	-	-	-	2,714	-	2,714	-	(2,648)	649

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note).

			Income statement movements							
Banks	Opening ECL 1 January 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 December 2018 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

Notes (continued)

23 Loans and advances (continued)

23 (b) Loans and advances to customers

	Notes	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Mortgage lending		**25 580 324**	21 024 274
Vehicle and asset finance		**15 145 670**	15 735 947
Overdraft and other demand lending		**19 185 307**	23 153 478
Term lending		**106 426 791**	97 330 386
Card lending		**649 514**	610 492
Gross loans and advances to customers		**166 987 606**	157 854 577
Allowances for impairments			
Expected credit loss for loans and advances measured at amortised cost (IFRS 9)	23(c (i))	**(14 171 036)**	(11 250 460)
Credit impairment allowances		**(14 171 036)**	(11 250 460)
Net loans and advances		**152 816 570**	146 604 117
Maturity analysis:			
Redeemable on demand		**17 667 934**	20 587 811
Maturing within 1 month		**6 808 928**	10 826 141
Maturing after 1 month but within 6 months		**16 178 854**	12 646 294
Maturing after 6 months but within 12 months		**6 612 328**	4 812 204
Maturing after 12 months but within 5 years		**65 152 584**	46 316 216
Maturing after 5 years		**40 395 942**	51 415 451
Net loans and advances		**152 816 570**	146 604 117

The weighted average effective interest rate on loans and advances to customers as at 31 December 2019 was 10.06% (2018: 10.49%). The Bank 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:

Customers	Opening ECL 1 January 2019 KShs'000	Total transfers between stages KShs'000	Income statement movements: ECL on new exposure raised KShs'000	Income statement movements: Subsequent changes in ECL KShs'000	Income statement movements: Change in ECL due to modifications KShs'000	Income statement movements: Net ECL raised/ (released)[1] KShs'000	Impairment accounts written-off KShs'000	Exchange and other movements KShs'000	CLosing ECL 31 December 2019 KShs'000	Interest in suspense KShs'000	Total KShs'000
Mortgage loans	**841 906**	-	**25 012**	236 095	**-**	261 107	**(794)**	(1 180)	**1 101 039**	52 960	**1 153 999**
Stage 1	**21 669**	27 696	**5 303**	(4 038)	**-**	1 265	**-**	-	**22 934**	-	**22 934**
Stage 2	**181 018**	(11 984)	**18 394**	111 552	**-**	129 946	**-**	-	**310 964**	-	**310 964**
Stage 3	**639 219**	(15 712)	**1 315**	128 581	**-**	129 896	**(794)**	(1 180)	**767 141**	52 960	**820 101**
Vehicle and asset finance	**1 473 027**	-	**143 854**	199 617	**-**	343 471	**(192 404)**	(2 873)	**1 639 648**	73 199	**1 712 848**
Stage 1	**110 294**	72 145	**41 507**	(55 618)	**-**	(14 111)	**-**	-	**96 183**	-	**96 183**
Stage 2	**478 605**	(90 572)	**73 886**	(75 405)	**-**	(1 519)	**-**	11 605	**488 691**	-	**488 691**
Stage 3	**884 128**	18 427	**28 461**	330 640	**-**	359 101	**(192 404)**	(14 478)	**1 054 774**	73 199	**1 127 973**
Card debtors	**51 587**	-	**5 983**	75 724	**-**	81 707	**(47 626)**	(3 797)	**82 484**	-	**82 484**
Stage 1	**17 165**	4 655	**3 155**	3 336	**-**	6 491	**-**	-	**23 656**	-	**23 656**
Stage 2	**16 344**	(5 268)	**2 828**	20 702	**-**	23 530	**-**	993	**40 867**	-	**40 867**
Stage 3	**18 078**	613	**-**	51 686	**-**	51 686	**(47 626)**	(4 790)	**17 961**	-	**17 961**
Other loans and advances	**2 028 757**	-	**491 255**	585 959	**-**	1 077 214	**(155 256)**	4 511	**2 970 630**	51 682	**3 022 312**
Stage 1	**175 437**	99 782	**139 741**	(64 254)	**-**	75 487	**-**	-	**250 924**	-	**250 924**
Stage 2	**674 652**	(115 186)	**159 844**	24 409	**-**	184 253	**-**	21 371	**880 276**	-	**880 276**
Stage 3	**1 178 668**	15 404	**191 670**	625 804	**-**	817 474	**(155 256)**	(16 860)	**1 839 430**	51 682	**1 891 112**
Corporate	**6 855 183**	-	**1 016 910**	620 967	**(188 332)**	1 449 545	**(724 060)**	25 677	**7 608 979**	590 415	**8 199 394**
Stage 1	**450 054**	35 024	**307 138**	44 987	**(136 759)**	215 366	**-**	(8 089)	**657 331**	-	**657 331**
Stage 2	**140 053**	(37 658)	**236 823**	(52 699)	**(18 807)**	165 317	**-**	47 404	**352 774**	-	**352 774**
Stage 3	**6 265 076**	2 634	**472 949**	628 679	**(32 766)**	1 068 862	**(724 060)**	(13 638)	**6 598 874**	590 415	**7 189 289**
Total	**11 250 460**	-	**1 683 014**	1 718 362	**(188 332)**	3 213 044	**(1 120 140)**	22 338	**13 402 780**	768 256	**14 171 036**

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note).

Notes (continued)

23 Loans and advances (continued)

23 (c) Allowances for Impairment (continued)

23 (c (i)) Reconciliation of expected credit losses for loans and advances to customers measured at amortised cost: (continued)

			Income statement movements								
Customers	Opening ECL 1 January 2018 KShs'000	Total transfers between stages KShs'000	ECL on new exposure raised KShs'000	Subsequent changes in ECL KShs'000	Change in ECL due to modifications KShs'000	Net ECL raised/ (released) [1] KShs'000	Impairment accounts written-off KShs'000	Exchange and other movements KShs'000	CLosing ECL 31 December 2018 KShs'000	Interest in suspense KShs'000	Total 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).

Notes (continued)

23 Loans and advances (continued)

23 (d) Credit impairment losses

	Note	GROUP 2019 KShs'000	2018 KShs'000
Loans impairment (credit)/charge for financial investments		**(15 411)**	1 454
Loans impairment for non-performing customer loans		**2 427 019**	2 097 504
Loans impairment for performing customer loans		**786 025**	231 736
Loans impairment charge/(credit) for performing bank loans		**2 714**	(81 063)
Loans impairment for non-performing off balance sheet Letters of credit and guarantees	43 (c)	**18 054**	19 447
Loans impairment for performing off balance sheet Letters of credit and guarantees	43 (c)	**84 390**	(53 534)
Amounts recovered during the year		**(152 232)**	(151 082)
Net credit impairment losses		**3 150 559**	2 064 462

The Directors are of the opinion that net recoverable amounts are reasonable and are expected to be realised based on past experience.

23 (e) Vehicle and asset finance

The Group holds 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 loan repayments and sets off the repayments against the principal loan and interest.

	GROUP 2019 KShs'000	2018 KShs'000
Maturity analysis:		
Not later than 1 year	**1 320 334**	1 048 546
Later than 1 year and not later than 5 years	**13 790 532**	14 446 703
Later than 5 years	**34 804**	240 698
	15 145 670	15 735 947

23 (f) Loans to employees

The aggregate amount of loans and advances to employees on the statement of financial position is:

	GROUP 2019 KShs'000	2018 KShs'000
At start of year	**4 194 627**	3 848 482
New loans issued	**1 186 065**	1 564 065
Interest on loan	**205 921**	437 271
Loan repayments	**(1 692 248)**	(1 655 191)
At end of year	**3 894 365**	4 194 627

Notes (continued)

24 Other assets and prepayments

	Notes	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Uncleared effects		**1 757 910**	1 647 390	**20 000**	-
Off market loan adjustment	42 (h)	**687 614**	686 626	**-**	-
Trade receivables and prepayments		**1 865 675**	663 339	**-**	-
Due from related companies		**558 673**	693 949	**-**	-
Others		**41 147**	36 255	**-**	-
		4 911 019	3 727 559	**20 000**	-

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 subsidiaries and other investments

25 (a) Investment in subsidiaries

Company	**Beneficial ownership**	Country of Incorporation	**2019 KShs'000**	2018 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 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 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 2019	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 2019	385 493	4 201 105	184 984	180 932	4 952 514
Additions	-	208 211	-	332 830	541 041
Disposals/retirement	-	-	(16 828)	-	(16 828)
Transfers from work in progress	-	127 350	-	(127 350)	-
Transfers from intangible assets	-	34 687	-	-	34 687
Transferred to asset held-for-sale	-	(33)	-	-	(33)
Hyperinflation adjustment	-	(12 889)	-	-	(12 889)
At 31 December 2019	385 493	4 558 431	168 156	386 412	5 498 492
Depreciation					
At 1 January 2019	(124 535)	(2 510 649)	(130 960)	-	(2 766 144)
Depreciation for year	(12 713)	(416 439)	(15 838)	-	(444 990)
Disposals/ Retirement	-	-	14 304	-	14 304
Transferred to asset held-for-sale	-	33	-	-	33
Foreign exchange revaluation	-	(3)	-	-	(3)
At 31 December 2019	(137 248)	(2 927 058)	(132 494)	-	(3 196 800)
Net book value at 31 December 2019	248 245	1 631 373	35 662	386 412	2 301 693

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 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	2 180 370

Notes (continued)

26 Property and equipment (continued)

26 (b) COMPANY

	GROUP	
	2019 KShs'000	2018 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)
Charge for the year	**-**	-
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 2019 and 31 December 2018, 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 capitalization of borrowing costs.

Prepaid operating leases of KShs. 47,994,000 were reclassified into right-of-use assets (Note 27).

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 Right-of-use leasehold land

	GROUP	
	2019 KShs'000	2018 KShs'000
Cost		
At 1 January	**85 499**	85 499
At 31 December	**85 499**	85 499
Amortisation		
At 1 January	**(37 505)**	(34 552)
Charge for the year	**(2 953)**	(2 953)
At 31 December	**(40 458)**	(37 505)
Net book value at 31 December	**45 041**	47 994

This relates to land leased by the Group from the Government of Kenya for a lease term period of 99 years. The total amount disclosed as prepaid operating lease in the Group is non-current. In 2018,the land was recognised as prepaid operating lease under IAS 17.

Notes (continued)

28 Other Intangible assets

Year ended 31 December 2019	Work in progress KShs'000	Software KShs'000	Other intangible assets KShs'000	Total KShs'000
Cost				
At 1 January 2019	327 506	2 821 402	1 099 059	4 247 967
Additions	1 788	62 787	-	64 575
Transfer from work in progress	(278 832)	278 832	-	-
Transfer to property and equipment (Note 26)	(34 687)	-	-	(34 687)
Transferred to asset held-for-sale	-	(841)	-	(841)
At 31 December 2019	15 775	3 162 180	1 099 059	4 277 014
Amortisation				
At 1 January 2019	-	(2 098 103)	(899 133)	(2 997 236)
Amortisation charge for the year	-	(211 158)	(45 267)	(256 425)
Foreign exchange revaluation	-	116	-	116
Transferred to asset held-for-sale	-	841	-	841
At 31 December 2019	-	(2 308 304)	(944 400)	(3 252 704)
Net book value at 31 December 2019	15 775	853 876	154 659	1 024 310

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 adjustment	-	(410)	-	(410)
At 31 December 2018	327 506	2 821 402	1 099 059	4 247 967
Amortisation				
At 1 January 2019	-	(1 892 974)	(853 866)	(2 746 840)
Amortisation charge for the year	-	(205 168)	(45 267)	(250 435)
Foreign exchange revaluation	-	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

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.

Notes (continued)

28 Other Intangible assets (continued)

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 2019, the intangible assets had an average remaining useful life of 5 years.

The intangible assets arising from the business combination comprise of the following:

	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	**2019 KShs'000**	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
At 1 January and 31st December	**9 349 759**	9 349 759	**-**	-

Goodwill arose from the merger between CfC Bank and Stanbic Bank in 2008.

Goodwill relating to Stanbic Holdings Plc was tested for impairment on 31 December 2019. The recoverable amount was determined to be the value in use. Unless indicated otherwise, the value in use in 2019 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) 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 9.1% (2018: 7.3%). 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.

(b) 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 16.87% per annum (2018: 17.63%). 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.

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 Right-of-use assets (buildings)

Year ended 31 December 2019	2019 KShs'000
At start of year	-
Effect of change in accounting policy (Note 2 (c) (ii))	1 717 096
Additions	-
Depreciation charge for the year	(357 470)
Hyperinflation adjustment	(44 270)
At end of year	**1 315 356**

The group leases property for use as branches, offices, ATMs and parking spaces. The leases of offices and ATM spaces are typically for periods of between 2 and 30 years, with options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

Under the previous accounting policy prepaid operating lease rentals were recognised at historical cost and subsequently amortised over the lease period. The carrying amount of prepaid operating lease rentals of KShs. 85,499,000 at 1 January 2019 has been reclassified as right-of-use assets (Note 27).

31 Lease liabilities

Year ended 31 December 2019	2019 KShs'000
Non-current	1 091 953
Current	279 000
	1 370 953

Reconciliation of lease liabilities arising from financing activities:

	Group 2019 KShs'000
At start of year	-
Effect of change in accounting policy (Note 2 (c) (ii))	1 717 096
Interest charged to profit or loss	125 105
Cash flows:	
- Operating activities (interest paid)	(125 105)
- Payments under leases	(346 143)
At end of year	**1 370 953**

Notes (continued)

32 Ordinary share capital and share premium

32 (a) Authorised share capital

	2019		2018	
	Number of shares (thousands)	Share capital KShs'000	Share capital (thousands)	Share capital KShs'000
Balance as at 1 January and 31 December	**473 684**	**2 368 421**	473 684	2 368 421

32 (b) Issued share capital

	2019		2018	
	Number of shares (thousands)	Share capital KShs'000	Share capital (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

32 (c) Ordinary share premium

	2019 KShs'000	Useful life Years
At 1 January and 31 December	**16 897 389**	16 897 389

33 Derivative assets and derivative liabilities

All derivatives are classified as fair value through profit or loss (FVTPL).

33.1 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.

Notes (continued)

33 Derivative assets and derivative liabilities (continued)

33.1 Use and measurement of derivative instruments (continued)

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.

33.2 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:

33.2.1 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.

33.2.2 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.

33.3 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).

33.4 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.

33.5 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)

33 Derivative assets and derivative liabilities (continued)

33.5 Notional amount (continued)

	2019			2018		
	National contract amount KShs'000	Assets KShs'000	Liabilities KShs'000	National contract amount KShs'000	Assets KShs'000	Liabilities KShs'000
Foreign exchange derivatives						
Currency forwards	49 309 165	122 670	669 860	21 217 066	68 719	474 075
Currency swaps	45 395 823	164 391	454 961	41 953 501	434 412	213 484
Currency options	18 701 947	295 997	190 831	16 400 923	263 256	177 888
Total over-the-counter derivatives	113 406 935	583 058	1 315 652	79 571 490	766 387	865 447
Interest rate derivatives						
Interest rate swaps	-	-	-	58 532 021	749 079	1 016 211
Cross currency interest rate swaps	66 102 554	1 028 603	1 441 108	-	-	-
Total over-the-counter derivatives	66 102 554	1 028 603	1 441 108	58 532 021	749 079	1 016 211
Total derivative assets held for trading	179 509 489	1 611 661	2 756 760	138 103 511	1 515 466	1 881 658
Current	141 880 274	548 167	1 360 659	86 671 101	697 359	852 660
Non-current	37 629 215	1 063 494	1 396 101	51 432 410	818 107	1 028 998
Total	179 509 489	1 611 661	2 756 760	138 103 511	1 515 466	1 881 658

Notes (continued)

34 Deposits and current accounts from banks and customers

34 (a) Deposits from banks

		GROUP	
		2019 KShs'000	2018 KShs'000
Deposits from banks		**11 899 978**	12 438 426
Deposits due to Group banks	42(b)	**18 550 616**	15 470 813
Total deposits from banks		**30 450 594**	27 909 239

Maturity analysis of deposits from banks

The maturity analysis is based on the remaining periods to contractual maturity from year end.

	GROUP	
	2019 KShs'000	2018 KShs'000
Repayable on demand	**3 137 917**	3 488 780
Maturing within 1 month	**6 609 957**	-
Maturing after 1 month but within 6 months	**3 178 336**	1 476 287
Maturing after 6 months but within 12 months	**4 560 912**	444 637
Maturing after 12 months	**12 963 471**	22 499 535
	30 450 594	27 909 239

Included in balances due to group companies are syndicated borrowings of KShs. 16,958,318,000 (2018: 13,942,567,000). Interest rate for these borrowings is libor + 1.91% (2018: 1.91%).

34 (b) Deposits from customers

	GROUP	
	2019 KShs'000	2018 KShs'000
Current accounts	**111 272 175**	119 955 590
Call deposits	**9 798 489**	8 949 555
Savings accounts	**43 598 065**	42 611 190
Term deposits	**24 727 933**	16 404 173
LC acceptances	**4 825 657**	3 664 167
Total deposits from customers	**194 222 319**	191 584 675
Total deposits from banks and customers	**224 672 913**	219 493 914

Maturity analysis of deposits from customers

The maturity analysis is based on the remaining periods to contractual maturity from year end.

	GROUP	
	2019 KShs'000	2018 KShs'000
Repayable on demand	**164 668 730**	171 750 427
Maturing within 1 month	**9 501 375**	6 278 970
Maturing after 1 month but within 6 months	**13 314 648**	8 963 597
Maturing after 6 months but within 12 months	**5 816 254**	3 919 456
Maturing after 12 months	**921 312**	672 225
	194 222 319	191 584 675

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 2019 was 1.79% (2018: 3.43%).

Notes (continued)

35 Borrowings

Year ended 31 December 2019	National value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	4 000 000	3 998 451	12,95%	15-Dec-14	15-Dec-21
Subordinated debt - USD 30M	3 052 017	3 054 502	6,82%	28-Feb-18	28-Feb-28
Subordinated debt - USD 20M	2 018 400	2 074 06	6,28%	30-Jan-19	12-Dec-28
Total	9 070 417	9 127 015			

Year ended 31 December 2018	National value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
CfC 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			

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 2019 and 2018. 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.

The surbodinated debt relates to USD 20m obtained from the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in 2019.

The above loans were unsecured.

The Group has complied with all covenants throughout the reporting year.

Interest expense incurred in the above borrowings was KShs. 833,674,393 (2018: KShs 682,725,000). The weighted average effective interest rate on borrowings as at 31 December 2019 was 9.38% (2018: 9.88%).

The difference between the carrying and notional value represents, accrued interest and the unamortised issue costs.

Notes (continued)

36 Other liabilities and accrued expenses

36 (a) Other liabilities and accrued expenses

	Notes	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Accruals		**2 702 179**	2 357 802	**7 811**	12 416
Deferred bonus scheme	36 (b)	**115 267**	158 067	**-**	-
Unpresented bank drafts		**112 722**	104 498	**-**	-
Margin on guarantees and letters of credit		**-**	1 331 651	**-**	-
Items in transit		**114 881**	127 585	**-**	-
Due to group companies	42 (i)	**327 092**	256 086	**-**	-
Sundry creditors		**11 068 177**	1 952 933	**122 352**	97 137
Expected credit losses on off balance sheet items	43 (c)	**141 246**	138 076	**-**	-
Other operating costs		**143 661**	-	**-**	-
		14 725 225	6 426 698	**130 163**	109 553

Sundry creditors relate to accounts payables, credits in transit, PAYE and VAT payables.

36 (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 115,267,000 at 31 December 2019 (2018: KShs 158,067,000) and the amount charged for the year was KShs 63,458,000 (2018: KShs 29,315,000).

Reconciliation	Units 2019	Units 2018
Units outstanding at beginning of the year	**52 238**	140 662
Granted	**40 842**	-
Exercised	**(59 626)**	(80 649)
Lapsed	**(745)**	(13 450)
Transfers	**26 443**	5 675
Units outstanding at end of the year	**59 152**	52 238
Weighted average fair value at grant date (ZAR)*	**182,43**	220,97
Expected life (years)	**2,51**	2,51
Risk-free interest rate (%)	**-**	-

* South African Rand

Notes (continued)

37 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	
	Notes	2019 KShs'000	2018 KShs'000
Kenya operations	37 (a)	**(397 781)**	(1,039,983)
Foreign operations	37 (b)	**-**	-
As at 31 December		**(397 781)**	**(1,039,983)**

37 (a) Current income tax asset/ (liability)

		GROUP		COMPANY	
	Notes	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
At 1 January		**(1 039 983)**	66 358	**15 713**	18 054
Exchange difference on translation		**(12 722)**	27 831	**-**	-
Current income tax charge	16	**(2 540 724)**	(2 957 041)	**(364)**	(4 773)
Income tax paid		**3 197 531**	1 577 646	**-**	2 432
Transferred to asset held-for-sale		**(1 883)**	-	**-**	-
Prior year provision		**-**	245 223	**-**	-
		(397 781)	(1 039 983)	**15 349**	15 713

The Group and Company amount above relates to current income tax receivable/ (payable) from the Kenyan tax authority and is current.

37 (b) Current income tax asset/ (liability)

	GROUP	
Foreign operations	2019 KShs'000	2018 KShs'000
As at 1 January	**-**	16 668
Current tax charge	**-**	(16 668)
As at 31 December	**-**	-

The Group has operations in South Sudan. The amount above relates to current income tax recoverable in South Sudan.

38 Deferred income tax asset/(liability)

38 (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	
	Notes	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
At start of year		**3 167 882**	2 444 394	**38**	203
Impact of initial application of IFRS 9		**-**	670 988	**-**	-
		3 167 882	3 115 382	**38**	203
Reallocation of foreign operations to opening balance		**-**	-	**-**	-
Credit /debit to statement of profit or loss	16	**1 236 718**	19 035	**(38)**	(165)
Credit/ debit to OCI		**(5 978)**	33 452	**-**	-
Transferred to asset held-for-sale		**(25)**			
Exchange difference on translation		**(1 444)**	13	**-**	-
At 31 December		**4 397 153**	3 167 882	**-**	38

Notes (continued)

38 Deferred income tax asset/(liability) (continued)

38 (a) Deferred income tax asset/(liability) (continued)

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:

Year ended 31 December 2019	1.1.2019 KShs'000	(Credited)/ charged to statement of profit or loss KShs'000	Charge to SOCI KShs'000	Translation movement KShs'000	31.12.2019 KShs'000
Arising from:					
Property and equipment	(12 815)	(17 680)	-	-	(30 253)
Unrealised gain on bonds- FVOCI	42 038	-	5 978	-	36 060
Unrealised gain on bonds- FVTPL	111 218	207 460	-	-	318 678
Right-of-use assets	-	(8 022)	-		(8 022)
Impairment charges on loans and advances	2 500 166	576 721	-	-	3 076 887
Leasing	-	-	-	-	-
Other provisions	618 056	470 891	-	-	1 088 947
Group intangible assets	(90 275)	-	-	-	(90 275)
Unrealised gain on South Sudan paid up capital	(7 700)	-	-	-	(7 700)
Exchange difference on translation	(2 026)	1 429	-	(1 469)	(2 066)
South Sudan deffered tax asset	9 220	5 677	-	-	14 897
Net deferred asset	3 167 882	1 236 718	5 978	(1 469)	4 397 153

Year ended 31 December 2018	1.1.2018 KShs'000	(Credited)/ charged to statement of profit or loss KShs'000	Charge to SOCI KShs'000	Translation movement KShs'000	31.12.2018 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

The total amount disclosed as deferred income tax asset is non-current.

Notes (continued)

38 Deferred income tax asset/(liability) (continued)

38 (b) Deferred income tax asset/(liability)

		GROUP	
	Notes	**2019 KShs'000**	2018 KShs'000
At start of year		**-**	(38 859)
(Credit)/debit to statement of profit or loss	16	**(25 273)**	38 859
At end of year		**(25 273)**	-

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 2019	01.01.2019	**(Credited)/ charged to statement of profit or loss**	Credited to OCI	**31.12.2019**
Arising from:				
Property and equipment	-	**5 194**	-	**5 194**
Right-of-use assets	-	**20 079**	-	**20 079**
Net deferred income tax liability	-	**25 273**	-	**25 273**

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	-	-

Notes (continued)

39 Notes to the cash flow statement

39 (a) Reconciliation of profit before income tax to net cash generated from operating activities

	Notes	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Net income before income tax		**7 709 764**	8 947 757	**1 903 072**	2 488 504
Adjusted for:					
Depreciation - property and equipment	26	**444 990**	414 148	**-**	-
Amortisation of intangible assets	28	**256 425**	250 435	**-**	-
Amortisation of prepaid operating lease	27	**2 953**	2 953	**-**	-
Depreciation on right-of use assets	30	**357 470**	-	**-**	-
Change in fair value of derivatives		**778 907**	329 730	**-**	-
Share based payment reserve	45	**1 274**	18 801	**-**	-
Changes in operating assets and liabilities held-for-sale		**(98 582)**	-	**-**	-
Gain on disposal of property and equipment		**(3 876)**	(3 946)	**-**	-
Cash flows from operating activities		**9 449 325**	9 959 878	**1 903 072**	2 488 504

39 (b) Analysis of balances of cash and cash equivalents as shown in the statement of cash flows

	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Unrestricted cash and balances with CBK	**7 550 711**	13 044 773	**-**	-
Treasury bills	**44 068 629**	24 630 105	**-**	-
Loans and advances to banks	**35 272 189**	26 929 233	**136 851**	130 867
Amounts due to other banks	**(1 680 839)**	(3 563 714)	**-**	-
Cash and cash equivalent at the end of the year	**85 210 690**	61 040 397	**136 851**	130 867

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)

40 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 2019 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 2019	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	12 437 574	-	4 813 513	-	-	17 251 087	17 251 087
Financial assets – held for trading	34 159 611	-	-	-	-	34 159 611	34 159 611
Financial assets – FVOCI	-	-	-	21 028 242	-	21 028 242	21 028 242
Financial assets – amortised cost	-	-	14 890 068	-	-	14 890 068	21 148 103
Derivative assets	1 611 661	-	-	-	-	1 611 661	1 611 661
Loans and advances to banks	-	3 052 017	35 325 984	-	-	38 378 001	36 093 726
Loans and advances to customers	-	-	152 816 570	-	-	152 816 570	197 649 567
Other financial assets	-	-	4 911 019	-	-	4 911 019	4 911 019
Investment securities	17 500	-	-	-	-	17 500	17 500
Other non - financial assets	-	-	-	-	18 560 833	18 560 833	-
	48 226 346	3 052 017	212 757 154	21 028 242	18 560 833	303 624 592	333 870 516
Liabilities							
Deposits from customers	-	-	(194 222 319)	-	-	(194 222 319)	(182 308 567)
Deposits from banks	-	-	(30 450 594)	-	-	(30 450 594)	(27 112 542)
Derivative liabilities	(2 756 760)	-	-	-	-	(2 756 760)	(2 756 760)
Trading liabilities	(1 486 826)	-	-	-	-	(1 486 826)	(1 486 826)
Borrowings	-	-	(9 127 015)	-	-	(9 127 015)	(10 142 911)
Other financial liabilities	-	-	(14 725 225)	-	-	(14 725 225)	(14 725 225)
Other non - financial liabilities	-	-	-	-	(1 821 088)	(1 821 088)	-
	(4 243 586)	-	(248 525 153)	-	(1 821 088)	(254 589 827)	(238 532 831)

Notes (continued)

40 Classification of assets and liabilities (continued)

Accounting classifications and fair values of assets and liabilities (continued)

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	299 804 601
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)

Notes (continued)

41 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

Notes (continued)

41 Fair value of financial instruments (continued)

41 (a) Financial instruments not 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 2019	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)		12 437 574	-	-	12 437 574
Financial investments – FVTPL	20 (a)	-	34 159 611	-	34 159 611
Financial investments – FVOCI	21 (a)	-	21 028 242	-	21 028 242
Equity investments	25 (a)	-	-	17 500	17 500
Derivative assets	33	-	1 611 661	-	1 611 661
	-	12 437 574	56 799 514	17 500	69 254 588
Liabilities					
Financial liabilities – FVTPL	20 (b)	-	1 486 826	-	1 486 826
Derivative liabilities	33	-	2 756 760	-	2 756 760
	-	-	4 243 586	-	4 243 586

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)		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	33	-	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	33	-	1 881 658	-	1 881 658
	-	-	11 922 226	-	11 922 226

There were no transfers between levels in 2019 and 2018.

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.

Notes (continued)

41 Fair value of financial instruments (continued)

41 (a) Financial instruments not measured at fair value

Level 2 financial assets and financial liabilities

	Valuation	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)

41 Fair value of financial instruments (continued)

41 (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:

As at 31 December 2019	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Faur Value KShs'000	Carrying Value KShs'000
Assets					
Cash and balances with the Central Bank of Kenya	4 813 513	-	-	4 813 513	4 813 513
Loans and advances to banks	-	-	36 093 726	36 093 726	38 378 001
Loans and advances to customers	-	-	197 649 567	197 649 567	152 816 570
Financial investments- amortised cost	-	21 148 103	-	21 148 103	14 890 068
Other investments	-	-	17 500	17 500	17 500
Other assets	-	-	4 911 019	4 911 019	4 911 019
	-	21 148 103	238 671 812	264 633 429	215 826 671
Liabilities					
Deposits from banks	-	-	(27 112 542)	(27 112 542)	(30 450 594)
Deposits from customers	-	-	(182 308 567)	(182 308 567)	(194 222 319)
Borrowings	-	-	(10 142 911)	(10 142 911)	(9 127 015)
Other liabilities	-	-	(14 583 979)	(14 583 979)	(14 583 979)
	-	-	234 147 999	234 147 999	(248 383 907)

As at 31 December 2018	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Faur Value KShs'000	Carrying Value KShs'000
Assets					
Cash and balances with the Central Bank of Kenya	11 020 270	-	-	11 020 270	11 020 270
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 cost	-	32 301 824	-	32 301 824	23 200 956
Other investments	-	-	17 500	17 500	17 500
Other assets	-	-	3 231 042	3 231 042	3 231 042
	-	32 301 824	194 369 467	226 671 291	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)
Other liabilities	-	-	(6 288 622)	(6 288 622)	(6 288 622)
	-	-	(238 010 398)	(238 010 398)	(232 846 549)

Notes (continued)

41 Fair value of financial instruments (continued)

41 (b) Financial instruments not measured at fair value (continued)

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 2019 and 2018.

42 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 2019, the Group has made provision for doubtful debts relating to long outstanding amounts owed by related parties KShs 275,290,000 (2018: KShs 275,290,000) as indicated on Note 42 (h).

Notes (continued)

42 Related party transactions (continued)

42 (a) Loans due from group banks

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	**2019 KShs'000**	2018 KShs'000
Stanbic Bank Kenya Limited	**234 103**	-	**136 851**	130 867
Stanbic Bank Uganda Limited	**1 680**	60 973	**-**	-
Stanbic Bank Tanzania Limited	**684 613**	1 233	**-**	-
Standard Bank (Mauritius) Limited	**21**	5	**-**	-
Standard Bank of South Africa Limited	**4 938 459**	1 001 226	**-**	-
Standard Bank Isle of Man Limited	**21 890 881**	20 048 108	**-**	-
Stanbic Bank Botswana Limited	**-**	239	**-**	-
Stanbic Bank Ghana Limited	**223**	41	**-**	-
	27 749 980	21 111 825	**136 851**	130 867
Interest income earned on the above is:	**464 605**	230 142	**16 214**	22 451

42 (b) Deposits due to group banks

	GROUP	
	2019 KShs'000	2018 KShs'000
Standard Bank of South Africa Limited	**1 404 458**	2 040 969
Standard Bank Namibia Limited	**8 528**	561
Stanbic Bank Uganda Limited	**126 479**	69 597
Stanbic Bank Zambia Limited	**764**	325
Stanbic Bank Zimbabwe Limited	**128**	814
Stanbic Bank Botswana Limited	**612**	-
Standard Bank (Mauritius) Limited	**710 289**	833 845
Standard Bank Malawi Limited	**351**	582
Standard Bank Isle of Man Limited	**16 280 661**	12 513 772
Stanbic Bank Tanzania Limited	**18 112**	10 274
Standard Bank Swaziland Limited	**234**	74
	18 550 616	15 470 813
Interest expense incurred on the above is:	**603 011**	737 797

The weighted average effective interest rate on loans and advances to group companies as at 31 December 2019 is 2.46% (2018: 2.33%) and on amounts due to group companies was 2.14% (2018: 4.41%).

42 (c) Deposits due to group companies non-bank

	GROUP	
	2019 KShs'000	2018 KShs'000
The Heritage Insurance Company Limited	**331 809**	306 843
STANLIB Kenya Limited	**135 777**	185 788
Liberty Life Assurance Kenya Ltd	**401 354**	97 519
	868 940	590 150

Notes (continued)

42 Related party transactions (continued)

42 (d) Trading liabilities with group companies non-bank

	2019 KShs'000	2018 KShs'000
STANLIB Kenya Limited	-	1 295 481
	-	1 295 481

42 (e) Key management compensation

Key management personnel include: the members of the Stanbic Holdings Plc board of directors and prescribed officers effective for 2019 and 2018. 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 42 (f) and 42 (g);

42 (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 2019 and 31 December 2018 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 199,952,000 (2018: KShs 776,515,000).

No specific credit impairments have been recognised in respect of loans granted to key management (2018: KShs nil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

42 (g) Key management compensation

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Fees for services as a director	51 489	44 754	8 230	9 085
Salaries and other short-term employment benefits	134 123	68 409	-	-
Post-employment pension	3 036	3 315	-	-
Share-based payments	15 864	5 283	-	-
	204 512	121 761	8 230	9 085

Notes (continued)

42 Related party transactions (continued)

42 (h) Amounts due from related companies

	GROUP	
	2019 KShs'000	2018 KShs'000
Liberty Life Assurance Limited	3 272	2 483
The Heritage Insurance Company Limited	841	142
Standard Bank Jersey Limited	3 760	1 936
Stanbic Bank Uganda Limited	3 712	3 645
Stanbic Bank Tanzania Limited	297 318	297 314
Standard Bank of South Africa Limited	507 744	647 186
Stanbic Bank Zambia Limited	975	2 275
Standard Bank Malawi Limited	2 571	1 384
Standard Bank RDC SARL	12	-
Standard Bank Isle of Man Limited	4 356	-
Standard Bank Swaziland Limited	216	216
Standard Bank de Angola S.A.	8 146	7 147
Standard Advisory London Limited	-	1 619
STANLIB Kenya Limited	-	3 525
Standard Bank Namibia Limited	374	367
Mozambique: Standard Bank s.a.r.l.	553	-
Standard Bank (Mauritius) Limited	3	-
SBSA Dubai Branch Limited	110	-
	833 963	969 239
Provisions on regional costs balances	(275 290)	(275 290)
	558 673	693 949

42 (i) Other payables due to related companies

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Standard Bank of South Africa Limited	318 508	245 592	-	-
Stanbic Bank Uganda Limited	5 255	5 697	-	-
Stanbic Bank Tanzania Limited	-	1 631	-	-
Stanbic Bank Jersey Limited	3 329	3 166	-	-
	327 092	256 086	-	-

There is no interest accruing for these outstanding liabilities

42 (j) Related party expenses

	GROUP	
	2019 KShs'000	2018 KShs'000
Franchise fees	733 929	639 799
Information technology	199 444	52 547
Other operating costs	861 333	77 497
	1 794 706	769 843

The Group incurred the following related party expenses payable to Standard Bank of South Africa:

Notes (continued)

43 Contingent liabilities - Group

Commitments were with respect to:	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Letters of credit and acceptances	7 378 734	3 603 396
Guarantees	62 099 420	75 056 875
Unutilised facilities	9 947 993	10 651 153
	79 426 147	89 311 424

43 (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.

In 2018 a contingent liability existed on an advance payment guarantee. The guarantee was issued on behalf of a well-rated Foreign Bank and a claim arose following a disagreement between the applicant (client of the Foreign Bank) and the beneficiary.

In the current year the Bank in consultation with the Board of Directors decided to make payments in the amounts of USD 14.6 million. The matter continues to be investigated by the relevant authorities with the Bank's full support. In the interim the Bank has commenced recovery actions. The amount paid has been recognised under other operating expenses.

43 (b) Segmental analysis of off-balance sheet liabilities

	2019		2018	
	2019 KShs'000	%	2019 KShs'000	%
Agriculture	1 071 103	1%	800 681	4%
Manufacturing	4 785 461	6%	7 329 822	7%
Construction	18 423 129	23%	12 939 274	8%
Energy	98 475	0%	622 164	18%
Transport and communication	1 269 508	2%	2 002 709	6%
Distribution/wholesale	15 803 464	20%	10 663 335	9%
Financial Services	36 243 273	46%	53 322 058	40%
Tourism	120 863	0%	169 858	3%
Other activities and social service	1 610 871	2%	1 461 523	5%
	79 426 147	100%	89 311 424	100%

Notes (continued)

43 Contingent liabilities - Group (continued)

43 (c) Reconciliation of expected credit losses for off balance sheet facilities measured at amortised cost

The off balance sheet facilities are classified based on their credit quality as determined using the Bank's internal credit rating and scoring models.

Off balance sheet	Opening ECL 1 January 2019 KShs'000	Total transfers between stages KShs'000	Income statement movements: ECL on new exposure raised KShs'000	Income statement movements: Derecognition KShs'000	Income statement movements: Subsequent changes in ECL KShs'000	Net ECL raised/ (released) 1 KShs'000	Impairment accounts written-off KShs'000	Exchange and other movements KShs'000	Closing ECL 31 December 2019 KShs'000
Stage 1	**(40 765)**	-	**(53 905)**	33 185	**-**	(20 720)	**-**	-	**(61 485)**
Letters of credit	**(5 638)**	-	**(4 894)**	1 236	**-**	(3 658)	**-**	-	**(9 296)**
Guarantees	**(35 127)**	-	**(49 011)**	31 949	**-**	(17 062)	**-**	-	**(52 189)**
Stage 2	**(17 342)**	-	**(70 790)**	7 807	**(353)**	(63 336)	**-**	740	**(79 938)**
Letters of credit	**(9 163)**	-	**-**	-	**-**	-	**-**	-	**(9 163)**
Guarantees	**(8 179)**	-	**(70 790)**	7 807	**(353)**	(63 336)	**-**	740	**(70 775)**
Stage 3	**(79 969)**	-	**(18 054)**	-	**(334)**	(18 388)	**98 200**	334	**177**
Letters of credit	**(19 270)**	-	**-**	-	**-**	-	**-**	-	**(19 270)**
Guarantees	**(60 699)**	-	**(18 054)**	-	**(334)**	(18 388)	**98 200**	334	**19 447**
Total ECL	**(138 076)**	-	**(142 749)**	40 992	**(687)**	(102 444)	**98 200**	1 074	**(141 246)**

Off balance sheet	Opening ECL 1 January 2018 KShs'000	Total transfers between stages KShs'000	Income statement movements: ECL on new exposure raised KShs'000	Income statement movements: Derecognition KShs'000	Income statement movements: Subsequent changes in ECL KShs'000	Net ECL raised/ (released) 1 KShs'000	Impairment accounts written-off KShs'000	Exchange and other movements KShs'000	Closing ECL 31 December 2018 KShs'000
Stage 1	(78 848)	4 494	(36 253)	-	69 842	33 589	-	-	(40 765)
Letters of credit	(35 953)	4 494	(4 925)	-	30 746	25 821	-	-	(5 638)
Guarantees	(42 895)	-	(31 328)	-	39 096	7 768	-	-	(35 127)
Stage 2	(32 793)	(4 494)	(8 167)	-	28 112	19 945	-	-	(17 342)
Letters of credit	(18 493)	(4 494)	(175)	-	13 999	13 824	-	-	(9 163)
Guarantees	(14 300)	-	(7 992)	-	14 113	6 121	-	-	(8 179)
Stage 3	(60 699)	-	(80 146)	-	60 699	(19 447)	-	177	(79 969)
Letters of credit	-	-	(80 146)	-	60 699	(19 447)	-	177	(19 270)
Guarantees	(60 699)	-	-	-	-	-	-	-	(60 699)
Total ECL	(172 340)	-	(124 566)	-	158 653	34 087	-	177	(138 076)

Notes (continued)

43 Contingent liabilities - Group (continued)

43 (d) Legal proceedings

In the conduct of its ordinary course of business, the Bank 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 (2018: KShs 25,000,000).

Year ended 31 December 2019	Pre-acquisition reserve KShs'000	Revaluation of financial assets - at FVOCI KShs'000	Regulatory credit risk reserve KShs'000	Revaluation reserve on buildings KShs'000	Share-based payment reserve KShs'000	Foreign currency translation reserve KShs'000	Total KShs'000
At 1 January 2019	(126 078)	21 957	938 245	122 598	34 805	(1 074 702)	(83 175)
Total comprehensive income for the year	-	11 723	-	(7 662)	-	(84 724)	(80 664)
Currency translation difference for foreign operations	-	-	-	-	-	(84 731)	(84 731)
Transfer of excess depreciation to retained earnings	-	-	-	(7 662)	-	-	(7 662)
Realised fair value adjustment on available for sale financial assets transferred to profit	-	-	-	-	-	7	7
Fair value changes on financial assets	-	11 723	-	-	-	-	11 723
Transfer of statutory credit risk reserve	-	-		-	-	-	-
Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group							
Share based payment reserve	-	-	-	-	1 274	-	1 274
Total transactions with owners of the Group	-		-	-	1 274	-	1 274
At 31 December 2019	(126 078)	33 679	938 245	114 936	36 079	(1 159 426)	(162 566)

Notes (continued)

44 Other reserves (continued)

Year ended 31 December 2018	Pre-acquisition reserve KShs'000	Revaluation of financial assets - at FVOCI KShs'000	Regulatory credit risk reserve KShs'000	Revaluation reserve on buildings KShs'000	Share-based payment reserve KShs'000	Foreign currency translation reserve KShs'000	Total KShs'000
At 31 December 2017	(126 078)	343 317	73	122 598	16 004	(804 230)	(448 316)
At 1 January 2018	(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)

Notes (continued)

44 Other reserves (continued)

	Notes	GROUP 2019 KShs'000	2018 KShs'000
Pre-acquisition reserve		**(126 078)**	(126 078)
Revaluation of financial assets- Fair value		**33 679**	21 957
Regulatory credit risk reserve		**938 245**	938 245
Revaluation reserve on buildings		**114 936**	122 598
Share-based payment reserve	45	**36 079**	34 805
Foreign currency translation reserve		**(1 159 426)**	(1 074 702)
At end of year		**(162 566)**	(83 175)

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 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.

45 Share-based payment reserve

	2019 KShs'000	2018 KShs'000
At start of year	**34 805**	16 004
Equity growth scheme for the year	**1 274**	18 801
At end of year	**36 079**	34 805

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.

Notes (continued)

45 Share-based payment reserve (continued)

At 31 December 2019, the total amount included in staff costs for Group Share Incentive Scheme was KShs 1,014,677 (2018: KShs 10,247,000) and for Equity Growth Scheme was KShs 258,572 (2018: KShs 8,553,000).

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:

Group Share Incentive Scheme	Option price range (ZAR) 2019	Number of Options 2019	Number of Options 2018
Options outstanding at beginning of the year		**60 000**	72 251
Granted		**22 750**	-
Transfers		**-**	-
Exercised	**98.80**	**(46 000)**	(12 251)
Lapsed		**(500)**	-
Options outstanding at end of the year		**36 250**	60 000

The weighted average SBG share price for the year to 31 December 2019 was ZAR 183.51 (2018: ZAR 192.35).

The following options granted to employees had not been exercised at 31 December 2019:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option Expiry Period
11 250	**111.94**	**111.94**	**Year to 31 December 2020**
25 000	**98.80 - 107.55**	**101.65**	**Year to 31 December 2021**
36 250			

Notes (continued)

45 Share-based payment reserve (continued)

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			

Equity Growth Scheme	Number of rights 2019	Number of rights 2018
Rights outstanding at beginning of the year	3 000	41 813
Transfers	2 375	-
Exercised	-	(38 813)
Lapsed	-	-
Rights outstanding at end of the year[1]	5 375	3 000

[1] At 31 December 2019 the Bank would need to issue 2,223 (2018: 1,378) SBG shares to settle the outstanding appreciated rights value.

The following rights granted to employees had not been exercised at 31 December 2019:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option Expiry Period
5 375	98.80	98.8	Year to 31 December 2021
5 375			

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			

Notes (continued)

46 Capital commitments

Capital commitments for the acquisition of property and equipment are summarised below:

	2019 KShs'000	2018 KShs'000
Authorised and contracted for	**277 986**	330 808
Authorised but not contracted for	**614 837**	1 186 830

47 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;

	2019 KShs'000	2018 KShs'000
Less than one year	**15 361**	273 999
Between one and five years	**10 782**	845 488
More than five years	**-**	99 568
	26 143	1 219 055

48 Fiduciary activities

The assets held on behalf of individuals, trusts, retirement benefit plans and other institutions:

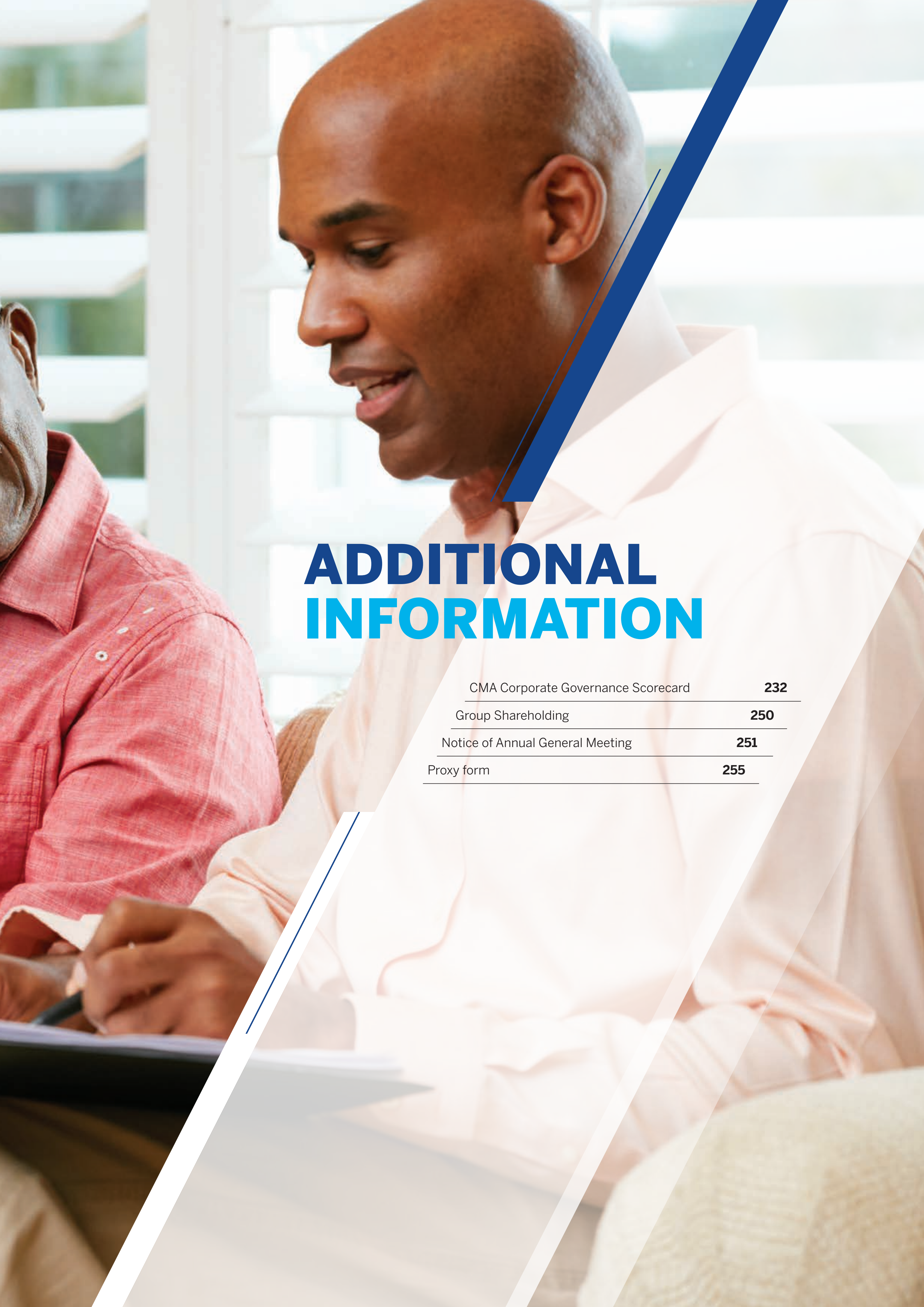
	2019 KShs'000	2018 KShs'000
Assets held on behalf of individual's trusts and other institutions	**341 824 041**	292 161 154

49 Assets and liabilities classified as held-for-sale

The assets and liabilities of SBG Securities Limited - Uganda branch have been classified as held-for-sale following approval by the board of directors to dispose the branch as a going concern. The assets and liabilities are listed below:

	2018 KShs'000
Assets	
Intangible assets	**-**
Trade and other receivables	**17 731**
Cash and cash equivalents	**107 907**
Current income tax	**1 883**
	127 521
Liabilities	
Trade and other payables	**27 056**
Deferred tax	**25**
	27 081

SBG Securities Limited (Rwanda Branch) has been prepared on a break up basis following a strategic review by the directors.



ADDITIONAL INFORMATION

CMA CORPORATE GOVERNANCE SCORECARD

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	
		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	
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	
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	
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	
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	
6	A or E	A.6	Does the company strategy promote sustainability of the company?	2.3.6	

Company market to book ratio at end of financial year	0.88
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 109,25
Net sales as per Income Statement at end of financial year	KShs 24.8B
Net profit as per Income Statement at end of financial year	KShs 6.4B
Total debt (short and long term) as per Balance Sheet at end of financial year	KShs 9.1B
Total equity as per Balance Sheet at end of financial year	KShs 49.0B
Total no. of Board members at end of financial year	8
No. of independent directors at end of financial year	5
No. of non-executive directors at end of financial year	7

Responses		
Application - FA, PA or NA - See Notes 1, 2, 3, & 4	**Application or Explanation - Note 2**	**Source of Information**
FA	There is a Board Mandate (Charter) in place. It is reviewed on an annual basis, with the most recent review being done on 27 February 2020. Responsibility for internal control is set out under Section 3.1.1 of the Board Mandate, where the Board through the Board Audit Committee allows for deeper focus on internal control. Sections 7.15 and 7.27 of the Board Mandate also give further specification on this.	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.
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 2019 Annual Report.	Board Mandate/Charter found on the Company website.
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 2019 Annual Integrated Report both found on the Company's Website.
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 and Management underwent internal training on King IV and the Code in July 2019, by the author of King IV (Marie Van De Merwe) and the Company Secretary. In addition, individual directors, the Company Secretary and the Chief Financial Officer have attended seminars on the Code, hosted by IFC. The Compliance team have also included the Code under a regulatory universe document. The Board Charter has provisions that incorporate the requirements of the Code.	Board Mandate and Nominations Committee Mandate available on the Company's Website. Compliance Regulatory Universe available for review.
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 2019 Annual Report.	Board Mandate and 2019 Annual Integrated Report, both found on the Company's website.
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 the right business the right way, financial outcomes and measuring impact on society, the economy and the environment.	2019 Annual Integrated Report found on the Company's website highlights the Company's strategy in promoting sustainability of the Company and its subsidiaries.

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References	
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	
		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	
9	M	B.2	Is the chairperson of the Nomination Committee an independent director?	2.2.3	
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	
11	M	B.4	Is the Board size sufficient for the exercise of the company business?	2.1.4	
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	
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	
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	
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	

	Responses		
	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	**Application or Explanation - Note 2**	**Source of Information**
	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 2019 Annual Integrated Report, found on the Company's website.
	PA	Yes, the Board has established a Nominations Committee, comprised solely of independent and non-executive Board members. As at 31 December 2019, there are 4 members, 2 of whom are independent non-executive Board Members. The chairman is independent. However, as a member of a Group of Companies, the Chairman of the Board and the Regional Chief Executive are required to be members and they are not independent. The membership of the committee is confirmed in the Board minutes, which records the appointment of members. The composition of the Committee in 2019, including attendance, is published in the Corporate Governance section of the 2019 Annual Integrated Report.	Board Meeting Minutes. In addition, the Nominations Committee Mandate Section 3.1 and the 2019 Annual Integrated Report, available on the Company's Website.
	FA	The Board appointed an independent non-executive director to chair the Committee, with effect from February 2019 and replaced at the Board meeting of 27 February 2020. Another independent non-executive Director has been appointed to take over in 2020.	Nominations Committee Meeting Minutes, Board Meeting Minutes, as well as the Board Nominations Committee Mandate which is on Company Website.
	FA	These are contained in the Company's Articles of Association, Sections 4.8 - 4.11 of the Governance Framework, Section 4 of the Board Mandate; 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.
	FA	Yes. The Board is composed of 8 Directors, with room for appointment of more Directors. This is within the requirement stipulated under Section 2.1 of the Board Mandate and under Section 99 of the Company's Articles of Association.	The Board Mandate and Articles of Association found on the Company's website.
	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.
	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 indicated in the Annual Report under the skills matrix and in the Directors' individual profiles.	Board Mandate and 2019 Annual Report contained on the Company's website.
	FA	Only where it interferes with discharge of duties. The Conflicts of interest section of the Board Mandate under 9.1 and 9.2 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.	The Board Mandate and the Governance Framework both contained on the Company's website.
	FA	There are currently no alternate directors appointed. The Articles of Association, however, allow for appointment of alternate directors.	None Applicable

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References
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
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
18	M	B.11	Do all independent Board members have a tenure of less than 9 years?	2.4.2
19	M	B.12	Is the Board comprised of a majority of non-executive board members?	2.1.3
20	M	B.13	Does the Board ensure a smooth transition of Board members?	2.1.8
21	M	B.14	Has the Board established an Audit Committee according to Code requirements?	2.2.4, 6.5.1, 2.1.7
22	M	B.15	Are the functions of the Chairperson and the Chief Executive Officer exercised by different individuals?	2.3.3
23	M	B.16	Is the Chairman of the Board a non-executive board member?	2.3.4
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
25	M	B.18	Has the Board adopted a policy on managing conflict of interest?	2.3.8
26	M	B.19	Has the Board adopted a policy on related party transactions which meets the requirements of the Code?	2.3.7

	Responses		
	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	**Application or Explanation - Note 2**	**Source of Information**
	FA	As at 31 December 2019, five of the eight directors on the Board are independent non-executive directors. This is disclosed in the 2019 Annual Report.	The 2019 Annual Integrated Report under profile of directors contained within the Corporate Governance Statement.
	FA	Yes. In compliance with Section 10 of the Board Mandate, the Board conducts a Board Evaluation Exercise in the first quarter of every financial year (with the last exercise being carried out on 27 February 2020 by an independent service provider, in line with recommended best practice). 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. There is also a register with the declaration of independence by the directors in line with the applicable regulations.	Board Mandate contained on the Company's website. Board Evaluation Report and Minutes of the session, provided to relevant regulators. Declaration of independence of the directors register.
	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.
	FA	Yes. 7 out of the 8 directors are non-executive directors.	Board Meeting Minutes and the 2019 Annual Report under Director Profiles.
	FA	Yes. The Company's Articles of Association Section 110 and the Nominations Committee Mandate under Sections 7.1.5 and 7.1.6 guarantee 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 available on the Company's website.
	FA	Yes. The Board is empowered under Article 140 of the Articles of Association to form any committees necessary. The Board has established an effective Audit Committee in accordance with Section 3.1.1 of the Board Mandate. The Committee is 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 and the BAC Mandate. The BAC mandate is available on the Company's website.
	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 under Principle 1.3 and supported by Section 2.4 of the Company's Board Mandate.	The Board Mandate and 2019 Annual Integrated Report, both available on the Company's website. Board Meeting Minutes and the Governance Framework.
	FA	Yes, the Chairman of the Board is a non-executive Director. This is reflected in the Board Mandate, Board Meeting minutes and the Annual Integrated Report, under director profiles. Section 2.4 of the Board Mandate indicates that the Chairman of the Board must be a non-executive director.	2019 Annual Integrated Report and the Board Mandate available on the Company's website. AGM Minutes and Board Meeting Minutes.
	FA	This is explicitly provided for under Sections 7.37 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.
	FA	Included in the Company's Articles of Association under Sections 113, 114, 115 and 116. Section 9 of the Board Mandate makes explicit provisions on matters touching on conflict of interest, which is in line with the Code of Corporate Governance. At the beginning of every calendar year, Board members are required to sign a register on declaration of interests and is reveiwed in the event a change arises. 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.	Register of Conflicts of Interest and Governance Framework available for review. Articles of Association, Board Mandate and Group Code of Ethics contained on the Company's website. In addition, Board Meeting Minutes.
	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 Integrated Report.	Stanbic Bank Kenya Board Credit Committee Mandate, Company Board Mandate and 2019 Annual Integrated Report.

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References
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
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
29	A or E	B.22	Has the Board developed an annual work-plan to guide its activities?	2.6.3
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
31	A or E	B.24	Has the Board established and applied a formal induction program for in-coming members?	2.7.1
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
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
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
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
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

Responses		
Application - FA, PA or NA - See Notes 1, 2, 3, & 4	**Application or Explanation - Note 2**	**Source of Information**
FA	The Company Secretary is a member of ICPSK (Now ICS) and is a member of good standing, in line with the Company's Articles of Association and Board Mandate.	In the 2019 Annual Report, Board Mandate and Articles of Assocation on the Company's website. ICS Records and website.
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 & Standard and Energy Management Policy have been implemented in the Company's banking subsidiary.	Environmental & Social Policy and Standard, Board Mandate and 2019 Annual Report available on the Company's website.
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 availabe for review by the Regulator.
FA	Section 10 of the Board Mandate explicitly provides for evaluation of the Board, Board Committees, the Chairman, the CEO and the Company Secretary. The 2019 evaluation was carried out by an independent evaluator. The Board completed the full annual evaluation and met to discuss the same on 27 February 2020.	Board Evaluation Minutes, Board Mandate and Board Evaluation Report available for review by the Regulator.
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 Integrated Report makes reference to this process.	2019 Annual Integrated Report, Board Mandate and Nominations Committee Mandate.
FA	Yes. In 2019, 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 Integrated 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 and the register includes the hours for each training. The trainings are conducted by both external and internal subject matter experts.	Board Training Calendar, Attendance Register, 2019 Annual Integrated Report. This is included in the governance section of the Annual Report available on the Company's website.
FA	This function is carried out by the Nominations Committee. This is provided for under Section 7.35 of the Board Mandate and has been disclosed in detail in the 2019 Annual Integrated 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, 2019 Annual Report, Nominations Committee Meeting Minutes and Board Meeting Minutes.
FA	There is a Board Remuneration Policy in place and reviewed on an annual basis, and which is published on the Company's website and in the 2019 Annual Integrated Report.	Board Remuneration Policy available in the Annual Integrated Report and on the Company's website.
FA	This is done through the Compliance and Legal & Governance 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 Minute and Nominations Committee Mandate.
PA	A comprehensive independent Legal & Compliance Audit was carried out by TripleOKLaw Advocates in 2018 for the year 2017 on the Company and its banking subsidiary and the relevant reports issued. This was noted by the Board as necessitated under Section 7.17 and 7.19 of the Board Mandate. An independent Legal & Compliance audit is in the process of being conducted in 2020 for the year 2019. An internal Compliance audit was conducted in 2017 and an internal Legal & Compliance audit will be conducted in 2020. The Internal Audit plan is risk based and appropriately covers the Legal & Compliance risk management on cyclic basis as well as in scope of the audit planned.	Legal & Compliance Audit Report for 2017 and the BAC minutes of Q1, 2018 meeting. Board Meeting Minutes of 27 February 2020 approving the appointment of TripleOKLaw Advocates to conduct the Legal & Compliance for the Bank for the year 2019.

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References
37	A or E	B.30	Has the Board undertaken an annual governance audit?	2.11.1
		C	RIGHTS of SHAREHOLDERS	
38	M	C.1	Does the governance framework recognize the need to equitably treat all shareholders, including the minority and foreign shareholders?	3.0 Overview, 3.2.1
39	M	C.2	Other than at the AGM, does the Board facilitate the exercise of shareholders' rights?	3.1.1
40	M	C.3	Does the Board facilitate shareholders participation at the AGM?	3.1.1
41	A or E	C.4	Are minority and foreign shareholders holding the same class of shares treated equitably?	3.2.1
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
		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
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

	Responses		
	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	**Application or Explanation - Note 2**	**Source of Information**
	FA	The independent Governance Auditor, TripleOkLaw Advocates, conducted the Governance Audit for the years 2018 and 2019 and issued the report. This was approved by the Board on 27 February 2020, as necessitated under Section 7.18 and 7.19 of the Board Mandate. Further, the Governance Auditor issued an opinion (included in the 2019 Annual Integrated Report) stating that the Board has put in place effective, appropriate and adequate governance structures in the organisation which are in compliance with the legal and regulatory framework in relation to corporate governance and in line with good governance practices for the interest of stakeholders, for the years ended 31 December 2018 and 31 December 2019.	Governance Audit Report, 2019 Annual Integrated Report, Board Audited Committee meeting Minutes held on 26 February 2020 and Board Meeting Minutes for the meeting held on 27 February 2020.
	FA	Yes. This is contained in the Articles of Association. The Company's Code of Ethics goes a step further to emphasise the need to treat all shareholders fairly. Further, the Board has Independent Non-Executive Directors with the fiduciary duty to protect the interests 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.
	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 briefing twice a year after release of the company's financials. All investors are allowed to access information pertinent to them, including the Annual Integrated Report on the Company's website, as well as at the Shares Registrar and Company Secretary's offices.	2019 Annual Integrated Report, and Company's website, AGM Minutes, media briefing available on print and electronic media.
	FA	Public notices are issued through two daily national 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 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.
	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.
	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's website, NSE website, correspondence with CMA and NSE.
	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 2019 Annual Integrated 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, 2019 Annual Integrated Report, Group Code of Ethics and Group Stakeholder Engagement Guidelines.
	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.

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References
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
46	M	D.4	Does the Board ensure communications with stakeholders?	4.2, 4.2.1
47	M	D.5	Has the Board established a formal dispute resolution process to address internal and external disputes?	4.3.1
		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
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
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
51	A or E	E.4	Does the Board incorporate ethical and sustainability risks and opportunities in the risk management process?	5.2.1
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
53	A or E	E.6	Has the company established and implemented a whistle blowing policy?	5.2.5
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
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
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

	Responses		
	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	**Application or Explanation - Note 2**	**Source of Information**
	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's website, Notices and AGM Minutes.
	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 integrated Report and Company's website.
	FA	There are formal internal and external dispute resolution processes in place. For stakeholders, including clients, 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, there is a Board Dispute Resolution Policy in place.	External vendor service contracts, Human Capital Policy and Board Dispute Resolution Policy. The policies are available on the Company's website.
	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 Integrated Report under the Corporate Governance Overview section.	Code of Ethics, Governance Framework, Environmental & Social Policy, 2019 Annual Integrated Report and Board Mandate, all available on the Company's website.
	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.	Group Code of Ethics is available on the Company's website.
	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, 2019 Annual Report, policies and Group Code of Ethics, included on the Company's website.
	FA	Yes. The evidence is in the documented processes and Board approved policies of its subsidiary companies. Further, this is included under Section 6.5 of the Terms of Reference in the Board Risk & Technology Committee Mandate of the banking subsidiary.	Board Risk & Technology Committee Mandate, the Integrated Operational Risk Policy and the Environmental & Social Policy available on the Company's website.
	FA	The Company's performance on ethics is disclosed in the 2019 Annual Integrated Report and through the formal governance audit carried out.	2019 Annual Integrated Report and Governance Audit Report.
	FA	There is a Whistleblowing Policy in place and is reviewed annually. The same is available on the Company's website and in the Annual Integrated Report.	Whistleblowing Policy available on the Company's website and Annual Integrated Report.
	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 and Environment & Social Policy and available on the Company's website. The Social Economic & Environment Committee Mandate.
	FA	Yes. This has been covered in elaborate detail in the 2019 Annual Integrated Report, under the Governance section.	2019 Annual Integrated Report and policies mentioned above.
	FA	Yes, the same is also contained in the 2019 Annual Integrated Report.	The 2019 Annual Integrated Report.

Consecutive No.	Mandatory or 'apply or explain' or 'good practices'	Part No.	Question	Kenya Code and Other References
		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
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
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
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
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
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
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
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
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

	Responses		
	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	Application or Explanation - Note 2	Source of Information
	FA	The Audit Committee oversees the integrity of the process and for truthful and factual presentation. It further endorses 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 2019 Annual Integrated Report, the Board Mandate and the Board Audit Committee Mandate available on the website.
	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.	2019 Annual Integrated Report available on the website.
	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 Credit Committee minutes, Board Meeting Minutes and 2019 Annual Integrated Report.
	FA	Yes. This is part of the Agenda that is circulated with the AGM Notice at least 21 days prior to the AGM. The proceedings are reflected in the AGM Minutes.	AGM Minutes and AGM Notice circulated prior to the meeting available on the website.
	FA	The Company's Annual Integrated Report is prepared in an integrated basis using the Global Reporting Initiative.	2019 Annual Integrated Report available on the Company's website.
	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.	Stanbic Bank Kenya Limited Board Risk & Technology Committee Meeting Minutes and the Integrated Operational Risk policy available on the website and the Annual Integrated Report.
	FA	Yes. These are covered within the Board, Board Audit Committee (BAC) Mandate and Board Risk & Technology Committee Mandate of the Company's banking subsidiairy. The risks are discussed on a quarterly basis at the group Board and Committee Meetings.	Board Mandate, Board Risk & Technology Committee Mandate for the banking subsidiary, BAC Mandate, Board Meeting Minutes, BAC meeting minutes and the banking subsidiary Board Risk & Technology Committee Meeting Minutes.
	FA	Yes. The review is undertaken during the quarterly Board Risk & Technology Committee Meetings of the banking subsidiary, BAC Meetings and Board Meetings. The shareholders are informed through the Annual Integrated Report, in the section concerning Risk Management.	Board Risk & Technology Committeeof the banking subsidiary, Board Mandate, BAC Mandate and meeting minutes on a quarterly basis. The 2019 Annual Integrated Report and mandates are available on the website.
	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 2019 Annual integrated 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 2019 Annual Integrated Report available on the Company's website .

66	A or E	F.10	Does the Board disclose details of Audit Committee activities ?	6.5.1, 6.5.2	
Consecutive No.	**Mandatory or 'apply or explain' or 'good practices'**	**Part No.**	**Question**	**Kenya Code and Other References**	
		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	
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	
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	
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	
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	
72	A or E	G.6	Does the Board disclose the management discussion and analysis as required in 7.1.1?	7.1.1	
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	
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	
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	
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	
77	M	G.11	Has the Board disclosed all related-party transactions?	7.1.1t	

	FA	Yes. These are disclosed in the Annual Integrated Report under the Corporate Governance Statement section.	2019 Annual Integrated Report available on the Company's website.
	Responses		
	Application - FA, PA or NA - See Notes 1, 2, 3, & 4	**Application or Explanation - Note 2**	**Source of Information**
	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 two national newspapers and on the Company's website in compliance with the stipulated timeframe.	Board Mandate and public notices contained on the Company's website, as well as correspondence with all relevant regulators .
	FA	Information on the Company's governance, the Board and the Board Audit Committee are disclosed in the Annual Integrated Report under the Corporate Governance Statement.	2019 Annual Integrated Report available on the Company's website.
	FA	Yes. The vision, mission, values and strategic objectives of the Company are included in the Group Strategy section of the Annual Integrated Report. The Report also outlines the progress made towards living and achieving these objectives.	The Group Strategy section in the 2019 Annual Integrated Report.
	FA	Yes. This is explicitly covered within the Corporate Governance Overview section, Remuneration Overview section and within the Annual Financial Statements. There is also a section within the statements, that covers Remuneration of Directors. Disclosure on the Whistleblowing Policy has been included in the Risk section of the 2019 Annual Integrated Report.	In the Corporate Governance Overview, Remuneration, Risk and the Annual Financial Statements sections of the 2019 Annual Integrated Report found on the Company website.
	FA	Yes. The Company's website contains information pertaining to the Board Charter, Whistleblowing Policy, Group Code of Ethics and resignation of Directors.	The Governance section of the Company website
	FA	Yes. This is disclosed in the Audited Financial Statements and within the Annual Integrated 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.	2019 Annual Intergated Report available on the Companies website.
	FA	Yes. In the Annual integrated Report, the Board has explicitly disclosed that an independent Governance Audit was carried out for 2018 and 2019 which confirmed a satisfactory level of compliance with laws, regulations and standards; ethical leadership, management of conflict of interest and corporate social responsibility and citizenship.	The Governance section of the 2019 Annual Integarted Report.
	FA	Yes. The Board explicitly disclosed in the Annual Integrated Report that a Governance Audit was carried out and confirmed that there were no known insider dealings in the Company.	The Governance section of the 2019 Annual Integrated Report.
	FA	Yes. The Risk Management Policy, Procurement Policy and IT Policy of the banking subsidiary of the Company are disclosed in the Annual Integrated Report. These policies have also been posted on the Company's website.	2019 Annual Integrated Report and the Company's website under Governance Documents.
	FA	This information has been disclosed in the 2019 Annual Integrated Report, specifically under the Financial Statements. No member of the Board or senior management holds any shares in the Company.	2019 Annual Integrated Report available in the the Company's website , Annual Returns filed with the Registrar of Companies and monthly Reports submitted to the CMA and NSE.
	FA	Yes. These are disclosed in the Annual Integrated Report under the Financial Statements.	2019 Annual Integrated Report available on the Company's website.

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	
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.				

	FA	Yes. A statement of policy on good governance and the status of the application of the Code is contained in the 2019 Annual Integrated Report, which has been posted on the website.	2019 Annual Integrated Report and the CMA Governance Statement Scorecard on the Company's website.

GROUP SHAREHOLDING

Top 10 Global Investors as at Monday, 31 December 2019

	Range	Records	Range Total	Percentage
1.	1 to 500	1,867	300,374	.08 %
2.	501 to 1000	456	377,680	.10 %
3.	1001 to 5000	756	1,817,203	.46 %
4.	5001 to 10000	365	2,687,538	.68 %
5.	10001 to 50000	333	7,214,471 1	1.83 %
6.	50001 to 100000	82	5,761,406 1.46	1.46 %
7.	100001 to 500000	67	15,814,303	4.00 %
8.	500001 to 1000000	19	12,840,972	3.25 %
9.	1000001 to 2000000000	16	348,507,691	88.16 %
	Grand Totals:	**3,961**	**395,321,638**	**100.00%**

Shares Distribution Statistics as at Monday, 31 December 2019

	Range	Records	Range Total	Percentage
1.	STANBIC NOMINEES LTD A/C NR00901	P.O. BOX 30550-00100 NAIROBI	273,357,378	69.15%
2.	STANDARD CHARTERED NOMINEES NON RESD. A/C 9866	P.O. BOX 40984-00100 NAIROBI	29,176,824	7.38%
3.	STANDARD CHARTERED NOMINEES LTD NON RESD A/CKE11663	P.O. BOX 40984-00100 NAIROBI	10,417,950	2.64%
4.	STANBIC NOMINEES LIMITED A/C NR1031327	P.O.BOX 30550-00100 NAIROBI	8,544,272	2.16%
5.	STANDARD CHARTERED NOMINEES NONRESD. 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	2,773,322	0.70%
8.	ICEA LION LIFE ASSURANCE COMPANY LIMITED-POOLED	P.O BOX 46143-00100 GPO NAIROBI	2,355,653	0.60%
9.	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		54,548,707	13.80%
		Grand Totals:	**395,321,638**	**100.00%**

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given to Shareholders that, in accordance with an Order issued by the High Court of Kenya in Miscellaneous Application No. E680 of 2020 on Wednesday 29th April 2020, the Sixty-Fifth Annual General Meeting (AGM) for Stanbic Holdings Plc (the Company) will be held as a virtual meeting by electronic means on Friday 26th June 2020 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.

2. To receive and adopt the Audited Financial Statements for the year ended 31st December 2019, and the Directors' and Auditor's Report thereon.

3. To consider and if thought fit, approve the recommendation by the Board for a final dividend of KShs5.80 per ordinary share. Having already paid an interim dividend of KShs 1.25 per share, the total dividend per share will be KShs 7.05 for the year ended 31st December 2019. The published book closure date is 18th May 2020, and if the final dividend is approved by the Company's shareholders, the payment of a final dividend will be made on or about 29th June 2020.

4. To elect Directors:

    i) In accordance with Articles 110 and 112 of the Company's Articles of Association, Mr. Gregroy R. Brackenridge retires by rotation and though eligible, does not offer himself for re-election.

    ii) In accordance with Articles 110 and 112 of the Company's Articles of Association, Ms Rose Osoro retires by rotation and being eligible, offers herself for re-election.

    iii) In accordance with Article 109 of the Company's Articles of Association, Ms Ory A. Okolloh, a director appointed to the Board to fill a casual vacancy, retires at the dissolution of the meeting and having been recommended by the Board, offers herself for election as a director.

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 2019 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)(a) of the Companies Act, 2015, to appoint Messrs. PricewaterhouseCoopers 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 thought 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) Ms. Rose B. Osoro.

    iii) Ms. Ory A. Okolloh.

10. To consider and if thought fit, to pass a special resolution pursuant to Section 22 of the Companies Act, 2015, to include new Articles 71(a), 71(b), 71(c) and 71(d), immediately following Article 71, in the Company's Articles of Association, to allow the Company to conduct virtual general meetings.

11. To consider and if thought fit, to pass a special resolution pursuant to Section 22 of the Companies Act, 2015, that the new Articles 71(a), 71(b), 71(c) and 71(d), in the Company's Articles of Association to read as follows:

71(a) In the case of any general meeting, the Board may make arrangements for simultaneous attendance and participation by electronic means allowing persons not present together at the same place to attend, participate and vote at the meeting.

71(b) The arrangements for simultaneous attendance and participation at any place at which persons are participating, using electronic means may include arrangements for controlling or regulating the level of attendance at any particular venue provided that such arrangements shall operate so that all members and proxies wishing to attend the meeting are able to attend at one or other of the venues.

71(c) The members or proxies at the place or places at which persons are participating via electronic means shall be counted in the quorum for, and be entitled to vote at, the general meeting in question, and that meeting shall be duly constituted and its proceedings valid if the Chairman of the meeting is satisfied that adequate facilities are available throughout the meeting to ensure that the members or proxies attending at the place or places at which persons are participating by electronic means are able to:

(a) participate in the business for which the meeting has been convened; and
(b) to participate reasonably effectively in the meeting.

71(d) Where for any reason general meetings cannot be conducted practically as prescribed in these Articles of Association, the Board shall have power to employ alternative innovative means to hold general meetings and to enable members or their proxies to participate and to vote on resolutions which are required to be passed by members at general meetings.

12. Any other business for which due notice has been given.

Appointment of Proxy:

A member entitled to participate and vote may appoint a proxy to participate and vote on his/her behalf in the manner prescribed in the proxy form. A proxy need not be a shareholder of the Company.

BY ORDER OF THE BOARD

Lillian Mbindyo
Company Secretary
28th February 2020

Notes:

1. In view of the ongoing Coronavirus 2019 (COVID-19) pandemic and the related public health Regulations and directives passed by the Government of Kenya precluding inter alia public gatherings, it is impracticable, for Stanbic Holdings Plc to hold a physical general meeting in the manner prescribed in its Articles of Association. Pursuant thereto, the Capital Markets Authority in Kenya (CMA), as a joined applicant with the public listed company WPP Scangroup Plc, made an application to the High Court of Kenya in Miscellaneous Application No. E680 of 2020, under the provisions of Section 280 of the Companies Act, 2015 (the Companies Act), for special dispensation to allow any public company listed on the Nairobi Securities Exchange (Public Company), to convene and to conduct a general meeting using electronic means. On 29th April 2020, the High Court of Kenya made an order allowing the convening and conducting of general meetings by any Public Company using electronic means, outside the provisions of its Articles of Association, on account of the COVID-19 pandemic. This is subject to the Public Company receiving a written "No Objection" from the CMA, which condition has been satisfied.

2. Any shareholder wishing to participate in the meeting should register for the Annual General Meeting (AGM) by dialling *483*804# for all networks and following the various prompts regarding the registration process. In order to complete the registration process, Shareholders will need to have their ID/Passport Numbers which were used to purchase their shares and/or their CDSC Account Number to hand. For assistance, Shareholders should dial the following helpline number: 0709170000 from 9 a.m. to 3 p.m. on a working day.

3. Registration for the AGM opens on Tuesday 2nd June 2020 at 9:00 a.m. and will close on Tuesday 23rd June 2020 at 11:00 a.m.

4. In accordance with Section 283 (2) (c) of the Companies Act, the following documents may be viewed on the Company's website www.stanbicbank.co.ke (i) a copy of this Notice; (ii) the Company's audited financial statements for the year 2019; (iii) the Company's Annual Integrated Report; (iv) the Proxy form; and (v) a copy of the High Court Order in Miscellaneous Application No. E680 of 2020; (the Documents).

5. Shareholders wishing to raise any questions or request clarification regarding the resolutions to be passed at the AGM may do so by: (i) sending their written questions by email to SBK_Questions.AGM@stanbic.com or (ii) Shareholders who will have registered to participate in the meeting shall be able to ask questions via sms by dialling the USSD code above and selecting the option (ask Question) on the prompts or (iii)to the extent possible, physically delivering their written questions providing their ID numbers and contact details, including a return postal address, physical address or email address to the Company's Shares Registrar's, Image Registrars Ltd, offices at 5th Floor, Absa Towers (formerly Barclays Plaza), Loita Street; or (iv) sending their written questions with a return postal address, physical address or email address by registered post to Image Registrars' postal address at P.O. Box 9287- 00100 GPO, Nairobi.

6. Shareholders must provide their full details (full names, Kenyan national identity card/Passport Number/CDSC Account Number) when submitting their questions and clarifications. All questions and requests for clarification must reach the Company or its Shares Registrars on or before Tuesday 23rd June 2020 at 11:00 a.m.

7. In accordance with Section 298(1) and (2) of the Companies Act, Shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company. A proxy form is available on the Company's website www.stanbicbank.co.ke. Physical copies of the proxy form are also available at Image Registrars Limited offices. 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 CDSC account number to stanbicagm@image.co.ke

8. A completed form of proxy should be emailed to stanbicagm@image.co.ke or delivered to Image Registrars Limited offices or posted to the postal address of Image Registrars Limited no later than 48 hours before the date of the AGM.

9. The AGM will be streamed live via a link which shall be provided to all Shareholders who will have registered to participate in the AGM. Duly registered Shareholders and proxies will receive a short message service (SMS)/USSD prompt on their registered mobile numbers, 24 hours prior to the start of the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one hour ahead of the AGM, reminding duly registered shareholders and proxies that the AGM will begin in an hour's time and providing a link to the livestream.

10. Duly registered Shareholders and proxies may access the agenda and follow the proceedings of the AGM using the livestream platform. Duly registered Shareholders and proxies may vote (when prompted by the chairman) on the USSD platform by following the SMS prompts.

11. A poll shall be conducted for all the resolutions put forward in the notice.

12. Results of the voting on resolutions at the AGM shall be published within 24 hours following conclusion of the AGM, in two newspapers of national circulation and on the Company's website.

PROXY FORM

To: The Company Secretary
Stanbic Holdings Plc

PROXY FORM for 2020 Annual General Meeting (AGM) for Stanbic Holdings Plc

(Please complete form in block letters)

CDSC A/c No:

Shareholder No:

ID/Registration/Passport No:

I/We,____,

of ____

being a member of STANBIC HOLDINGS PLC hereby appoint

____

of ____

or failing him ____________________________________

of ____

as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on Friday, 26th June 2020 and at any adjournment thereof.

Mobile Number (of the proxy holder): ____________________________

Dated this____________________ day of ____________________-________ 2020

Full Name:

____

Signature:

____

Note: The proxy form should be completed and returned to reach the Company's shares registrar, Image Registrars Limited, not later than 48 hours before the meeting or any adjournment thereof, using either of the addresses provided below:

1. Image Registrars Ltd, offices at 5th Floor, Absa Towers (formerly Barclays Plaza), Loita Street, Nairobi, Kenya
2. Image Registrars Ltd, P.O. Box 9287- 00100 GPO, Nairobi, Kenya
3. stanbicagm@image.co.ke

ELECTRONIC REGISTRATION CONSENT FORM

Please complete in BLOCK CAPITALS

Full name of member(s): ....

....

....

Address: ....

....

....

Mobile Number

Date: ....

Signature: ....

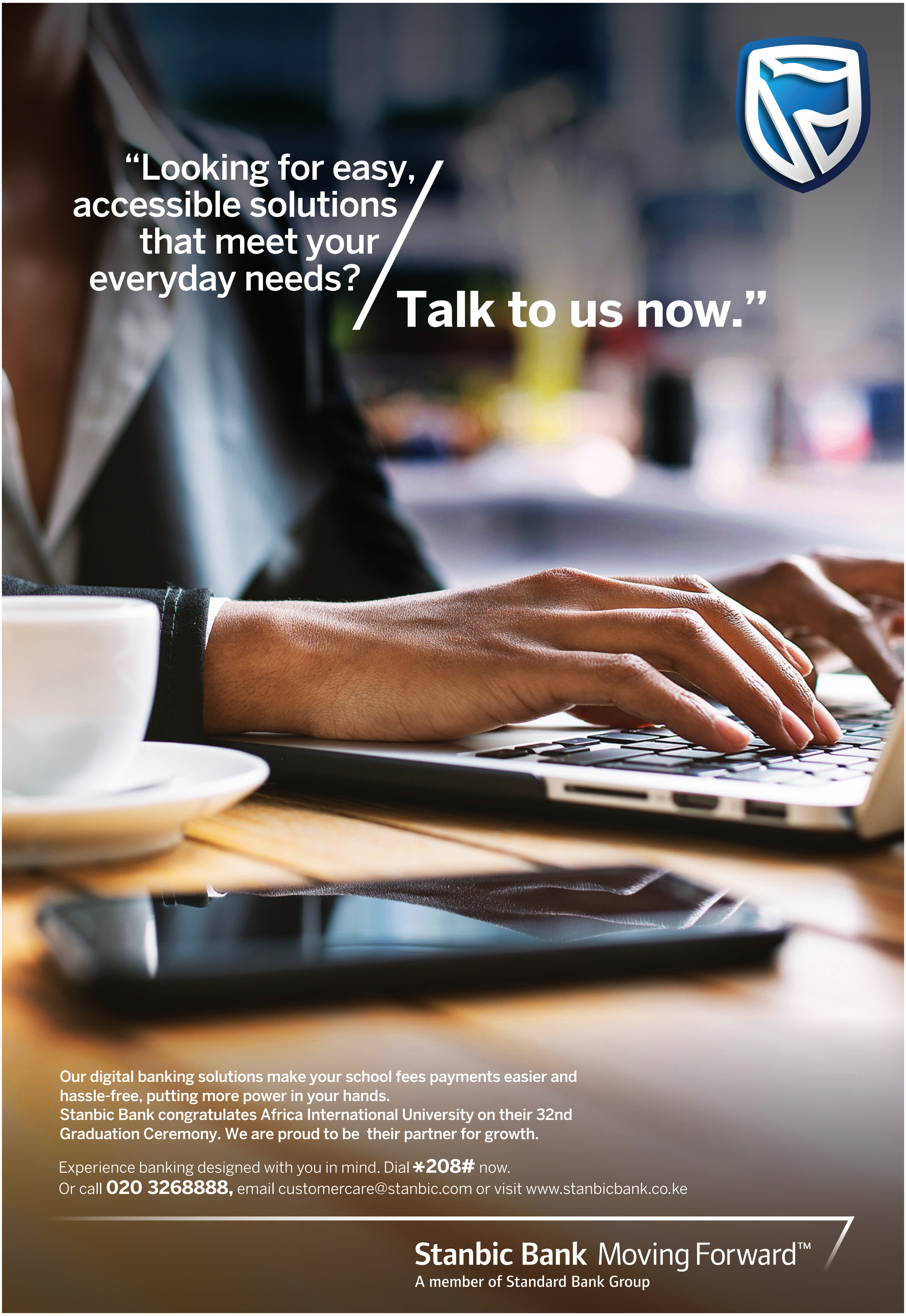
Please tick the boxes below and return to Image Registrars at P.O. Box 9287 – 00100 Nairobi, 5th Floor, Absa Towers (formerly Barclays Plaza), Loita Street:

Consent to Registration

I/WE consent to registration to participate in the virtual Annual General Meeting for Stanbic Holdings Plc to be held on 26th June 2020.

Consent for use of the Mobile Number provided

I/WE would give my/our consent for the use of the mobile number provided for purposes of electronic voting at the AGM



“Looking for easy, accessible solutions that meet your everyday needs?
Talk to us now.”
Our digital banking solutions make your school fees payments easier and hassle-free, putting more power in your hands.
Stanbic Bank congratulates Africa International University on their 32nd Graduation Ceremony. We are proud to be their partner for growth.
Experience banking designed with you in mind. Dial *208# now.
Or call 020 3268888, email customercare@stanbic.com or visit www.stanbicbank.co.ke
Stanbic Bank Moving Forward™
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