Stanbic Holdings Plc

(Formerly CfC Stanbic Holdings Ltd)

Annual Report and Financial Statements

For the year ended 31 December 2016

Table of Contents

Corporate information

Chairman:	Fred N. Ojiambo, MBS, SC
Chief Executive:	Greg Brackenridge* (Appointed: 28 July 2016) Kitili Mbathi (Resigned: 29 January 2016)
Chief Executive of Stanbic Bank Kenya Limited:	Philip Odera
Regional Head Corporate & Investment Banking:	Michael Blades***
Non-Executive Directors:	Kitili Mbathi Edward W. Njoroge Rose W. Kimotho Ruth T. Ngobi Peter N. Gethi Christopher J. Blandford – Newson*** Charles K. Muchene (Resigned: 19 May 2016)
	* South African *** South African & British
Company secretary:	Lillian N. Mbindyo P.O. Box 72833 00200 Nairobi
Auditor:	PricewaterhouseCoopers PwC Tower Waiyaki Way/Chiromo Road P.O. Box 43963 00100 Nairobi
Registered office:	Stanbic Centre Chiromo Road P.O. Box 72833 00200 Nairobi
Principal bankers:	Stanbic Bank Kenya Limited Chiromo Road P.O. Box 30550 00100 Nairobi GPO

Report of the Directors

The director's report and financial statements have been prepared in accordance with section 147 to 163 of the repealed Companies Act Cap 486, which remain in force under the transition rules contained in the sixth schedule, the transition and saving provisions of the Companies Act 2015.

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.

Results and dividends

Profit for the year of KShs 4,418,589,000 (2015: KShs 4,905,734,000) has been added to retained earnings.

During the year, an interim dividend of KShs 1.77 (2015: KShs 0.75) per ordinary share amounting to KShs 700 million (2015: KShs 296 million) was paid.

Subject to the approval of the shareholders at the Annual General Meeting, the Directors recommend payment of a final dividend of KShs 3.48 (2015: KShs 5.40) per ordinary share equivalent to a total sum of KShs 1,376 million (2015: KShs 2,135 million). The total dividend for the year, therefore, will be KShs 5.25 (2015: KShs 6.15) for every one ordinary share amounting to KShs 2,075 million (2015: KShs 2,431 million).

Share capital

The total number of authorised shares as at 31 December 2016 was 473,684,211 (2015: 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 2.

Events subsequent to the end of the reporting period

There is no material event that has occurred between the end of the reporting period and the date of this report.

Auditor

PricewaterhouseCoopers has indicated its willingness to continue in office in accordance with Section 159 (2) of the repealed Companies Act (Cap 486).

Approval of financial statements

The financial statements were approved by the Board of Directors on 23 February 2017.

BY ORDER OF THE BOARD

Lillian N. Mbindyo
COMPANY SECRETARY
23 February 2017

Statement of Directors' responsibilities

The Companies Act 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and Company at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the Group and Company keep proper accounting records that are sufficient to show and explain the transactions of the Group and Company; disclose with reasonable accuracy at any time the financial position of the Group and Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Company's Act. They are also responsible for safeguarding the assets of the Group and Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 Companies Act 2015. They also accept responsibility for:

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii. Selecting suitable accounting policies and then apply them consistently; and
iii. Making judgements and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the directors have assessed the ability of the Group and Company to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Group and Company will not remain a going concern for at least the next twelve months from the date of this statement.

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

The financial statements were approved by the Board of Directors on 23 February 2017 and signed on its behalf by:

Chairman
Fred N. Ojiambo, MBS, SC

Chief Executive
Greg Brackenridge

Director
Peter N. Gethi

Independent auditor's report

To the Shareholders of Stanbic Holdings Plc

Report on the audit of the consolidated financial statements

Our opinion

We have audited the accompanying consolidated financial statements of Stanbic Holdings Plc (the Company) and its subsidiaries (together, the Group) set out on pages 11 to 127, which comprise the consolidated statement of financial position at 31 December 2016 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, together with the separate statement of financial position of the Company at 31 December 2016, statement of profit or loss, statement of comprehensive income, statements of cash flows and the statement of changes in equity of the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company at 31 December 2016 and of the financial performance and cash flows of the Group 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.

PricewaterhouseCoopers CPA. 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

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Credit risk and impairment of loans and advances to customers and other banks As explained in Note 3 (a) to the financial statements, the directors make complex and subjective judgements over valuation of loans and advances. Because of the significance of the judgement involved and the size of loans and advances which is approximately 54% of the total assets, the audit of loan impairment provisions is an area of focus. The business is structured into two segments, Corporate and Investment Banking (CIB) and Personal and Business Banking (PBB). For CIB accounts, impairment for non-performing loans and advances is calculated individually for each loan as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the loan. Where no evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment using an unidentified corporate impairment model. The key inputs to the unidentified CIB impairment model are the estimated emergence period and probability of default based on qualitative and quantitative assessment of the portfolio. A standard loss given default rate is also applied across the portfolio. For PBB customers, the key inputs to the model are the roll-rates and probability of default (PD) based on the facility category. Each type of facility also carries a varied loss given default factor. When non-performing loans are identified, the specific impairment provisions are calculated based on the individual non-performing facilities. Unidentified impairment provisions at the portfolio level using models which are internally developed.	We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the identification of loans and advances that were impaired and the calculation of the impairment provisions. In addition, we examined a sample of loans and advances which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate by using external evidence in respect of the relevant counterparties. Where impairment was individually calculated, we tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner including, where relevant, how forbearance had been considered. Where impairment is specific, we examined the forecast of future cash flows prepared by management to support the calculation of the impairment, assessing the assumptions and comparing estimates to external evidence where available. Where impairment was calculated using a model, we tested the basis and operation of those models and the data and assumptions used. Our audit procedures included the following; - Comparison of the principal assumptions made with our own knowledge of other practices and actual experience. - Testing the operation of the models used to calculate the impairment including, in some cases, developing independent expectations and comparing results. - Considering the potential effect of events which were not captured by management's models and evaluating how management has responded to these events by making further adjustments to the models where appropriate. Overall, we found that management's explanations were consistent with the evidence we obtained.

Key audit matter	How our audit addressed the Key audit matter
Hyperinflationary accounting for South Sudan branch As explained in Note 3 (e) to the financial statements, the Bank has applied hyperinflationary accounting for the South Sudan branch. Although one of the indicators that an economy is hyperinflationary under IAS 29 is the cumulative inflation rate over a three year period exceeds a rate of 100%, the determination of whether an economy is hyperinflationary is a matter of judgment. The group accounting policy requires the application of hyperinflation accounting where an economy's three-year cumulative inflation rate and the monthly year-on-year inflation exceed a rate of 100%. Based on the policy, the directors have applied hyperinflation accounting for the South Sudan branch for the period ending 31 December 2016. As a result, the group rebased the financial statements of the branch; which has a South Sudanese Pound functional currency for inclusion in the Bank's financial statements for the year ending 31 December 2016. Our audit focused on the appropriateness of the price indices used in rebasing the financial information and the correct application of the requirements of IAS 29 in the financial statements.	We reviewed the bank's accounting policies regarding financial reporting in hyperinflationary economies and assessed whether the policies were in line with the provisions of IAS 29; We tested reasonableness of the price index used by the Bank, together with the related assumptions; We tested the computation including rebasing monetary loss for compliance with the principles of IAS 29; and We evaluated the disclosures in the financial statements for compliance with the requirements of IAS 29.
Information technology (IT) systems and controls over financial reporting The Company's financial accounting and reporting processes are heavily dependent on complex IT systems and applications. Specifically, the calculation, recording, and financial reporting of transactions and balances related to revenue, interest costs, fees and commissions, loans and advances, investments in securities and customers deposits are significantly dependent on IT automated systems and processes. There is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial accounting and reporting. We examined the framework of governance over the Company's IT organization and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. Where necessary, we also carried out direct tests of certain aspects of the security of the Company's IT systems including access management and segregation of duties. We re-performed the significant automated computations and compared our results with those from the system and the general ledger. We tested the significant system interfaces to ensure the accuracy and completeness of the data transfer. The combination of these tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the continued and proper operation of the Company's IT systems for the purpose of the audit of the financial statements.
Goodwill impairment assessment As shown in Note 29 of the financial statements, the directors assess the impairment of goodwill arising from acquisitions at the cash generating unit level	We evaluated the composition of management's future cash flow forecasts and the underlying assumptions based on the historical performance of the business,

Key audit matter	How our audit addressed the Key audit matter
using value-in-use calculations. Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the 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. 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 Banks two cash generating units - Corporate and Investment Banking (CIB) and Personal and Business Banking (PBB), that represent the lowest level at which financial performance is monitored.	industry-specific reports and the macro economic outlook. We assessed the projected cash flows against the approved strategic and business plan of the cash generating unit. We assessed the reasonableness of the five year forecast cash flows based on recent actual performance and the short-term financial approved 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 organizations, as well as considering country specific factors We found the assumptions to be consistent and in line with our expectations. We assessed the sensitivity of the parameters in the calculations and determined that the calculations were most sensitive to assumptions for gross margin and the pre-tax discount rates as disclosed in Note 28 of the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we 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 when it becomes available 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the financial statements 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.

The directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal requirements

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

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

ii) in our opinion proper books of account have been kept by the Group and Company, so far as appears from our examination of those books;

iii) the Group and Company's statement of financial position, statement of profit or loss and statement of comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Kang'e Saiti – P/No 1652.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

24 February 2017

Consolidated and Company statement of profit or loss

		For the year ended 31 December			
		Group		Company	
		2016	2015	2016	2015
	Note	KShs'000	KShs'000	KShs'000	KShs'000
Interest income	6	17,127,042	14,667,896	22,451	66,378
Interest expense	7	(6,266,995)	(5,364,849)	-	-
Net interest income		**10,860,047**	**9,303,047**	**22,451**	**66,378**
Credit impairment charges on loans and advances	22(d)	(1,751,812)	(907,305)	**-**	**-**
Net interest income after credit impairment charges		**9,108,235**	**8,395,742**	**22,451**	**66,378**
Fees and commission revenue	8	3,242,504	3,392,725	-	-
Fees and commission expense	9	(337,539)	(323,723)	-	-
Net fee and commission revenue		**2,904,965**	**3,069,002**	**-**	**-**
Trading revenue	10	4,723,253	4,306,531	-	-
Other income	11	29,093	265,695	2,846,066	2,365,764
Other operating income		**4,752,346**	**4,572,226**	**2,846,066**	**2,365,764**
Total income		**16,765,546**	**16,036,970**	**2,868,517**	**2,432,142**
Employee benefits expense	12	(5,440,584)	(5,035,142)	-	-
Other expenses	13	(3,543,883)	(3,096,194)	(28,838)	(26,823)
Depreciation and amortisation expense	14	(517,500)	(503,832)	-	-
Finance costs	15	(1,214,493)	(42,388)	(456)	(493)
Total operating, administration and general expenses		**(10,716,460)**	**(8,677,556)**	**(29,294)**	**(27,316)**
Profit before income tax		**6,049,086**	**7,359,414**	**2,839,223**	**2,404,826**
Income tax expense	16	(1,630,497)	(2,453,680)	(6,664)	(23,204)
Profit for the year		**4,418,589**	**4,905,734**	**2,832,559**	**2,381,622**
Earnings per share	17	**11.18**	**12.41**	**7.17**	**6.02**

The notes set out on pages 18 to 127 form an integral part of these financial statements.

Consolidated and Company statement of other comprehensive income

	For the year ended 31 December Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Profit for the year	**4,418,589**	**4,905,734**	**2,832,559**	**2,381,622**
Other comprehensive income for the year				
Items that may be subsequently reclassified to profit or loss				
Currency translation differences for foreign operations	220,306	(1,029,308)	-	-
Fair value changes on available-for-sale financial assets	(69,471)	2,087	-	-
Deferred income tax on fair valuation of available - for - sale financial assets	39,981	(70,719)	-	-
Other comprehensive income for the year, net of income tax	**190,816**	**(1,097,940)**	**-**	**-**
Total comprehensive income for the year	**4,609,405**	**3,807,794**	**2,832,559**	**2,381,622**

The notes set out on pages 18 to 127 form an integral part of these financial statements.

Consolidated and Company statement of financial position

	Note	Group As at 31 December 2016 KShs'000	Group As at 31 December 2015 KShs'000	Company As at 31 December 2016 KShs'000	Company As at 31 December 2015 KShs'000
Assets					
Cash and balances with Central Bank of Kenya	19	8,621,228	11,350,098	-	-
Financial investments	21	50,032,732	45,262,609	-	-
Available-for-sale pledged assets	20	2,894,456	3,439,383	-	-
Derivative assets	31	2,472,191	4,377,196	-	-
Loans and advances to banks	23 (a)	16,988,881	23,181,591	100,662	108,840
Loans and advances to customers	23 (b)	115,587,723	104,981,566	-	-
Other assets and prepayments	24	3,817,487	2,709,300	-	1,651
Investment in subsidiaries	25	-	-	18,175,338	18,175,338
Property and equipment	26	2,207,965	2,244,902	-	-
Prepaid operating lease	27	53,901	56,854	-	-
Other intangible assets	28	1,135,496	754,370	-	-
Intangible assets - goodwill	29	9,349,759	9,349,759	-	-
Current income tax	35 (b)	113,547	382,965	18,872	-
Deferred income tax	35 (c)	1,407,363	361,322	-	-
Total assets		**214,682,729**	**208,451,915**	**18,294,872**	**18,285,829**
Liabilities and equity					
Liabilities					
Derivative liabilities	31	3,061,063	3,361,440	-	-
Financial liabilities at fair value through profit or loss	22	3,867,718	521,973	-	-
Deposits from banks	32 (a)	36,506,824	47,424,577	-	-
Deposits from customers	32 (b)	119,328,219	106,246,235	-	-
Other liabilities and accrued expenses	34	6,389,083	5,961,263	60,110	40,069
Borrowings	33	3,986,138	6,482,063	-	-
Balances due to group companies	38	-	-	-	3,198
Current income tax	35 (a)	1,402,810	89,535	-	5,910
Deferred income tax	35 (c)	-	-	11	2
Total liabilities		**174,541,855**	**170,087,086**	**60,121**	**49,179**
Equity					
Ordinary share capital	30 (b)	1,976,608	1,976,608	1,976,608	1,976,608
Ordinary share premium	30 (c)	16,897,389	16,897,389	16,897,389	16,897,389
Other reserves	40	(758,058)	(790,252)	-	-
Retained earnings		20,649,216	18,146,346	(2,014,965)	(2,772,085)
Proposed dividend	18	1,375,719	2,134,738	1,375,719	2,134,738
Total equity		**40,140,874**	**38,364,829**	**18,234,751**	**18,236,650**
Total equity and liabilities		**214,682,729**	**208,451,915**	**18,294,872**	**18,285,829**

The notes set out on pages 18 to 127 form an integral part of these financial statements.

The financial statements on pages 11 to 127 were approved for issue by the Board of Directors on 23 February 2017 and signed on its behalf by:

Chairman
Fred N. Ojiambo, MBS, SC

Chief Executive
Greg Brackenridge

Director Peter N. Gethi

Company Secretary Lillian N. Mbindyo

Consolidated statement of changes in equity

		Attributable to equity holders					
For the year ended 31 December 2016	**Note**	**Share Capital KShs'000**	**Share Premium KShs'000**	**Other Reserves KShs'000**	**Retained Earnings KShs'000**	**Proposed Dividends KShs'000**	**Total Equity KShs'000**
At 1 January 2016		**1,976,608**	**16,897,389**	**(790,252)**	**18,146,346**	**2,134,738**	**38,364,829**
Profit for the year		-	-	-	4,418,589	-	**4,418,589**
Other comprehensive income, net of tax		-	-	190,816	-	-	**190,816**
Transfer to statutory credit risk reserve		-	-	(130,100)	130,100	-	-
Transactions with owners, recorded directly in equity Contributions by and distributions to owners of the Group							
Dividends to equity holders - dividend paid	18	-	-	-	(699,720)	(2,134,738)	**(2,834,458)**
Proposed dividend	18	-	-	-	(1,375,719)	1,375,719	**-**
Transfer of vested share option from share based reserve	41(a)	-	-	(29,620)	29,620	-	**-**
Share based payment reserve	41(a)	-	-	1,098	-	-	**1,098**
Total transactions with owners		**-**	**-**	**(28,522)**	**(2,045,819)**	**(759,019)**	**(2,833,360)**
At 31 December 2016		**1,976,608**	**16,897,389**	**(758,058)**	**20,649,216**	**1,375,719**	**40,140,874**

The notes set out on pages 18 to 127 form an integral part of these financial statements.

Consolidated statement of changes in equity (continued)

		Attributable to equity holders					
		Share Capital	Share Premium	Other Reserves	Retained Earnings	Proposed Dividends	Total Equity
For the year ended 31 December 2015	**Note**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2015		**1,976,608**	**16,897,389**	**330,248**	**15,635,275**	**2,055,673**	**36,895,193**
Profit for the year		-	-	-	4,905,734	-	**4,905,734**
Other comprehensive income, net of tax		-	-	(1,097,940)	-	**-**	**(1,097,940)**
Transfer to statutory credit risk reserve		-	-	66,048	(66,048)	-	-
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners of the Group							
Dividends to equity holders - dividend paid	18	-	-	-	(296,491)	(2,055,673)	**(2,352,164)**
Proposed dividend	18	-	-	-	(2,134,738)	2,134,738	**-**
Transfer of vested share option from share based reserve		-	-	(102,614)	102,614	**-**	**-**
Share based payment reserve	41(a)	-	-	14,006	-	**-**	**14,006**
Total transactions with owners		**-**	**-**	**(88,608)**	**(2,328,615)**	**79,065**	**(2,338,158)**
At 31 December 2015		**1,976,608**	**16,897,389**	**(790,252)**	**18,146,346**	**2,134,738**	**38,364,829**

The notes set out on pages 18 to 127 form an integral part of these financial statements.

Company statement of changes in equity

Year ended 31 December 2016	Note	Share Capital KShs'000	*Attributable to equity holders* Share Premium KShs'000	Retained Earnings KShs'000	Proposed Dividend KShs'000	Total Equity KShs'000
At 1 January 2016		**1,976,608**	**16,897,389**	**(2,772,085)**	**2,134,738**	**18,236,650**
Profit for the year		**-**	**-**	**2,832,559**	**-**	**2,832,559**
Other Comprehensive income, net of tax		**-**	**-**	**-**	**-**	**-**
Contribution and distributions to owners						
Dividends to equity holders - dividend paid	18	-	-	(699,720)	(2,134,738)	**(2,834,458)**
Dividends to equity holders - proposed dividend	18	-	-	(1,375,719)	1,375,719	**-**
Total contributions by and distributions to owners		**-**	**-**	**(2,075,439)**	**(759,019)**	**(2,834,458)**
At 31 December 2016		**1,976,608**	**16,897,389**	**(2,014,965)**	**1,375,719**	**18,234,751**

Year ended 31 December 2015	Note	Share Capital KShs'000	*Attributable to equity holders* Share Premium KShs'000	Retained Earnings KShs'000	Proposed Dividend KShs'000	Total Equity KShs'000
At 1 January 2015		**1,976,608**	**16,897,389**	**(2,722,478)**	**2,055,673**	**18,207,192**
Profit for the year		**-**	**-**	**2,381,622**	**-**	**2,381,622**
Other Comprehensive income, net of tax		**-**	**-**	**-**	**-**	**-**
Contribution and distributions to owners						
Dividends to equity holders - dividend paid	18	-	-	(296,491)	(2,055,673)	**(2,352,164)**
Dividends to equity holders - proposed dividend	18	-	-	(2,134,738)	2,134,738	**-**
Total contributions by and distributions to owners		**-**	**-**	**(2,431,229)**	**79,065**	**(2,352,164)**
At 31 December 2015		**1,976,608**	**16,897,389**	**(2,772,085)**	**2,134,738**	**18,236,650**

The notes set out on pages 18 to 127 form an integral part of these financial statements.

Consolidated and Company statement of cash flows

	Note	Group 2016 Kshs'000	Group 2015 Kshs'000	Company 2016 Kshs'000	Company 2015 Kshs'000
Cash flows from operating activities	36(a)	**8,256,564**	**6,615,386**	**2,839,223**	**2,404,826**
Income tax paid	35	(990,384)	(1,766,959)	(31,437)	(17,339)
Cash flows from operating activities before changes in operating assets and liabilities		**7,266,180**	**4,848,427**	**2,807,786**	**2,387,487**
Changes in operating assets and liabilities:					
Loans and advances to customers	23(b)	(10,606,157)	(16,634,128)	-	-
Loans and advances to banks	23(a)	-	115,685	-	-
Financial investments		(8,137,509)	5,713,016	-	-
Deposits held for regulatory purposes (Restricted cash)		(455,888)	(887,400)	-	-
Other assets and prepayments	24	(1,108,187)	(291,976)	1,651	6,390
Deposits with banks	32	(12,300,360)	17,856,455	-	-
Other liabilities and accrued expenses	34	427,820	12,259	16,843	10,215
Customer deposits		13,081,984	9,867,671	-	-
Trading liabilities	22	3,345,745	521,973	-	-
Net cash (used in)/generated from operating activities		**(8,486,372)**	**21,121,982**	**2,826,280**	**2,404,092**
Cash flows from investing activities:					
Additions to property and equipment	26	(373,581)	(501,881)	-	-
Additions to intangible assets	28	(558,470)	(342,427)	-	-
Proceeds from sale of property and equipment		14,612	517	-	-
Net cash used in investing activities		**(917,439)**	**(843,791)**	**-**	**-**
Cash flows from financing activities:					
Dividends paid	18	(2,834,458)	(2,352,164)	(2,834,457)	(2,352,164)
Decrease of borrowings	33	(2,495,924)	(31,354)	-	-
Net cash used in financing activities		**(5,330,382)**	**(2,383,518)**	**(2,834,457)**	**(2,352,164)**
Net (decrease)/increase in cash and cash equivalents		**(14,734,194)**	**17,894,673**	**(8,177)**	**51,928**
Foreign currency translation differences		131,276	(915,905)	-	-
Cash and cash equivalents at start of year	36(b)	39,588,922	22,610,154	108,839	56,911
Cash and cash equivalents at end of year	36(b)	**24,986,005**	**39,588,922**	**100,662**	**108,839**

The notes set out on pages 18 to 127 form an integral part of these financial statements.

Notes

1 General information

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

Stanbic Centre
Chiromo Road
P O Box 72833
00200 Nairobi

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

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

2 Significant accounting policies

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

a. Basis of preparation

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

Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

Use of estimates

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

Changes in accounting policies and disclosures

The accounting policies are consistent with those adopted in the previous year, except for the following:

(i) New and amended standards early adopted by the Company and the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016 and have a material impact on the Group:

Amendment to IAS 1 Presentation of Financial Statements (IAS 1) effective 1 January 2016

The amendment to IAS 1 clarifies that materiality applies to the whole set of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendment further explains that professional judgement should be used in determining where and in what order information should be presented in the financial statements. During the year the Group reviewed its financial statements to identify disclosures that were considered to be immaterial as well as to consider ways of better presenting financial information. The revised standards did not have any effect on the Group's reported earnings or financial statement position and had no material impact on the accounting policies.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these financial statements. The following standards and amendments set out below, are expected to have a significant effect on the financial statements of the Group;

Notes (continued)

2 Significant accounting policies (continued)

a) Basis of preparation (continued)

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- Amendment to IAS 12 – Income taxes, the amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets. The standard is effective for accounting periods beginning on or after 1 January 2017. Early adoption is permitted. The Group is in the process of determining IAS 12 full impact.

- Amendment to IAS 7 – Cash flow statements, in January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities. The standard is effective for accounting periods beginning on or after 1 January 2017. Early adoption is permitted. The Group is in the process of determining IAS 7 full impact.

- Amendments to IFRS 2 - Classification and measurement of share-based payment transactions. The IASB issued an amendment to IFRS 2, 'Share-based Payment', addressing three classification and measurement issues. The amendment addresses the accounting for cash-settled, share-based payments and equity-settled awards that include a 'net settlement' feature in respect of withholding taxes. The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is in the process of determining IFRS 2 full impact.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss (P/L). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Notes (continued)

2 Significant accounting policies (continued)

a) Basis of preparation (continued)

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

Key components within IFRS 9's expected credit loss model

Significant increase in credit risk and low credit risk
The assessment of 'significant increase in credit risk' for the Group's retail exposures will be based on changes in a customer's credit score and for the Group's corporate exposures by changes in internal credit ratings, together with expected outlook for the specific sector and industry and other relevant available information. For both the Group's retail and corporate exposures, the determination will be set to identify deterioration in credit risk before the exposure reaches a past due status of 30 days. Exposures for which there is a significant increase in credit risk but for which the credit risk is low remain in stage 1. The Group is currently determining the extent to which the low credit risk threshold will be applicable to its corporate credit exposures.

Forward-looking information
In determining whether there has been a significant increase in credit risk and in determining the expected loss calculation, IFRS 9 requires the consideration of forward looking information. The determination of 'significant increase in credit risk' is required to include consideration of all reasonable and supportable information available without undue cost or effort. This information will typically include forward looking information based on expected macroeconomic conditions, specific factors that impact individual portfolios, for example, industry outlooks and expectations of vehicle sales and house price indices for retail portfolios, performance of the customer's other products with the Group and general bureau information for retail products. The incorporation of forward looking information represents a major change from existing accounting requirements which are based on observable events. The use of such forward looking information will increase the use of management judgement and is expected to increase the volatility of impairment as a result of continuous changes in future expectations. The development of a forward looking framework is expected to be based on the Group's economic house view expectations, industry and sub-sector specific expectations as well as expert management judgement.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group is currently preparing for the adoption of IFRS 9. The IFRS 9's expected loss model will represent an impact to the group's financial results, risk metrics and regulatory capital requirements. Other key risk parameters such as economic capital, the Group's funding and liquidity and stressed earnings are also expected to be impacted by greater earnings volatility. Due to changes in impairment provisions such impact is not expected to be significant. The Group continues to assess and monitor the impact of IFRS 9 on all key risk and finance dimensions.

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.

Notes (continued)

2 Significant accounting policies (continued)

b) Basis of preparation (continued)

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer.

The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

- IFRS 16 – Leases, IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The application of the standard is however exempt for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).
    - A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.
    - One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).
- IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Group is assessing the impact of IFRS 16.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

.

Notes (continued)

2 Significant accounting policies (continued)

c) Consolidation

The consolidated financial statements incorporate the financial statements of Stanbic Holdings Plc and its subsidiaries; Stanbic Bank Kenya Limited (formerly CfC Stanbic Bank Kenya Limited), CfC Stanbic Nominees Limited, Stanbic Insurance Agency Limited, SBG Securities Limited and CfC Financial Services Nominees Limited. The financial statements have been made up to 31 December 2016.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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.

(ii) 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.

(iii) 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.

Notes (continued)

3 Significant accounting policies (continued)

iii. Disposal of subsidiaries (continued)

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.

d) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

The consolidated financial statements are presented in Kenyan Shillings (KShs), which is the Stanbic Holdings Plc's presentation currency rounded to the nearest thousand.

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 (the functional currency) which is South Sudan Pound (SSP) and Kenya Shillings (KShs).

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses are presented in statement of profit or loss within trading revenue.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in OCI.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in OCI.

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each statement of profit or loss amount are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Chief Executive Officer (CEO) with the assistance of the Group's Executive Committee (EXCO) and the Asset and Liability Committee (ALCO).

Transactions between segments are priced at market-related rates, with intra-segment revenue and costs being eliminated in Group. Income and expenses directly associated with each segment are included in determining business segment performance.

Notes (continued)

2. Significant accounting policies (continued)

f) Revenue and expenditure

Banking activities

Revenue is derived substantially from the business of banking and related activities and comprises interest income, fee and commission revenue and other non-interest revenue.

Net interest income
Interest income and expense (with the exception of those borrowing costs that are capitalised), are recognised in the statement of 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. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial 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.

Where the estimates or receipts on financial assets (except those that have been reclassified) or financial liabilities are subsequently revised, the carrying amount of the financial asset or liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset's original effective interest rate. Any adjustment to the carrying value is recognised in interest income.

Interest is recognised on the gross loan balance before taking portfolio impairment into account. Where financial assets have been specifically impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate.

Net interest income (continued)

Gains and losses on the disposal of dated financial instruments, including amounts removed from other comprehensive income in respect of available-for-sale financial assets, and excluding those classified as held for trading, are included in net interest income.

Non-interest revenue

Net fee and commission revenue
Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commission, placement fees and syndication 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.

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.

Notes (continued)

2. Significant accounting policies (continued)

f) Revenue and expenditure (continued)

Banking activities (continued)

Other revenue

Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, gains and losses on realised undated available-for-sale financial assets and, dividends relating to those financial instruments.

Net income from financial instruments designated at fair value includes all gains and losses from changes in the fair value of undated financial assets and liabilities designated at fair value through profit or loss, including dividend income arising on these financial instruments.

Gains and losses on undated available-for-sale financial assets are transferred from other comprehensive income to profit or loss on realisation of the investments. Dividends on these instruments are recognised in profit or loss.

Gains and losses on all other undated financial instruments that are not held for trading are recognised in other revenue.

Dividend income

Dividends are recognised in profit or loss when the right to receipt is established.

g) Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cash flows consist of cash and balances with Central Banks and other short term highly liquid investments with maturities of three months or less including investment securities with original maturities of 90 days or less and balances with other Groups. Cash and cash equivalents exclude the cash reserve held with Central Bank of Kenya. Cash and balances with Central Banks comprise coins and bank notes and balances with central banks.

The assets in this category had a total carrying value of KShs 24,986,005,000 at the financial reporting date of 31 December 2016 (2015: KShs 39,588,922,000).

h) Financial instruments

(i) Initial recognition and measurement

Financial instruments include all financial assets and liabilities. These instruments are typically held for liquidity, investment, trading or hedging purposes. All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss. Financial instruments are recognised (derecognised) on the date the Group commits to purchase (sell) the instruments (trade date accounting).

(ii) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classifications as follows:

a. Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity. Where the Group is to sell more than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in OCI.

Held-to-maturity investments are carried at amortised cost, using the effective interest method, less any impairment losses.

Notes (continued)

2. Significant accounting policies (continued)

h) Financial instruments (continued)

(ii) Subsequent measurement (continued)

b. Held-for-trading assets and liabilities

Held-for-trading assets and liabilities include those financial assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term, those forming part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, and commodities that are acquired principally by the Group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. Derivatives are always categorised as held-for-trading.

Subsequent to initial recognition, the financial instruments' fair values are re-measured at each reporting date. All gains and losses, including interest and dividends arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue with the exception of derivatives that are designated and effective as hedging instruments (refer to 'Derivative financial instruments and hedge accounting' within this accounting policy for further details).

c. Financial assets and liabilities designated at fair value through profit or loss

The Group designates certain financial assets and liabilities, other than those classified as held-for-trading, as at fair value through profit or loss when:

- this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. Under this criterion, the main classes of financial instruments designated by the Group are loans and advances to banks and customers and financial investments. The designation significantly reduces measurement inconsistencies that would have otherwise arisen. For example, where the related derivatives were treated as held-for-trading and the underlying financial instruments were carried at amortised cost. This category also includes financial assets used to match investment contracts, groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the Group's key management personnel on a fair-value basis. Under this criterion, certain private equity, and other investment portfolios have been designated at fair value through profit or loss; or
- financial instruments containing one or more embedded derivatives that significantly modify the instruments' cash flows.

The fair value designation is made on initial recognition and is irrevocable. Subsequent to initial recognition, the fair values are re-measured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (interest expense) for all debt financial assets (financial liabilities) and in other revenue within non-interest revenue for all equity instruments.

d. Available-for-sale

Financial assets classified by the Group as available-for-sale are generally strategic capital investments held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or non-derivative financial assets that are not classified within another category of financial assets.

Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains or losses are recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired. When debt (equity) available-for-sale financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified to interest income.

Available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial asset below its cost. The cumulative fair value adjustments previously recognised in OCI on the impaired financial assets are reclassified to profit or loss. Reversals of impairments on equity available-for-sale financial assets are recognised in OCI.

Notes (continued)

2. Significant accounting policies (continued)

h) Financial instruments (continued)

(ii) Subsequent measurement (continued)

(d) Available-for-sale (continued)

Interest income, calculated using the effective interest method, is recognised in profit or loss. Dividends received on debt (equity) available-for-sale instruments are recognised in interest income (other revenue) within profit or loss when the Group's right to receive payment has been established.

(e) Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Group as at fair value through profit or loss or available-for-sale

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the Group's loans and advances are included in the loans and receivables category.

(f) Financial liabilities at amortised cost

Financial liabilities that are neither held for trading nor designated at fair value are measured at amortised cost.

(iii) Reclassification of financial assets

The Group may choose to reclassify non-derivative trading assets out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets that would not otherwise have met the definition of loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Derivatives or any financial instrument designated at fair value through profit or loss shall not be reclassified out of their respective categories.

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. Subsequent increases in estimates of cash flows adjust the financial asset's effective interest rates prospectively.

On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

(iv) Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the loan or group of loans that can be estimated reliably.

Criteria that are used by the Group in determining whether there is objective evidence of impairment include:

- known cash flow difficulties experienced by the borrower
- a breach of contract, such as default or delinquency in interest and/or principal payments
- breaches of loan covenants or conditions
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, and
- where the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise consider.

The Group first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant.

Notes (continued)

2. Significant accounting policies (continued)

h) Financial instruments (continued)

(iv) Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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. The impairment of non-performing loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

When a loan carried at amortised cost has been identified as specifically impaired, the carrying amount of the loan is reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis includes cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial loans with similar credit risk characteristics and collectively assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment for impairment.

Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss trigger events and the date on which the Group identifies the losses).

Groups of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), are reflected within credit impairment charges in profit or loss. Previously impaired loans are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts. Any subsequent reductions in amounts previously impaired are reversed by adjusting the allowance account with the amount of the reversal recognised as a reduction in impairment for credit losses in profit or loss.

Subsequent to impairment, the effects of discounting unwind over time as interest income.

(b) Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to on-going review to determine whether they are considered to be impaired or past due.

The effective interest rate of renegotiated loans that have not been derecognised (described under the heading Derecognition of financial instruments), is predetermined based on the loan's renegotiated terms.

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have a negative impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is considered to be impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised

Notes (continued)

2. Significant accounting policies (continued)

h) Financial instruments (continued)

(iv) Impairment of financial assets (continued)

(b) Renegotiated loans (continued)

impairment losses on that financial asset, is reclassified from OCI to profit or loss.

If, in a subsequent period, the amount relating to impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

(v) 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.

(vi) Derivative financial instruments and hedge accounting

A derivative is a financial instrument whose fair value changes in response to an underlying variable, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value.

All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative, subject to offsetting principles as described under the heading Offsetting financial instruments.

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The financial host contracts are accounted for and measured applying the rules of the relevant financial instrument category.

The method of recognising fair value gains and losses depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the hedge relationship, or if they are classified as held-for-trading.

(a) Derivatives that qualify for hedge accounting

When derivatives are designated in a hedge relationship, the Group designates them as either:

- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedges)
- hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecast transaction, or a highly probable forecast intragroup transaction in the consolidated annual financial statements (cash flow hedges), or

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The Group documents, at the inception of the hedge relationship, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. The Group also documents its assessment, both at the inception of the hedge and on an on-going basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items

Notes (continued)

2. Significant accounting policies (continued)

h) Financial instruments (continued)

(vi) Derivative financial instruments and hedge accounting (continued)

(b) Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same line item in profit or loss as the related hedged item. Any hedge ineffectiveness is recognised in profit or loss as trading revenue

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The adjustment to the carrying amount of a hedged item measured at amortised cost, for which the effective interest method is used, is amortised to profit or loss as part of the hedged item's recalculated effective interest rate over the period to maturity.

(c) Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss as trading revenue.

(d) Derivatives that qualify for hedge accounting

When derivatives are designated in a hedge relationship, the Group designates them as either:

- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedges)
- hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecast transaction, or a highly probable forecast intragroup transaction in the consolidated annual financial statements (cash flow hedges), or
- Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The Group documents, at the inception of the hedge relationship, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. The Group also documents its assessment, both at the inception of the hedge and on an on-going basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items.

There were no derivatives that qualified for hedge accounting in 2016 (2015: Nil).

(vii) Borrowings

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost and interest is recognised using the effective interest method.

(viii) 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. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

Notes (continued)

2. Significant accounting policies (continued)

h) Financial instruments (continued)

(ix) Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.

In transfers where control over the asset is retained, the 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 are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss.

In all other instances, the renegotiated asset or liability's effective interest rate is predetermined taking into account the renegotiated terms.

(x) Sale and repurchase agreements and lending of securities (including commodities)

Securities sold subject to linked repurchase agreements (repurchase agreements) are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposit and current accounts or trading liabilities, as appropriate.

Securities purchased under agreements to resell (reverse repurchase agreements), at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans and included under trading assets or loans and advances, as appropriate.

For repurchase and reverse repurchase agreements measured at amortised cost, the difference between the purchase and sales price is treated as interest and amortised over the expected life using the effective interest method.

Securities lent to counterparties are retained in the annual financial statements. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability.

Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

Notes (continued)

2. Significant accounting policies (continued)

i) 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 28 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 maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly-attributable-costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

Other intangible assets

The Group recognises the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in profit or loss as incurred.

The Group capitalises brands, customer lists, customer contracts and similar rights acquired in business combinations.
Capitalised intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, not exceeding 20 years, from the date that they are available for use.
Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

Notes (continued)

2. Significant accounting policies (continued)

j) Property and equipment

Equipment and owner-occupied properties

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

Subsequent costs are included in the asset's 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. Maintenance and repairs, which do not meet these criteria, are recognised in profit or loss as incurred.

Depreciation, impairment losses and gains or losses on disposal of assets are included in profit or loss.

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 period of the lease or over a lesser period, as is considered appropriate.

The assets' residual values and useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year-end.

The estimated useful lives of tangible assets for the current financial year are as follows:

Buildings	40 years
Computer	3 to 5 years
Motor vehicles	4 to 5 years
Office equipment	5 to 10 years
Furniture and fittings	5 to 13 years
Capitalised leased assets	over the shorter of the lease term or its useful life

There has been no change to the estimated useful lives from those applied in the previous financial year.

k) Impairment of non-financial assets

Intangible assets that have an indefinite useful life and goodwill are tested annually for impairment. Intangible assets that are subject to amortisation and other non-financial assets are reviewed for impairment at each reporting date and tested for impairment 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 (cash-generating units).

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

Notes (continued)

2. Significant accounting policies (continued)

k) Impairment of non-financial assets (continued)

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.

l) Leases

Group as lessee

Leases, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance 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 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.

Leases of assets are classified as operating leases if the lessor retains a significant portion of the risks and rewards of ownership. 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. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Group as lessor

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances in the statement of financial position.

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return.

The benefits arising from investment allowances on assets leased to clients are accounted for in tax.

Leases of assets under which the Group retains a significant portion of the risks and rewards of ownership are classified as operating leases. Operating lease income from properties held as investment properties, net of any incentives given to lessees, is recognised on the straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of a penalty is recognised as income in the period in which termination takes place.

m) Provisions 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.

A provision for restructuring is recognised when the Group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

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

Notes (continued)

2. Significant accounting policies (continued)

m) Provisions and contingent liabilities (continued)

Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit pledged as collateral security. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements unless they are remote.

n) Employee benefits

(i) Defined contribution plan

The majority of the Group's employees are eligible for retirement benefits under a defined contribution plan. The Group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Group pays fixed contributions into a separate entity.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Group and employees. The Group's contributions to the defined contribution schemes are charged to the statement of profit or loss in the year in which they fall due.

(ii) 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.

Employee entitlements to annual leave are recognised when they accrue to employees.

A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the reporting date.

(iii) 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.

Notes (continued)

2. Significant accounting policies (continued)

o) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements

However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

p) Share capital

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.

q) Dividends on ordinary shares

Dividends on ordinary shares are charged to equity in the period in which they are declared.

r) 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.

s) 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.

t) Hyperinflation

The South Sudan economy has been 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.

Notes (continued)

2. Significant accounting policies (continued)

t) Hyperinflation (continued)

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.

At the beginning of the first period of application, the components of owners' equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose to the date of initial application. Non-monetary assets and liabilities are also restated at the date of initial application by applying to their cost and accumulated depreciation a general price index from the date the items were acquired to the date of initial application. The resulting adjustments determined at the beginning of the period are recognised directly in equity as an adjustment to opening retained earnings.

From the date of initial application and in subsequent periods, all components of owners' equity are 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 trading income.
All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting period.

u) Letters of Credit Acceptances

Letters of credit acceptances arise in two ways

i) Issuing Bank:

At initial recognition where the bank is the issuing bank .the banks recognises a contingent liability for the amount that the issuing bank 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 banks recognise a financial asset (at fair value) on balance sheet as part of loans and advances for the contractual right to receive cash from the applicant. Concurrency the bank recognises a financial liability (at fair value) on balance sheet 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 bank is the issuing bank .the banks recognises for amount that the confirming bank may be required to pay out to the beneficiary should the terms and conditions underlying the contract be met. The bank concurrently recognizes a contingent asset for the amount that the confirming bank may be entitled to receive from the issuing bank.

On the date that all terms and conditions underlying the contract are met:

The banks recognises a financial asset (at fair value) on balance sheet 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.

v) Comparative figures

Where necessary, comparative figures within notes have been adjusted to conform to changes in presentation in the current year.

Notes (continued)

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. 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.

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. Were the net present value of estimated cash flows from non-performing loans at year end to differ by +/-1%, the impairment loss would have been KShs 31,994,000 higher or KShs 31,994,000 lower (2015: Kshs 29,091,000 higher or KShs 29,091,000 lower).

b) Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.
Changes in assumptions about these factors could affect reported fair value of financial instruments.

c) Impairment of goodwill

The Group tests, on an annual basis, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(j). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note 28.

d) Income taxes

Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Notes (continued)

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

e) Hyperinflation

The Group exercises significant judgement in determining the onset of hyperinflation in countries in which it operates and whether the functional currency of its branches is the currency of a hyperinflationary economy.

Various characteristics of the economic environment of each country are taken into account. These characteristics include, but are not limited to, whether:

- the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency;
- Prices are quoted in a relatively stable foreign currency;
- Sales or purchase prices take expected losses of purchasing power during a short credit period into account;
- Interest rates, wages and prices are linked to a price index; and
- the cumulative inflation rate over three years is approaching, or exceeds, 100%.

Following management's assessment, the Bank's branch, Stanbic South Sudan has been accounted for as an entity operating in a hyperinflationary economy. The results, cash flows and financial position have been expressed in terms of the measuring units' current at the reporting date and the results and financial position.

The general price indices used in adjusting the results, cash flows and financial position of the branch is set out below:

The general price index used as published by the National Bureau of statistics of South Sudan is as follows;

Date	Base year	General price index	Inflation rate
31.12.2016	2015	1,219.33	480.19%

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

	2016 Kshs 000	2015 Kshs 000
Increase in revenue	427,580	-
Net monetary loss (Note 15)	1,150,687	-
Decrease in profit after tax	62,585	-

Notes (continued)

4 Operating Segments

The Group is currently organised into two business units – Corporate and Investment Banking (CIB), Personal and Business Banking (PBB). The results of the business units are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance.

The Group is required to disclose information to the users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates in compliance with IFRS 8.

An operating segment is a component of the Group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. Identification of segments and the measurement of segment results is based on the Group's internal reporting to management.

Management has determined the operating segments based on the reports reviewed by the Group's Chief Executive Officer (CEO) 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 Personal & Business Banking (PBB), Corporate and Investment Banking (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 operates one branch in the Republic of South Sudan.

Personal and Business Banking (PBB)

PBB provides banking services to individual customers and small to medium sized enterprises. The products offered include:

- Mortgage lending – provides residential accommodation loans to individual customers.
- 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.
- Card products – provides card facilities to individuals and businesses.
- Transactional and lending products – transactions in products associated with the various points of contact channels such as 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 financial services to larger corporates, financial institutions and international counterparties. The products offered include:

- Global markets – includes foreign exchange and debt securities and equities 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.
- Wealth Management & Advising.

Major customers

The Group does not have any one major customer that contributes more than 10% of its revenues; neither was there a major customer whose deposits contributed more than 10% of the Group's total deposits as at 31 December 2016.

Notes (continued)

4. Operating Segments (continued)

Results by business units

	Total KShs'000 2016	Total KShs'000 2015	CIB KShs'000 2016	CIB KShs'000 2015	PBB KShs'000 2016	PBB KShs'000 2015
Interest income	17,127,042	14,667,896	9,952,519	8,756,339	7,174,523	5,911,557
Interest expense	(6,266,995)	(5,364,849)	(4,396,983)	(3,659,579)	(1,870,012)	(1,705,270)
Net interest income	**10,860,047**	**9,303,047**	**5,555,536**	**5,096,760**	**5,304,511**	**4,206,287**
Impairment losses on loans and advances	(1,751,812)	(907,305)	(913,286)	(240,239)	(838,526)	(667,066)
Net interest income after loan impairment charges	**9,108,235**	**8,395,742**	**4,642,250**	**4,856,521**	**4,465,985**	**3,539,221**
Fees and commission income	3,242,504	3,392,725	1,514,147	1,704,498	1,728,357	1,688,227
Fees and commission expense	(337,539)	(323,723)	(155,852)	(111,768)	(181,687)	(211,955)
Net fees and commission income	**2,904,965**	**3,069,002**	**1,358,295**	**1,592,730**	**1,546,670**	**1,476,272**
Trading income	4,723,253	4,306,531	4,600,620	3,980,514	122,633	326,017
Net other operating income	29,093	265,695	16,364	132,548	12,729	133,147
Net trading and other income	**4,752,346**	**4,572,226**	**4,616,984**	**4,113,062**	**135,362**	**459,164**
Total income	**16,765,546**	**16,036,970**	**10,617,529**	**10,562,313**	**6,148,017**	**5,474,657**
Employee benefits expense	(5,440,584)	(5,035,142)	(2,431,981)	(2,350,916)	(3,008,603)	(2,684,226)
Depreciation and amortisation expense	(517,500)	(503,832)	(123,873)	(191,916)	(393,627)	(311,916)
Administrative expenses	(4,758,376)	(3,138,582)	(2,961,650)	(1,543,705)	(1,796,726)	(1,594,877)
Profit before income tax	**6,049,086**	**7,359,414**	**5,100,025**	**6,475,775**	**949,061**	**883,638**
Income tax expense	(1,630,497)	(2,453,680)	(1,253,511)	(2,160,402)	(376,986)	(293,278)
Profit for the year	**4,418,589**	**4,905,734**	**3,846,514**	**4,315,373**	**572,075**	**590,360**

Notes (continued)

4. Operating Segments (continued)

Results by business units (continued)

The Group is domiciled in Kenya and the revenue and non-current assets by country of domicile are included in the sections below:

Statement of financial position	Total Group Kshs'000 2016	Total Group Kshs'000 2015	CIB Kshs'000 2016	CIB Kshs'000 2015	PBB Kshs'000 2016	PBB Kshs'000 2015
Assets						
Cash and balances with Central Bank of Kenya	8,621,228	11,350,098	7,871,308	10,322,589	749,920	1,027,509
Financial assets	52,927,188	48,701,992	51,190,442	48,701,992	1,736,746	-
Derivative assets	2,472,191	4,377,196	2,472,191	4,377,196	-	-
Loans and advances	132,576,604	128,163,157	79,568,258	78,676,781	53,008,346	49,486,376
Property, equipment and intangibles	3,397,362	3,056,126	1,339,229	1,147,278	2,058,133	1,908,848
Goodwill	9,349,759	9,349,759	9,349,759	9,349,759	-	-
Deferred income tax	1,407,363	361,322	905,178	264,412	502,185	96,910
Current income tax	113,547	382,965	104,111	258,684	9,436	124,281
Other receivables and prepayments	3,817,487	2,709,300	1,089,892	1,003,105	2,727,595	1,706,195
Total assets	**214,682,729**	**208,451,915**	**153,890,368**	**154,101,796**	**60,792,361**	**54,350,119**
Liabilities						
Deposits	155,835,043	153,670,812	98,750,135	100,052,866	57,084,908	53,617,946
Current income tax	1,402,810	89,535	803,853	66,228	598,957	23,307
Trading liabilities	3,867,718	521,973	3,867,718	521,973	-	-
Derivative liabilities	3,061,063	3,361,440	3,061,063	3,361,440	-	-
Borrowings	3,986,138	6,482,063	2,733,649	4,145,719	1,252,489	2,336,344
Other liabilities and accrued expenses	6,389,083	5,961,263	4,937,001	3,754,482	1,452,082	2,206,781
Total liabilities	**174,541,855**	**170,087,086**	**114,153,419**	**111,902,708**	**60,388,436**	**58,184,378**
Shareholders' equity	**40,140,874**	**38,364,829**	**27,286,735**	**28,182,316**	**12,854,139**	**10,182,513**
Funding	-	-	12,450,214	14,016,772	(12,450,214)	(14,016,772)
Total equity and liabilities	**214,682,729**	**208,451,915**	**153,890,368**	**154,101,796**	**60,792,361**	**54,350,118**
Other information						
Additions to property and equipment	373,581	501,881	102,065	139,667	271,516	362,214
Additions to intangible assets	558,470	342,425	489,763	75,930	68,707	266,495
Impairment losses on property and equipment	76,853	25,584	19,601	1,032	57,252	24,552

Notes (continued)

4. Operating Segments (continued)

Results by geographical area (continued)

Statement of profit or loss

	Total Kshs'000	Total Kshs'000	South Sudan Kshs'000	South Sudan Kshs'000	Kenya Kshs'000	Kenya Kshs'000
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Interest income	17,127,042	14,667,896	3,837	12,265	17,123,205	14,655,631
Interest expense	(6,266,995)	(5,364,849)	(2)	-	(6,266,993)	(5,364,849)
Net interest income	**10,860,047**	**9,303,047**	**3,835**	**12,265**	**10,856,212**	**9,290,782**
Impairment losses on loans and advances	(1,751,812)	(907,305)	(409,806)	-	(1,342,006)	(907,305)
Net interest income after loan impairment charges	**9,108,235**	**8,395,742**	**(405,971)**	**12,265**	**9,514,206**	**8,383,477**
Fees and commission income	3,242,504	3,392,725	391,147	270,739	2,851,357	3,121,986
Fees and commission expense	(337,539)	(323,723)	(24,154)	(2,842)	(313,385)	(320,881)
Net fees and commission income	**2,904,965**	**3,069,002**	**366,993**	**267,897**	**2,537,972**	**2,801,105**
Trading income	4,723,253	4,306,531	1,423,890	768,347	3,299,363	3,538,184
Net other operating income	29,093	265,695	-	120,202	29,093	145,493
Net trading and other income	**4,752,346**	**4,572,226**	**1,423,890**	**888,549**	**3,328,456**	**3,683,677**
Employee benefits	(5,440,584)	(5,035,142)	(329,833)	(328,280)	(5,110,751)	(4,706,862)
Depreciation and amortisation expense	(517,500)	(503,832)	(7,300)	(42,113)	(510,200)	(461,719)
Other expenses	(4,758,376)	(3,138,582)	(1,562,041)	(333,180)	(3,196,335)	(2,805,402)
Profit before tax	**6,049,086**	**7,359,414**	**(514,262)**	**465,138**	**6,563,348**	**6,894,276**
Income tax expense	(1,630,497)	(2,453,680)	(12,027)	(89,148)	(1,618,470)	(2,364,532)
Profit for the year	**4,418,589**	**4,905,734**	**(526,289)**	**375,990**	**4,944,878**	**4,529,744**

Notes (continued)

4. Operating Segments (continued)

Results by geographical area (continued)

Statement of financial position

	Total Kshs'000 2016	Total Kshs'000 2015	South Sudan Kshs'000 2016	South Sudan Kshs'000 2015	Kenya Kshs'000 2016	Kenya Kshs'000 2015
Assets						
Cash and balances with Central Bank of Kenya	8,621,228	18,286,126	1,658,560	7,703,815	6,962,668	10,582,311
Financial assets	52,927,188	48,701,992	6,387	58,752	52,920,801	48,643,240
Derivative assets	2,472,191	4,377,196	4	-	2,472,187	4,377,196
Loans and advances	136,658,694	124,381,139	10,501,783	2,495,611	126,156,911	121,885,528
Property, equipment and intangibles	3,397,362	3,056,126	74,235	51,676	3,323,127	3,004,450
Goodwill	9,349,759	9,349,759	-	-	9,349,759	9,349,759
Deferred income tax	1,407,363	361,322	(7,699)	3,032	1,415,062	358,290
Current income tax	113,547	382,965	33,965	-	79,582	382,965
Other receivables and prepayments	5,995,766	4,332,139	2,346,026	27,783	3,649,740	4,304,356
Total assets	**220,943,098**	**213,228,764**	**14,613,261**	**10,340,669**	**206,329,837**	**202,888,095**
Liabilities						
Deposits	159,915,664	156,836,037	9,540,521	7,811,037	150,375,143	149,025,000
Current income tax	1,402,810	89,535	-	80,305	1,402,810	9,230
Trading liabilities	3,867,718	521,973	-	-	3,867,718	521,973
Derivative liabilities	3,061,063	3,361,440	1,308	-	3,059,755	3,361,440
Borrowings	3,986,138	6,482,063	-	-	3,986,138	6,482,063
Other liabilities and accrued expenses	8,568,831	7,572,887	4,719,135	1,795,504	3,849,696	5,777,383
Total liabilities	**180,802,224**	**174,863,935**	**14,260,964**	**9,686,846**	**166,541,260**	**165,177,089**
Shareholders' equity	**40,140,874**	**38,364,829**	**352,297**	**653,823**	**39,788,577**	**37,711,006**
Total equity and liabilities	**220,943,098**	**213,228,764**	**14,613,261**	**10,340,669**	**206,329,837**	**202,888,096**
Other information						
Additions to property and equipment	373,581	501,881	4,466	4,466	369,115	497,415
Additions to intangible assets	558,470	342,427	703	705	557,767	341,722
Impairment losses on property and equipment	76,853	25,584	-	-	76,853	25,584

Notes (continued)

4. Operating Segments (continued)

Results by geographical area (continued)

Reconciliation of reportable assets and liabilities

Assets	**2016 KShs'000**	**2015 KShs'000**
Total assets for reportable segments	220,943,098	213,228,766
Elimination of inter-branch balances with South Sudan	(6,260,369)	(4,776,849)
Entity's assets	**214,682,729**	**208,451,917**
Liabilities		
Total liabilities for reportable segments	220,943,098	213,228,766
Elimination of inter-branch balances with South Sudan	(6,260,369)	(4,776,849)
Entity's liabilities	**214,682,729**	**208,451,917**

5 Financial risk management

Group risk management framework and governance structures

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

- Credit risk
- Liquidity risk
- Market risks
- 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 in the operating subsidiaries, 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 and the respective subsidiary 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.

Notes (continued)

5 Financial risk management (continued)

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 Audit 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 Committees.

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. The Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

The Group also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-statement of financial position loans and advances; the Group also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Group also trades in financial instruments where it takes positions in traded and over-the-counter instruments to take advantage of short-term market movements in bonds, currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Foreign exchange and interest rate exposures associated with derivatives are normally offset by entering into counter-balancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Notes (continued)

5 Financial risk management (continued)

a) Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- To comply with the capital requirements set by the regulator, Capital Markets 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.
- To maintain a strong capital base to support the development of its business; and
- To comply, at the operating companies level, with capital requirements set by respective regulators such as the Central Bank of Kenya and Bank of South Sudan.

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.

Total capital is calculated as equity plus net debt.

	2016 KShs'000	2015 KShs'000
Total borrowings	-	-
Total equity	18,236,650	18,236,650
Gearing ratio	**-**	**-**

The Board of Directors at the subsidiary companies are responsible for monitoring and ensuring compliance with the regulatory framework as established by the regulating bodies, namely Central Bank of Kenya, Capital Markets Authority, Bank of South Sudan and the Nairobi Securities Exchange. This section presents information about the Group's management of capital in the main operating divisions.

Notes (continued)

5 Financial risk management (continued)

a) Capital management (continued)

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 regulator, Capital Markets 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.
- To maintain a strong capital base to support the development of its business; and
- To comply, at the operating companies level, with capital requirements set by respective regulators such as the Central Bank of Kenya and Bank of South Sudan.

The Group 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 Bank 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 Bank is required at all times to maintain:

- A minimum level of regulatory capital of KShs 1 billion as at 31 December 2016;
- A core capital (tier 1) of not less than 10.5 %(2015: 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 10.5% (2015: 10.5%)of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 14.5% (2015: 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)

5. Financial risk management (continued)

a) Capital management (continued)

Capital management - Group (continued)

Tier 1 capital consists of shareholders' equity comprising paid up share capital, share premium and retained earnings less intangible assets, goodwill and investments in subsidiary institutions and equity instruments of other institutions. Tier 2 capital includes the Bank's term subordinated debt and regulatory loan loss reserves and cannot exceed tier 1 capital. Regulatory loan loss reserves qualifying as tier 2 capital cannot exceed 1.25% of the risk weighted assets total value. The Bank has complied with these requirements.

The Bank's capital adequacy level was as follows:

	2016 KShs'000	2015 KShs'000
Tier 1 capital (Core capital)		
Share capital	3,411,549	3,411,549
Share premium	3,444,639	3,444,639
Foreign currency translation reserve	(869,568)	(1,094,225)
Retained earnings	22,604,156	20,119,010
Total Tier 1 capital (Core capital)	**28,590,776**	**25,880,973**
Tier 2 capital		
Regulatory credit risk reserve	65,597	195,697
Qualifying subordinate liabilities	3,919,701	4,274,558
Total Tier 2 capital	**3,985,298**	**4,470,255**
Total capital (Tier 1 + Tier 2)	**32,576,074**	**30,351,228**
Risk - weighted assets		
Operational risk	30,290,338	28,772,589
Market risk	14,483,350	10,530,868
Credit risk on-statement of financial position	120,422,923	107,210,903
Credit risk off-statement of financial position	14,554,692	15,769,803
Total risk - weighted assets	**179,751,303**	**162,284,163**
Capital adequacy ratios		
Core capital / total deposit liabilities	23.10%	23.50%
Minimum statutory ratio	8.00%	8.00%
Core capital / total risk - weighted assets	15.90%	15.90%
Minimum statutory ratio	10.50%	10.50%
Total capital / total risk - weighted assets	18.10%	18.70%
Minimum statutory ratio	14.50%	14.50%

Notes (continued)

5. Financial risk management (continued)

b) 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.

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 Bank's capital.

The Group has set in place comprehensive resources, expertise and controls to ensure efficient and effective management of credit risk.

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
- ensuring that there is expert scrutiny and independent approval of credit risks and their mitigation.

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

General approach to managing credit risk (continued)

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.

Management reporting

A number of reports are prepared as management information on credit risk. Various analyses of the data are done and a variety of reports are prepared on a monthly and quarterly basis. Some of these reports include:

- Monthly BCRC Report
- Quarterly Board Audit Report
- Quarterly Board Risk Report
- Regulatory returns
- Half-year results
- Annual financial statements

These reports are distributed to Standard Bank Group controlling divisions, regulators and are available for inspection by authorised personnel.

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

General approach to managing credit risk (continued)

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 Bank 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 banks at a counter-party level, the Bank 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 Bank derives the 'exposure at default'; and
(iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

Probability of default

The bank 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 bank 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

Loss given default (LGD) 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

Exposure at default (EAD) 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.

Debt securities

For debt securities, external rating such as Standard & Poor's rating or their equivalents are used by Bank Treasury for managing of the credit risk exposures as supplemented by the Bank's own assessment through the use of internal ratings tools.

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

General approach to managing credit risk (continued)

Relationship between the bank master rating and external ratings

Core Banking system rating scale	Moody's Investor Services	Standard & Poor's	Fitch	Grading	Credit quality
1-4	Aaa, Aa1, Aa2,Aa3	AAA,AA+,AA,AA-	AAA, AA+,AA,AA-	Investment grade	Normal monitoring
5-7	A1, A2, A3	A+, A, A-	A+ A, A-		
8-12	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-		
13-21	Ba1, Ba2, Ba3, B1, B2, B3	BB+, BB, BB-, B+, B, B-	BB+,BB, BB-, B+,B, B-	Sub- investment grade	
22-25	Caa1, Caa2, Caa3,Ca	CCC+,CCC,CCC-	CCC+,CCC,CCC-		Closing monitoring
Default	C	D	D	D	D

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

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 Bank 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- 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:

i. 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
- Personal and Business Banking

The Group has established separate credit management functions for each market segment.

Corporate and Investment Banking (CIB) - (Corporate, sovereign and Bank portfolios)

Corporate, sovereign and bank borrowers include Kenyan and international companies, sovereigns, local government entities, bank financial institutions, non-bank financial institutions and public sector entities. The entities include large companies as well as small and medium enterprises that are managed on a relationship basis. Creditworthiness is assessed based on a detailed individual assessment of the financial strength of the borrower. Exposure is usually in the form of short and long-term loans and advances but may include exposures arising from derivative contracts. In these sectors, credit risk management is characterised by a close working relationship between the counter-party, the customer relationship team and an independent credit evaluation manager. The credit evaluation manager bases his lending decision on an in-depth knowledge of the counterparty and the industry in which it operates, as well as an assessment of the creditworthiness of the counter-party based on a review of the audited financial statements and underlying risk parameters.

CIB believes that the use of sophisticated modelling techniques combined with an in-depth knowledge and understanding of each client is essential in properly assessing the credit risk, both initially and on an on-going basis, of each counterparty with whom it deals.

To this end CIB uses software developed by third party vendors, which is widely used by the banking industry globally in its credit management process. Expected default frequencies are an important tool in the formal credit assessment process of both new and existing business, and also form the basis for monitoring changes in counterparty credit quality on a day to day basis. Expected default frequencies will continue to be a vital component of credit risk management as the Bank continues to improve credit processes and increases focus on portfolio credit management.

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

i. Credit tailored to customer profile (continued)

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.

ii. 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.

iii. 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 Bank’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.

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

iv. Derivatives

For derivative transactions, the bank 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.

v. Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The main types of collateral taken are:

Personal and Business Banking	
Mortgage lending	First ranking legal charge over the property financed.
Instalment sales	Joint registration of vehicles.
Other loans and advances	Debentures over the Company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and Company guarantees
Corporate and Investment Banking	
Corporate lending .	All assets debenture over the Company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and Company guarantees

Longer-term finance and lending to corporate entities is generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise possible credit loss the Group seeks additional collateral from the counter-party as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

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.

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

v. Collateral (continued)

The table on the following page shows the financial effect that collateral has on the bank's maximum exposure to credit risk. The table includes collateral that management takes into consideration in the management of the bank'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
- 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 bank's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions.

The Group does not hold collateral which t it is permitted to use in the absence of default by the customers.

In the retail portfolio, 80% (2015: 79%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures above 50% collateral coverage category is 100% (2015: 71%). Of the bank's total exposure, 14% (2015: 42%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

v) Collateral (continued)

31 December 2016	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	92,687,711	2,615,689	90,072,022	-	90,072,022	-	90,072,022	-
Sovereign	64,640,257	64,640,257	-	-	-	-	-	-
Group	12,575,544	12,575,544	-	-	-	-	-	-
Retail	59,287,265	7,726,870	51,560,395	-	51,560,395	-	51,560,395	-
-Retail mortgage	15,349,065	-	15,349,065	-	15,349,065	-	15,349,065	-
-Other retail	43,938,200	7,726,870	36,211,330	-	36,211,330	-	36,211,330	-
Total	**229,190,777**	**87,558,360**	**141,632,417**	**-**	**141,632,417**	**-**	**141,632,417**	**-**
Add: Financial assets not exposed to credit risk	5,389,128							
Add: Coins and Group notes	1,571,641							
Add: Other financial assets	3,817,487							
Less: Impairments for loans and advances	(3,591,243)							
Less: Unrecognised off balance sheet items	(30,573,964)							
Total exposure	**200,414,698**							
Reconciliation to balance sheet								
Cash and balances with central banks	8,621,228							
Derivative assets	2,472,191							
Financial investments	50,032,732							
Trading assets	-							
Pledged assets	2,894,456							
Other financial assets	3,817,487							
Net loans and advances	132,576,604							
Total on – balance sheet exposure	**200,414,698**							

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

v) Collateral (continued)

31 December 2015	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	96,591,565	3,932,693	92,658,872	-	92,658,872	5,666,386	81,892,739	5,099,747
Sovereign	53,111,448	53,111,448	-	-	-	-	-	-
Group	23,114,332	23,114,332	-	-	-	-	-	-
Retail	51,477,882	10,606,843	40,871,039	-	40,871,039	2,280,152	36,538,751	2,052,137
-Retail mortgage	18,032,914	-	18,032,914	-	18,032,914	-	18,032,914	-
-Other retail	33,444,968	10,606,843	22,838,125	-	22,838,125	2,280,153	18,505,835	2,052,137
Total	**224,295,229**	**90,765,316**	**133,529,913**	**-**	**133,529,913**	**7,946,538**	**118,431,490**	**7,151,884**
Add: Financial assets not exposed to credit risk	10,799,100							
Add: Coins and Group notes	9,632,761							
Add: Other financial assets	1,166,339							
Less: Impairments for loans and advances	(2,430,402)							
Less: Unrecognised off balance sheet items	(37,362,184)							
Total exposure	**195,301,743**							
Reconciliation to balance sheet								
Cash and balances with central banks	11,350,098							
Derivative assets	4,377,196							
Financial investments	29,012,415							
Trading assets	16,250,195							
Pledged assets	3,439,383							
Other financial assets	2,709,299							
Net loans and advances	128,163,157							
Total on – balance sheet exposure	**195,301,743**							

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

(v) Collateral (continued)

Repossessed Collateral
Assets repossessed as at the end of the year comprise saloon vehicles, prime movers and trailers, which had been financed by the Group under Vehicle and Asset Finance (VAF) and residential and commercial property financed under personal markets. As at the year end, the Group had taken possession of the following:

	2016 KShs'000	2015 KShs'000
Nature of assets		
Residential property	33,900	47,600
Other	246,892	178,780
	280,792	**226,380**

It is the Group's policy to dispose of repossessed properties on the open market, at fair market value. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

(vi) 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 table below shows the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated, by class;

	2016 KShs'000	2015 KShs'000
Personal and Business Banking		
Instalment sales and finance leases	535,217	407,790
Other loans and advances	7,000,550	533,184
Corporate and Investment Banking		
	-	-
	7,535,767	**940,974**

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

(vii) Impairment and provisioning policy

The internal and external rating systems described above focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment (see accounting policy 2.5 (iv)) Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is lower than the amount determined from the expected loss model used for internal operational management and banking regulation purposes. The difference between the two methodologies is captured in the statutory reserve in equity (Note 40).

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

The credit quality of financial assets is managed by the Group using the Group's internal credit rating system. The credit rating system utilises both quantitative and qualitative information in arriving at the credit rating. Financial information is used and is key in arriving at the credit rating of individual borrowers. The qualitative information used in generating the credit rating includes quality of management, account operation and the industry in which the customer operates. The key consideration though remains the ability of the customer to meet its financial obligation from its cash flow.

The impairment provision shown in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two grading (doubtful and loss categories).

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

(vii) Impairment and provisioning policy (continued)

Criteria for classification of loans and advances

Performing loans

Neither past due nor specifically impaired loans: are loans that are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated 1 to 21, and close monitoring loans are generally rated 22 to 25 using the bank's master rating scale.

Early arrears but not specifically impaired loans: include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse conditions persist.

Non-performing loans

Non-performing loans are those loans for which:

- the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition, or
- instalments are due and unpaid for 90 days or more.
- *Non-performing specifically impaired loans*: are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows.

Specifically impaired loans are further analysed into the following categories:

- *Sub-standard:* Items that show underlying well-defined weaknesses and are considered to be specifically impaired.
- *Doubtful:* Items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items.
- *Loss:* Items that are considered to be uncollectible in whole or in part. The bank provides fully for its anticipated loss, after taking collateral into account.

(viii) Credit Quality

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 4.2.5. The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both the loan and advances portfolio and debt securities based on the following:

- 61% of the total maximum exposure is derived from loans and advances to customers (2015: 54%);
- 26% represents investments in debt securities (2015: 25%)
- 86% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2015: 78%);
- 96% of the loans and advances portfolio are considered to be neither past due nor impaired (2015: 96%); and
- 100% of all the debt securities, which the Bank has invested in, are issued by the Central Bank of Kenya (2015: 99%).

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

(viii) Credit quality (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 2016			Performing loans			Non-performing loans											
		Balance sheet impairments for performing loans KShs'000 2016	Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans										
							NPL NET OF IIS										
	Total loans and advances to customers KShs'000 2016		Normal monitoring KShs'000	Close monitoring KShs'000	Early arrears KShs'000 2016	Non-performing KShs'000	Sub-standard KShs'000	Doubtful KShs'000 2016	Loss KShs'000 2016	Total KShs'000 2016	Securities and expected	Net after securities and	Balance sheet impairments	Gross specific impairment	Total non-performing loans KShs'000 2016	Non-performing loans %	Interest in Suspense KShs'000 2016
	N=A+B+C+L		A	B	C	D	E	F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
Personal and Business Banking	**54,412,989**	**557,425**	**39,123,400**	**6,804,408**	**5,289,665**	**-**	**2,152,939**	**577,497**	**465,081**	**3,195,516**	**1,819,197**	**1,376,319**	**1,376,319**	**43%**	**3,195,516**	**6%**	**394,450**
- Mortgage lending	18,109,187	91,239	13,191,151	2,727,613	1,539,175		650,992	-	256	651,247	528,532	122,715	122,715	19%	651,247	4%	159,772
- Instalment sales and finance leases	12,338,712	181,505	8,547,258	391,217	2,414,834		445,331	539,097	974	985,402	452,178	533,224	533,224	54%	985,402	8%	115,737
- Card debtors	433,312	10,969	374,556	-	43,337		-	-	15,419	15,419	7,907	7,513	7,513	49%	15,419	4%	-
- Other loans and advances	23,531,779	273,712	17,010,434	3,685,578	1,292,319		1,056,616	38,400	448,432	1,543,447	830,580	712,867	712,867	46%	1,543,447	7%	118,941
Corporate and Investment Banking	**64,307,402**	**921,752**	**54,344,347**	**-**	**7,294,814**	**57,866**	**2,602,921**	**7,454**	**-**	**2,610,375**	**2,707,971**	**(97,596)**	**277,172**	**11%**	**2,668,241**	**4%**	**784,064**
- Corporate lending	64,307,402	921,752	54,344,347	-	7,294,814	57,866	2,602,921	7,454	-	2,610,375	2,707,971	(97,596)	277,172	11%	2,668,241	4%	784,064
Gross loans and advances to customers	**118,720,391**	**1,479,177**	**93,467,747**	**6,804,408**	**12,584,479**	**57,866**	**4,755,859**	**584,952**	**465,081**	**5,805,891**	**4,527,169**	**1,278,723**	**1,653,491**	**28%**	**5,863,757**	**5%**	**1,177,565**
Percentage of total book (%)	100.00%	1.25%	78.73%	5.73%	10.60%	0.05%	4.01%	0.49%	0.39%	4.89%	3.81%	1.08%	1.39%		4.94%		0.99%
Less:																	
Balance sheet impairment for performing loans and advances	(1,479,177)																
Balance sheet impairment for non-performing loans and advances	(1,653,491)																
Net loans and advances to customers	**115,587,723**																

Notes (continued)

5. Financial risk management (continued)

(b) Credit risk (continued)

(viii) Credit quality (continued)

Year ended 31 December 2015	Total Loans and Advances to Customers (Net of IIS)	Balance sheet impairments for performing loans	Performing loans – Neither past due nor specifically impaired: Normal monitoring	Performing loans – Neither past due nor specifically impaired: Close monitoring	Performing loans – Not specifically impaired: Early arrears	Not specifically impaired: Non-performing	Specifically impaired loans – Non-performing loans: Sub-standard	Specifically impaired loans – Non-performing loans: Doubtful	Specifically impaired loans – Non-performing loans: Loss	Total	Securities and expected recoveries on specifically	Net after securities and expected recoveries on specifically impaired	Balance sheet impairments for non-performing specifically impaired loans	Gross Specific Impairment Coverage	Total non-performing loans	Non-performing loans	Interest in Suspense LCY'000
	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 %	2015 Kshs'000	2015 %	2015 Kshs'000
	N=A+B+C+L-M		A	B	C	D	E	F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
Personal & Business Banking	**51,119,214**	**589,025**	**36,471,462**	**5,992,222**	**6,167,723**	**-**	**1,903,928**	**261,532**	**620,175**	**2,785,635**	**1,404,643**	**1,380,992**	**1,083,164**	**44**	**2,686,177**	**4.9**	**297,828**
Mortgage lending	17,891,656	102,202	12,705,282	2,846,400	1,644,624	-	832,832	-	3,778	836,610	576,617	259,993	118,733	14.2	836,610	4.7	141,260
Instalment sales and finance leases	10,952,446	211,999	7,070,353	388,864	2,737,022	-	513,542	251,918	47,857	813,317	367,120	446,197	389,087	47.8	813,317	7.4	57,110
Card debtors	286,220	-	227,248		49,298	-	-	-	9,674	9,674	262	9,412	9,412	97.3	9,674	3.4	-
Other Loans and Advances	21,988,892	274,824	16,468,579	2,756,958	1,736,779	-	557,554	9,614	558,866	1,126,034	460,644	665,390	565,932	50.3	1,026,576	4.7	99,458
Overdrafts	*763,607*	*13,209*	*354,844*	*183,780*	*212,204*	-	*562*	*1,887*	*10,866*	*13,315*	*-5,882*	*19,197*	*18,661*	*140.2*	*13,315*	*1.7*	*536*
Term Loans	*9,854,983*	*159,659*	*8,345,010*	*320,153*	*682,982*	-	*64,787*	*3,067*	*493,355*	*561,209*	*49,515*	*511,694*	*457,323*	*81.5*	*561,209*	*5.7*	*54,371*
Business Term Loans and Overdrafts	*11,370,302*	*101,956*	*7,768,725*	*2,253,025*	*841,593*	-	*492,205*	*4,660*	*54,645*	*551,510*	*417,011*	*134,499*	*89,948*	*16.3*	*551,510*	*4.9*	*44,551*
Corporate & Investment Banking	**56,292,754**	**570,224**	**36,676,994**	**4,176,834**	**13,756,292**	**124,542**	**1,920,102**	**28,115**	**-**	**1,948,217**	**1,370,103**	**578,114**	**187,989**	**9.6**	**2,072,759**	**3.7**	**390,125**
Corporate loans	56,292,754	570,224	36,676,994	4,176,834	13,756,292	124,542	1,920,102	28,115	-	1,948,217	1,370,103	578,114	187,989	9.6	2,072,759	3.7	390,125
Gross loans and advances	**107,411,968**	**1,159,249**	**73,148,456**	**10,169,056**	**19,924,015**	**124,542**	**3,824,030**	**289,647**	**620,175**	**4,733,852**	**2,774,746**	**1,959,106**	**1,271,153**	**26.9**	**4,758,936**	**4.4**	**687,953**
Percentage of total book (%)	**100%**	**1.08%**	**68.10%**	**9.47%**	**18.55%**	**0.12%**	**3.56%**	**0.27%**	**0.58%**	**4.41%**	**2.58%**	**1.82%**	**1.18%**		**4.43%**		**0.64%**
Less:																	
Balance sheet impairment for performing loans	(1,159,249)																
Balance sheet impairments for non-performing specifically impaired loans	(1,271,153)																
Net loan advances to customers	**104,981,566**																

Notes (continued)

5. Financial risk management (continued)

b) Credit risk management (continued)

(viii) Credit quality (continued)

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		
31 December 2016	**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	**3,435,980**	**1,342,009**	**511,677**	**-**	**-**	**5,289,666**
Mortgage lending	975,673	372,007	191,496	-	-	1,539,176
Instalment sales and finance leases	1,488,613	737,579	188,642	-	-	2,414,834
Other loans and advances	971,694	232,423	131,539		-	1,335,656
						-
Corporate and Investment Banking	**5,882,040**	**5**	**1,412,770**	**-**	**57,866**	**7,352,680**
Corporate lending	5,882,040	5	1,412,770	-	57,866	7,352,680
Total recognised financial instruments	**9,318,020**	**1,342,014**	**1,924,447**	**-**	**57,866**	**12,642,346**
31 December 2015						
Personal and Business Banking	**4,184,395**	**1,368,090**	**615,238**	**-**	**-**	**6,167,723**
Mortgage lending	1,045,668	347,436	251,522	-	-	1,644,626
Instalment sales and finance leases	1,776,396	730,076	230,550	-	-	2,737,022
Other loans and advances	1,362,331	290,578	133,166	-	-	1,786,075
						-
Corporate and Investment Banking	**13,034,037**	**309,417**	**412,838**	**-**	**124,542**	**13,880,834**
Corporate lending	13,034,037	309,417	412,838	-	124,542	13,880,834
	-					-
Total recognised financial instruments	**17,218,432**	**1,677,507**	**1,028,076**		**124,542**	**20,048,557**

Notes (continued)

5. Financial risk management (continued)

c) 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.

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, ICAAP stakeholders, Shareholders (Annual financial statements); Rating agencies; Central Bank of Kenya and other regulators.

Notes (continued)

5. Financial risk management (continued)

c) Market risk (continued)

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.

Approved regulatory capital approaches

The Group applies the Standardized Approach for calculating market risk capital. The standardized 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 and commodities risk 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 and commodities related instruments. This is because changes in FX rates and commodities prices are completely dependent on general market movements.

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.

Approach to managing market risk in the trading book

The Group's 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 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)

5. Financial risk management (continued)

c) Market risk (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 bank has received internal model approval, the market risk regulatory capital requirement is based on VaR and SVaR, both of which use a confidence level of 99% and a 10-day holding period.

Limitations of historical VaR are acknowledged globally and include:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.
- The use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully.
- The use of a 95% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intraday exposures.
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

b. Stop-loss triggers

Stop-loss triggers are used to protect the profitability of the trading desks, and are monitored by market risk on a daily basis. The triggers constrain cumulative or daily trading losses through acting as a prompt to a review or close-out positions.

c. Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical and hypothetical simulations. Daily losses experienced during the year ended 31 December 2016 did not exceed the maximum tolerable losses as represented by the bank's stress scenario limits.

Notes (continued)

5. Financial risk management (continued)

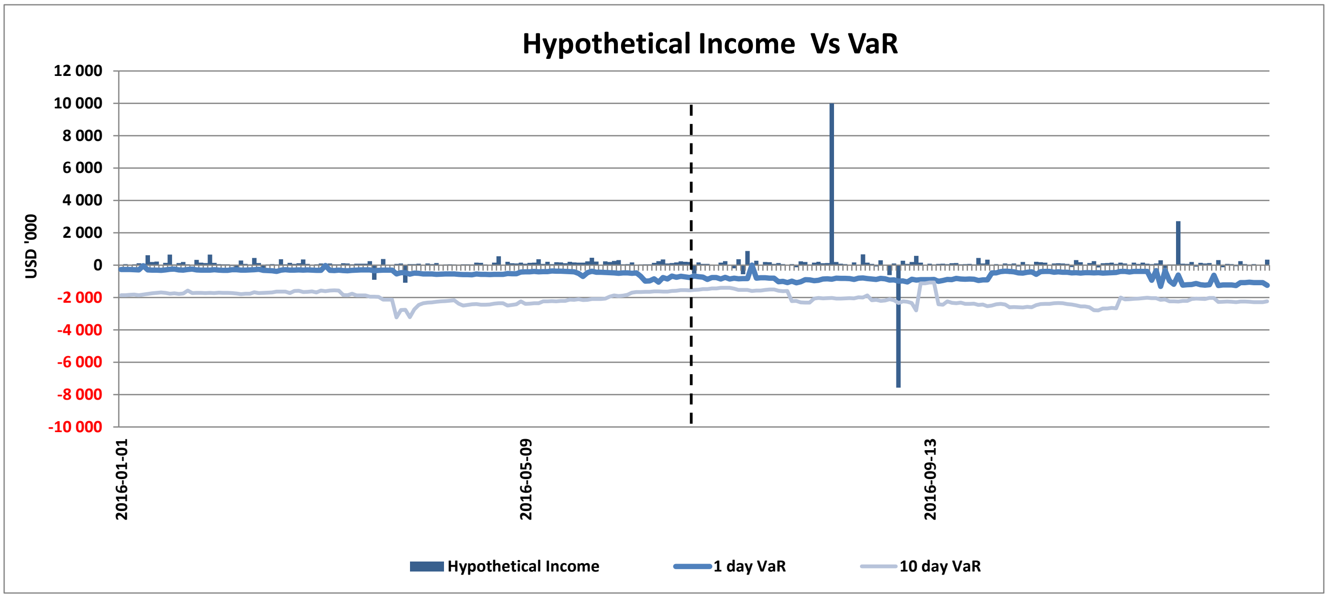
c) Market risk (continued)

(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.

Refer to the graph below for the results of the bank's back-testing during 2016. The increased volatility in the normal VaR towards the end of the year reflects market volatility following USD appreciation on the back of Fed rate hike and the US elections.

We categorize a VaR model as green, amber or red and assign regulatory capital multipliers based on this categorization. A green model is consistent with a satisfactory VaR model and is achieved for models that have thirteen or less back-testing exceptions in a 12-month period. All the bank's approved models were assigned green status for the year ended 31 December 2016 (2015: green).



(e) Specific business unit and product controls

Other market risk limits and controls specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor, stop-loss triggers, price validation and balance sheet substantiation.

Notes (continued)

5. Financial risk management (continued)

c) Market risk (continued)

(f) Trading book portfolio characteristics

VaR for the year under review

Trading book market risk exposures arise mainly from residual exposures from client transactions and limited trading for the Group's own account. In general, the Group's trading desks have run low levels of market risk throughout the year ended 31 December 2016.

Trading book normal VaR analysis by book (KShs '000)

Desk Name	Maximum	Minimum	Average	31-Dec-2016	31-Dec-2015
Bank wide	151,584	9	46,587	53,491	21,059
FX Trading	155,911	3,616	34,994	41,581	4,498
Consolidated Interest Rate Trading	63,240	8,691	24,113	19,355	20,855
Money Markets Trading	62,749	17,387	26,941	28,524	20,855
Fixed Income Trading	11,605	6	2,817	6	-
Credit Trading	498	224	390	227	409
Derivatives	248	1	24	23	-

Trading book normal VaR analysis by book (KShs '000)

Desk Name	Maximum	Minimum	Average	31-Dec-2015	31-Dec-2014
Bank wide	48,354	12,165	26,682	21,059	27,818
FX Trading	11,654	1,636	4,600	4,498	3,232
Consolidated Interest Rate Trading	49,376	11,654	26,886	20,855	27,882
Money Markets Trading	29,033	11,450	17,890	20,855	13,950
Fixed Income Trading	24,842	-	8,178	-	14,647
Credit Trading	818	307	511	409	724
Derivatives	-	-	-	-	-

Notes (continued)

5. Financial risk management (continued)

c) Market risk (continued)

(f) Trading book portfolio characteristics (continued)

VaR for the year under review (continued)

Trading book stress VaR analysis by book (KShs '000)

Desk Name	Maximum	Minimum	Average	31-Dec-2016	31-Dec-2015
Bank wide	774,818	755	325,410	310,317	2,866
FX Trading	116,372	29,608	60,659	66,140	414
Consolidated Interest Rate Trading	892,281	65,421	293,119	249,416	2,749
Money Markets Trading	891,496	91,402	315,060	322,731	2,729
Fixed Income Trading	339,149	12	52,032	193	10
Credit Trading	11,969	4,664	9,278	4,707	117
Derivatives	1,654	4	218	158	1

Trading book stress VaR analysis by book (KShs '000)

Desk Name	Maximum	Minimum	Average	31-Dec-2015	31-Dec-2014
Bank wide	2,058,065	7	837,456	2,866	1,322,903
FX Trading	157,841	260	74,831	414	86,270
Consolidated Interest Rate Trading	2,771,007	2,749	876,712	2,749	1,358,199
Money Markets Trading	1,039,358	2,729	510,734	2,729	675,152
Fixed Income Trading	1,225,209	-	443,365	10	663,357
Credit Trading	22,184	115	16,050	117	19,698
Derivatives	102	-	102	1	45

Notes (continued)

5. Financial risk management (continued)

c) Market risk (continued)

(f) Trading book portfolio characteristics (continued)

Desk Name	LCY*	EUR	GBP	USD	ZAR	Other FCY**	Total FCY	31 December	31 December
Amounts in thousands								**2016**	**2015**
Money Markets Trading	5,818	(2,241)	(914)	(3,756)	-	(48)	(6,959)	(1,141)	(3,600)
Fixed Income Trading	14	-	-	(2)	-	-	(2)	12	21
Credit Trading	(184)	-	-	2	-	-	2	(182)	(307)
Derivatives	-	-	-	-	-	-	-	-	-
FX Trading	130	(69)	(16)	1	(5)	(2)	(90)	40	72
Total Trading	**5,778**	**(2,310)**	**(930)**	**(3,755)**	**(5)**	**(50)**	**(7,049)**	**(1,271)**	**(3,814)**
Money Markets Banking	(16,857)	-	-	-	-	-	-	(16,857)	(17,033)
Treasury Capital Management	(19,332)	-	-	-	-	-	-	(19,332)	3
Total Banking	**(36,189)**	**-**	**-**	**-**	**-**	**-**	**-**	**(36,189)**	**(17,030)**
All Desks (Combined)	**(30,411)**	**(2,310)**	**(930)**	**(3,755)**	**(5)**	**(50)**	**(7,049)**	**(37,460)**	**(20,844)**

***LCY** – Local currency

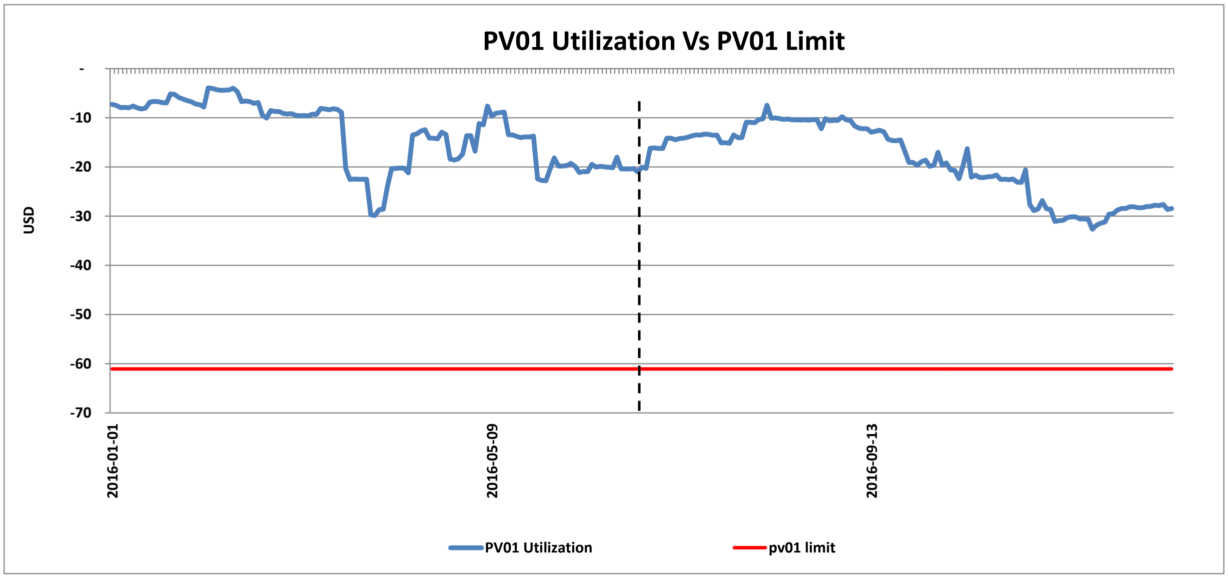
****FCY** – Foreign currency

Notes (continued)

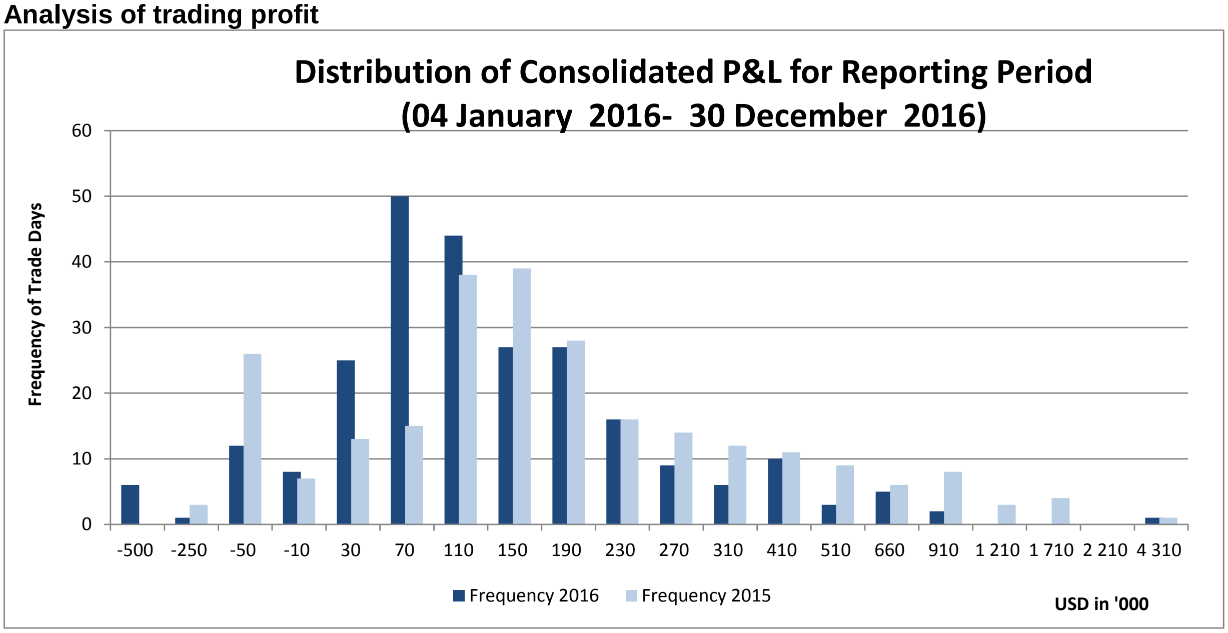
5. Financial risk management (continued)

c) Market risk (continued)

(f) Trading book portfolio characteristics (continued)



Analysis of trading profit



The graph above shows the distribution of daily profit and losses for the period. It captures trading volatility and shows the number of days in which the bank's trading-related revenues fell within particular ranges. The distribution is skewed favorably to the profit side.

For the year ended 31 December 2016, trading profit was positive for 219 out of 251 days. (2015: 217 out of 252 days).

Notes (continued)

5. Financial risk management (continued)

(g) Foreign exchange risk

Definition

The Group's primary exposures to foreign currency risk arise as a result of the translation effect on the bank'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)

5. Financial risk management (continued)

c) Market risk (continued)

(g) Foreign exchange risk (continued)

The table below summarises the Group's exposure to foreign exchange risk at 31 December 2016.

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 2016	USD	GBP	EUR	Others	Total
Assets					
Cash and bank balances	11,441	1,233	535	560	13,769
Loans and advances	59,669	256	4,918	243	65,086
Financial investments	-	-	-	6	6
Other assets and prepayments	3,178	22	422	2,574	6,196
Total financial assets	**74,288**	**1,511**	**5,875**	**3,383**	**85,057**
Liabilities					
Deposits from banks	33,148	543	57	323	34,071
Deposits from customers	45,292	2,636	3,318	822	52,068
Other liabilities and accrued expenses	8,618	4	546	2,597	11,765
Total financial liabilities	**87,058**	**3,183**	**3,921**	**3,742**	**97,904**
Net on balance sheet financial position	**(12,770)**	**(1,672)**	**1954**	**(359)**	**(12,847)**
Off balance sheet net notional position	**15,086**	**1,683**	**(1,904)**	**125**	**14,990**
Overall net position	**2,316**	**11**	**50**	**(234)**	**2,143**

At 31 December 2015	USD	GBP	EUR	Others	Total
Assets					
Cash and bank balances	15,424	1,608	799	2,686	20,517
Loans and advances	51,700	323	8,408	14	60,445
Financial investments	-	-	-	59	59
Other assets and prepayments	6,949	-	524	1,816	9,289
Total financial assets	**74,073**	**1,931**	**9,731**	**4,575**	**90,310**
Liabilities					
Deposits from banks	49,307	701	172	147	50,327
Deposits from customers	41,010	1,538	2,322	2,512	47,382
Other liabilities and accrued expenses	7,659	40	623	1,862	10,184
Total financial liabilities	**97,976**	**2,279**	**3,117**	**4,521**	**107,893**
Net on balance sheet financial position	**(23,903)**	**(348)**	**6,614**	**54**	**(17,583)**
Off balance sheet net notional position	**24,575**	**391**	**(6,621)**	**(107)**	**18,239**
Overall net position	**672**	**43**	**(7)**	**(53)**	**656**

Notes (continued)

5. Financial risk management (continued)

c) Market risk (continued)

(g) Foreign exchange risk (continued)

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 the statement of profit and loss.

Year ended 31 December 2016 Currency	Increase in currency rate in % 2016	Effect on profit before tax 2016 KShs'000	Effect on equity 2016 KShs'000	Decrease in currency rate in % 2016	Effect on profit before tax 2016 KShs'000	Effect on equity 2016 KShs'000
USD	**1.07%**	64,586	47,352	**1.05%**	63,379	46,467
GBP	**1.72%**	103,821	76,117	**1.89%**	114,082	83,640
EUR	**2.83%**	170,822	125,239	**2.76%**	166,597	122,141
Year ended 31 December 2015 Currency	**Increase in currency rate in % 2015**	**Effect on profit before tax 2015 KShs'000**	**Effect on equity 2015 KShs'000**	**Decrease in currency rate in % 2015**	**Effect on profit before tax 2015 KShs'000**	**Effect on equity 2015 KShs'000**
USD	**1.09%**	7,338	5,137	**1.03%**	(6,891)	(4,824)
GBP	**1.47%**	632	443	**2.32%**	(997)	(698)
EUR	**2.74%**	(180)	(126)	**3.82%**	250	175

Notes (continued)

5. Financial risk management (continued)

d) Interest rate risk

Interest rate risk in the Banking book (IRBB)

Definition

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 bank'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 bank asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract.
- **Endowment risk:** exposure arising from the net differential between interest rate insensitive assets such as non-earning assets, interest rate insensitive liabilities such as non-paying liabilities, and equity.

Approach to managing IRRBB
Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

The bank's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the bank operates. The bank's TCM 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.

Notes (continued)

5. Financial risk management (continued)

d) Interest rate risk

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 Group'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

Currency	Increase in basis points 2016 KShs'000	Sensitivity of net interest income 2016 KShs'000	Sensitivity of other comprehensive income 2016 KShs'000	Decrease in basis points 2016 KShs'000	Sensitivity of net interest income 2016 KShs'000	Sensitivity of other comprehensive income 2016 KShs'000
KShs	350	118,064	(617,187)	300	(209,179)	529,017
Others*	100	-	-	100	(3,294)	-

Currency	Increase in basis points 2015 KShs'000	Sensitivity of net interest income 2015 KShs'000	Sensitivity of other comprehensive income 2015 KShs'000	Decrease in basis points 2015 KShs'000	Sensitivity of net interest income 2015 KShs'000	Sensitivity of other comprehensive income 2015 KShs'000
KShs	350	844,670	(203,213)	300	(901,025)	174,182
Others*	100	8,087	-	100	(6,626)	-

* This is any other currency held by the Group not denominated in KShs

Notes (continued)

5. Financial risk management (continued)

e) 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.

Liquidity risk – Company

A summary of liquidity risk showing matching of financial assets and liabilities at Stanbic Holdings Plc (Company only) is shown in the following table.

31 December 2016	Up to 1 month KShs'000	1 – 6 months KShs'000	6 – 12 months KShs'000	Total KShs'000
Cash and bank balances	100,662	-	-	100,662
Other receivables and prepayments	-	-	-	-
Total assets	**100,662**	**-**	**-**	**100,662**
Other liabilities and accrued expenses	-	(60,109)	-	(60,109)
Total liabilities	**-**	**(60,109)**	**-**	**(60,109)**
Net liquidity gap	**100,662**	**(60,109)**	**-**	**40,553**

Liquidity risk management - Group

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 Group'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 Group's liquidity risk management framework differentiates between:

- **Tactical (shorter-term) risk management:** managing intra-day liquidity positions and daily cash flow requirements, and monitoring adherence to prudential and internal requirements and setting deposit rates as informed by ALCO.

- **Structural (long-term) liquidity risk management**: ensuring a structurally sound balance sheet, a diversified funding base and prudent term funding requirements.

Notes (continued)

5. Financial risk management (continued)

e) Liquidity risk (continued)

Liquidity risk management – Group (continued)

- **Contingent liquidity risk management:** monitoring and managing early warning liquidity indicators while establishing and maintaining contingency funding plans, undertaking regular liquidity stress testing and scenario analysis, and setting liquidity buffers in accordance with anticipated stress events

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)

5. Financial risk management (continued)

e) Liquidity risk (continued)

Approach to managing 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.

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 ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	2016	2015
At 31 December	54.6%	73.7%
Average for the year	67.5%	54.4%
Maximum for the year	74.4%	74.1%
Minimum for the year	54.6%	36.1%

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 Groups 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)

5. Financial risk management (continued)

Liquidity risk management – Group (continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central Bank balances, items in the course of collection; loans and advances to Groups; and loans and advances to customers. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

Maturity analysis for financial assets and financial liabilities

	Carrying value 2016 KShs'000	Gross nominal inflow/(outflow) 2016 KShs'000	Redeemable on demand 2016 KShs'000	Maturing within 1 month 2016 KShs'000	Maturing after 1 month but within 6 months 2016 KShs'000	Maturing after 6 months but within 12 months 2016 KShs'000	Maturing after 12 months but within 5 years 2016 KShs'000	Maturing After 5 years 2016 KShs'000
Non- derivative financial assets								
Cash and balances to banks	**8,621,228**	**8,621,228**	8,082,137	539,091	-	-	-	-
Financial assets held for trading	**15,995,195**	**16,272,449**	-	2,500,000	13,588,724	8,724	174,042	959
Pledged assets – available –for-sale	**2,894,456**	**3,269,088**	-	-	1,583,330	338,818	1,346,940	-
Financial assets- available-for-sale	**34,037,537**	**40,919,356**	-	500,000	23,534,302	5,699,289	2,992,491	8,193,275
Loans and advances to banks	**16,884,257**	**17,383,148**	6,929,429	10,453,720				
Loans and advances to customers	**115,587,723**	**149,678,289**	18,010,452	2,492,451	12,895,566	14,954,705	86,822,797	14,502,319
Other assets and prepayments	**3,811,770**	**3,811,770**	3,811,770	-	-	-	-	-
	197,832,166	**239,955,328**	**36,833,788**	**16,485,262**	**51,601,922**	**21,001,536**	**91,336,270**	**22,696,553**
Derivative assets:	**2,472,190**	**-**	-	-	-	-	-	-
- Inflows	**-**	**15,483,070**	-	4,075,216	4,612,182	5,778,592	1,015,748	1,333
- Outflows	**-**	**(223,489)**	-	(27,998)	(16,197)	(48,625)	(130,619)	(50)
	2,472,190	**15,259,581**	**-**	**4,047,218**	**4,595,985**	**5,729,967**	**885,129**	**1,283**
Non- derivative financial liabilities								
Deposits from banks	**(36,506,824)**	**(37,551,425)**	(545,947)	(1,912,698)	(906,905)	(10,974,540)	(21,995,087)	(1,216,248)
Deposits from customers	**(119,903,557)**	**(119,707,937)**	(100,743,959)	(7,692,769)	(7,539,296)	(3,548,683)	(183,231)	-
Trading liabilities	**(3,867,718)**	**(3,804,511)**	-	(1,762,520)	(2,041,991)	**-**	-	-
Borrowings	**(3,986,138)**	**(6,590,000)**	-	-	(259,000)	(259,000)	(6,072,000)	-
Other liabilities and accrued expenses	**(5,939,718)**	**(5,939,718)**	(5,939,718)	-	-	-	-	-
Contingent liabilities	**-**	**-**	-	-	-	-	-	-
Capital commitments	**-**	**-**	-	-	-	-	-	-
Operating leases	**-**	**-**	-	-	-	-	-	-
	(170,203,955)	**(173,593,591)**	**(107,229,624)**	**(11,367,987)**	**(10,747,192)**	**(14,782,223)**	**(28,250,318)**	**(1,216,248)**
Derivative liabilities:	**3,061,063**	**-**	-	-	-	-	-	-
- Inflows	**-**	**66,765**	-	15,010	47,022	565	2,834	1,333
- Outflows	**-**	**(2,728,363)**	-	(670,052)	(1,502,552)	(405,428)	(150,281)	(50)
	3,061,063	**(2,661,598)**	**-**	**(655,042)**	**(1,455,530)**	**(404,863)**	**(147,447)**	**1,283**

Notes (continued)

5. Financial risk management (continued)

Liquidity risk management – Group (continued)

Maturity analysis for financial assets and financial liabilities

	Carrying value 2015 KShs'000	Gross nominal inflow/(outflow) 2015 KShs'000	Redeemable on demand 2015 KShs'000	Maturing within 1 month 2015 KShs'000	Maturing after 1 month but within 6 months 2015 KShs'000	Maturing after 6 months but within 12 months 2015 KShs'000	Maturing after 12 months but within 5 years 2015 KShs'000	Maturing After 5 years 2015 KShs'000
Non- derivative financial assets								
Cash and balances to banks	**11,350,098**	**11,350,098**	11,350,098	-	-	-	-	-
Financial assets held for trading	**16,251,044**	**16,725,301**	-	-	8,035,571	6,368,002	2,321,587	141
Pledged assets – available –for-sale	**3,439,383**	**3,961,032**	-	-	487,005	1,681,155	1,792,872	-
Financial assets- available-for-sale	**28,947,969**	**31,056,446**	-	3,248,750	16,740,460	7,022,453	1,685,006	2,359,776
Loans and advances to banks	**23,181,591**	**23,181,591**	10,671,838	12,509,753	-	-	-	-
Loans and advances to customers	**104,981,566**	**149,083,609**	22,670,917	4,938,685	20,103,386	12,696,293	52,983,658	35,690,671
Other assets	**2,709,300**	**2,709,300**	2,709,300	-	-	-	-	-
	190,860,951	**238,067,377**	**47,402,153**	**20,697,188**	**45,366,422**	**27,767,903**	**58,783,123**	**38,050,588**
Derivative assets:	**4,377,196**	**-**	-	-	-	-	-	-
- Inflows	**-**	**1,909,870**	-	332,264	1,033,097	503,841	38,004	2,665
- Outflows	**-**	**(235,147)**	-	(989)	(40,299)	(28,180)	(165,599)	(81)
	4,377,196	**1,674,723**	**-**	**331,275**	**992,798**	**475,661**	**(127,595)**	**2,584**
Non- derivative financial liabilities								
Deposits from banks	**(47,424,576)**	**(52,280,892)**		(80,750)	(3,646,759)	(22,883,779)	(21,650,824)	(4,018,779)
Deposits from customers	**(107,032,889)**	**(108,444,210)**	(62,349,334)	(26,955,982)	(8,467,818)	(9,397,904)	(1,273,171)	**-**
Trading liabilities	**(521,973)**	**(585,000)**	-	(585,000)	**-**	**-**	-	-
Borrowings	**(6,482,063)**	**(9,783,306)**	**-**	**-**	(413,260)	(2,785,113)	(2,326,438)	(4,258,493)
Other liabilities	**(5,961,263)**	**(5,961,263)**	(5,961,263)	-	-	-	-	-
Contingent liabilities	**(37,362,184)**	**(37,362,184)**	(9,957,460)	(3,321,072)	(10,943,432)	(6,564,897)	(4,910,399)	(1,664,922)
Capital commitments	**(208,424)**	**(208,424)**	-	(208,424)	-	-	-	-
Operating leases	**(5,118,541)**	**-**	-	-	-	(445,575)	(1,237,280)	(3,435,686)
	(210,111,913)	**(214,625,279)**	**(78,268,057)**	**(31,151,228)**	**(23,471,269)**	**(42,077,268)**	**(31,398,112)**	**(13,377,880)**
Derivative liabilities:	**(3,361,440)**							
- Inflows		**896,493**	-	107,514	535,408	232,671	18,235	2,665
- Outflows		**(920,251)**	-	(103,692)	(298,232)	(282,614)	(235,632)	(81)
	(3,361,440)	**(23,758)**	**-**	**3,822**	**237,176**	**(49,943)**	**(217,397)**	**2,584**

Notes (continued)

5. Financial risk management (continued)

e) Liquidity risk (continued)

The amounts in the table above have been compiled as follows:

Type of financial instrument	Basis on which amounts are compiled
None-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 banks.

(f) 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

5. Financial risk management (continued)

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

	Gross amount of recognised financial assets 2016 KShs'000	Gross amounts of recognised financial liabilities offset in statement of financial position 2016 KShs'000	Net amounts of financial assets presented in the statement of financial position 2016 KShs'000	Financial instruments, financial collateral and cash collateral received 2016 KShs'000	Net amount 2016 KShs'000
Assets					
Loans and advances	132,576,604		132,576,604	2,583,216	129,993,388
Derivative assets	2,472,190		2,472,190	-	2,472,190
	135,048,794	**-**	**135,048,794**	**2,583,216**	**132,465,578**

	Gross amount of recognised financial liabilities 2016 KShs'000	Gross amounts of recognised financial assets offset in statement of financial position 2016 KShs'000	Net amounts of financial assets presented in the statement of financial position 2016 KShs'000	Financial instruments, financial collateral and cash collateral pledged 2016 KShs'000	Net amount 2016 KShs'000
Liabilities					
Deposits	119,328,219		119,328,219	2,583,216	116,745,003
Derivative liabilities	3,061,063		3,061,063		3,061,063
	122,389,282	**-**	**122,389,282**	**2,583,216**	**119,806,066**

	Gross amount of recognised financial assets 2015 KShs'000	Gross amounts of recognised financial liabilities offset in statement of financial position 2015 KShs'000	Net amounts of financial assets presented in the statement of financial position 2015 KShs'000	Financial instruments, financial collateral and cash collateral received 2015 KShs'000	Net amount 2015 KShs'000
Assets					
Loans and advances	104,981,565	-	104,981,565	5,208,794	99,772,771
Derivative assets	4,377,196	-	4,377,196	-	4,377,196
	109,358,761	**-**	**109,358,761**	**5,208,794**	**104,149,967**

	Gross amount of recognised financial liabilities 2015 KShs'000	Gross amounts of recognised financial assets offset in statement of financial position 2015 KShs'000	Net amounts of financial assets presented in the statement of financial position 2015 KShs'000	Financial instruments, financial collateral and cash collateral pledged 2015 KShs'000	Net amount 2015 KShs'000
Liabilities					
Deposits	107,032,889	-	107,032,889	5,208,794	101,824,095
Derivative liabilities	3,361,440	-	3,361,440	-	3,361,440
	110,394,329	**-**	**110,394,329**	**5,208,794**	**105,185,535**

Notes (continued)

5. Financial risk management (continued)

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

The ISDA* and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency Bankruptcy of the Group or the counterparties following other predetermined events. In addition the Group and its counterparties do not intent to settle on a net basis or to realise the assets and the liabilities simultaneously.

The Group receives collateral in the form of cash in respect of lending

The table below sets out the nature of agreement, and the types of rights relating to items which do not qualify for offset but that are subject to a master netting arrangement or similar agreement.

Financial instrument	Nature of agreement	Basis on which amounts are compiled
Derivative assets and liabilities	ISDAs	The agreement allows for offset in the event of default.
Trading assets and trading liabilities	Global master repurchase agreements	The agreement allows for offset in the event of default.
Loans and advances to banks	Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banking Act requirements.
Deposits and current accounts	Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Groups 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.

Notes (continued)

6 Interest income

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Interest on loans, advances and short-term funds	12,097,303	10,423,507	-	-
Interest on government securities available-for-sale	4,691,764	2,842,722	-	-
Placements and other bank balances	337,975	1,401,667	22,451	66,378
	17,127,042	**14,667,896**	**22,451**	**66,378**

Interest income excludes interest on impaired loans and advances which have been recognised as interest in suspense on the statement of financial position (see Note 23(e)).

7 Interest expense

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Current accounts	160,665	5,967	-	-
Savings and term deposit accounts	3,538,638	3,173,015	-	-
Deposits and placements from other banks	1,882,643	1,347,454	-	-
Interest on borrowed funds	685,049	838,413	-	-
	6,266,995	**5,364,849**	**-**	**-**

8 Fees and commission revenue

Account transaction fees	1,089,832	1,160,418	-	-
Knowledge based fees and commission	760,128	810,405	-	-
Electronic banking fees	289,805	227,231	-	-
Foreign service fees	325,880	244,275	-	-
Documentation and administration fees	299,101	175,346	-	-
Brokerage commission	223,548	399,048	-	-
Other	254,210	376,002	-	-
	3,242,504	**3,392,725**	**-**	**-**

The knowledge based fees are fees earned on Investment banking and custodial services. The commission relates to commission earned on guarantees

Other fee and commission revenue includes insurance agency commission and debit card commission.

Notes (continued)

9 Fees and commission expense

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Card based commission	60,728	59,232	-	-
Knowledge based fees and commission	111,358	125,125	-	-
Other bank - related fees and commission	165,453	139,366	-	-
	337,539	**323,723**	**-**	**-**

Other bank related fees and commission expense includes direct sales agents' commissions.

10 Trading revenue

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Foreign exchange	3,361,113	3,098,093	-	-
Net gain on sale of trading investments	351,249	140,769	-	-
Interest income - Debt securities at fair value through profit or loss	1,010,891	1,067,669	-	-
	4,723,253	**4,306,531**	**-**	**-**

11 Other income

Dividend income	-	3,390	2,834,737	2,365,600
Other income	29,093	262,305	11,329	164
	29,093	**265,695**	**2,846,066**	**2,365,764**

12 Employee benefits expense

Salaries and wages	5,076,130	4,703,835	-	-
Retirement benefit costs	364,454	331,307	-	-
	5,440,584	**5,035,142**	**-**	**-**
Included in retirement benefit costs are;				
Defined contribution scheme	358,283	325,668	-	-
National Social Security Fund	6,171	5,639	-	-
	364,454	**331,307**	**-**	**-**

Notes (continued)

13 Other expenses

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Audit fees	18,400	17,244	1,805	1,924
Directors fees	37,895	25,083	8,800	6,535
Premises costs	662,446	617,715	-	-
Information technology and communication	518,045	400,110	-	-
Professional fees	672,387	395,153	584	767
Marketing and advertising costs	336,717	232,574	7,014	6,103
Security expenses	158,468	127,706	-	-
Travel and entertainment costs	208,612	207,017	-	-
Stationery and printing costs	49,738	53,225	2,480	-
Insurance costs	106,945	103,829	-	-
Administration and membership fees	42,240	45,307	5,386	4,976
Deposit Protection Scheme contribution	171,762	163,724	-	-
Absorbed VAT	319,183	410,034	-	-
Training expenses	119,052	107,692	-	-
Loss on disposal of property and equipment	7,399	158	-	-
Impairment of property and equipment	76,853	25,584	-	-
Other operating costs	37,741	164,039	2,769	6,518
	3,543,883	**3,096,194**	**28,838**	**26,823**

Other operating costs mainly relate to sundry expenses incurred in the ordinary course of business.

14 Depreciation and amortisation expense

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Depreciation of property and equipment(Note 26)	346,980	344,078	-	-
Amortisation of prepaid operating lease (Note 27)	2,952	2,954	-	-
Amortisation of intangible assets (Note 28)	167,568	156,800	-	-
	517,500	**503,832**	**-**	**-**

Notes (continued)

15 Finance costs

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Bank charges	63,806	42,388	456	493
Loss in monetary value (Note 3 (e))	1,150,687	-	-	-
	1,214,493	42,388	456	493

16 Income tax expense

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Current income tax (Note 35 (a & b))	2,640,305	1,449,945	6,655	23,204
Deferred income tax	(1,009,808)	1,003,735	9	-
Income tax expense for the year	**1,630,497**	**2,453,680**	**6,664**	**23,204**

The tax on the profit before tax differs from the theoretical amount using the statutory income tax rate as follows:

	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Profit before income tax	**6,049,086**	**7,359,414**	**2,839,223**	**2,404,826**
Tax at statutory tax rate of 30% (2015: 30%)	1,814,726	2,207,824	851,767	721,448
Tax effect of:				
· Income not subjected to tax	(470,063)	58,015	(850,421)	(709,680)
· Expenses not deductible for tax purposes	97,236	96,624	5,318	11,436
· Utilised tax loss	-	-	-	-
· Previous year's current tax (over)/under provision	14,300	(2,159)	-	-
· Previous year's deferred income tax under provision	(35,356)	(4,483)	-	-
· Effect of tax paid in other jurisdictions	7,351	97,859	-	-
· Hyperinflation adjustment- South Sudan	202,303	-	-	-
Income tax expense	**1,630,497**	**2,453,680**	**6,664**	**23,204**

Notes (continued)

17 Earnings per share

Earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2016	**2015**	**2016**	**2015**
Earnings (Profit after tax)				
Earnings for the purposes of basic earnings per share (KShs' 000)	4,418,589	4,905,734	2,832,559	2,381,622
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	**11.18**	**12.41**	**7.17**	**6.02**

There were no potentially dilutive shares as at 31 December 2016 or 31 December 2015. Therefore, diluted earnings per share are the same as basic earnings per share.

18 Dividend per share

Dividend	Group and Company	
	2016	**2015**
The calculation of dividends per share is based on:		
Dividends for the year attributable to ordinary shareholders:		
Interim dividend paid (KShs '000)	699,720	296,491
Final dividend proposed (KShs '000)	1,375,719	2,134,738
	2,075,439	**2,431,229**
Number of ordinary shares at issue date (thousands)	395,322	395,322
Dividends per share – KShs	**5.25**	**6.15**

At the annual general meeting to be held on 5 May 2017, a final dividend in respect of the year ended 31 December 2016 of KShs 3.48 (2015: KShs 5.40) per share amounting to a total of KShs 1,375,719,000 (2015: KShs 2,134,738,000) 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 1.77 (2015: KShs 0.75) per share, amounting to a total of KShs 699,720,000 (2015: KShs 296,491,000) was paid. The total dividend for the year, if the final dividend will be declared, is therefore KShs 5.25 (2015: KShs 6.15) per share, amounting to a total of KShs 2,075,438,000 (2015: KShs 2,431,229,000).

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	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Cash in hand	1,571,641	2,696,227	-	-
Balances with Central Bank of Kenya	7,049,587	8,653,871	-	-
	8,621,228	**11,350,098**	**-**	**-**

The Group is required to maintain a prescribed minimum cash reserve with Central Bank of Kenya. The minimum cash reserve is non-interest earning and is based on the value of deposits as adjusted for by Central Bank of Kenya requirements. At 31 December 2016, the cash reserve requirement was 5.25% of the eligible deposits (2015: 5.25%). The cash reserve requirement balance for the year ended 31 December 2016 is KShs 6,059,435,000 (2015: KShs 5,603,547,000).

20 Available-for-sale pledged assets

	Group	
	2016	2015
	KShs'000	KShs'000
Debt securities	**2,894,456**	**3,439,383**
Maturity analysis;		
Maturing within 1 month	1,569,524	-
Maturing after 1 month but within 6 months	276,247	1,638,184
Maturing after 6 months but within 12 months	511,277	1,801,199
Maturing after 12 months but within 5 years	537,408	-
	2,894,456	**3,439,383**

Dated pledged assets had a redemption value at 31 December 2016 of KShs 2,770,000,000 (2015: KShs 3,270,000,000).

The assets pledged by the Group are strictly for the purpose of providing collateral for counter-parties to the extent that the counter-party is permitted to sell and/or re-pledge the assets, they are classified on the statement of financial position as pledged assets. The pledged assets are debt securities issued by the Government of Kenya.

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

Notes (continued)

21 Financial investments

	Group	
	2016	2015
	KShs'000	KShs'000
Financial assets – fair value through profit or loss (Note 21(a))	15,995,194	16,250,195
Financial assets - available-for-sale (Note 21(b))	34,037,538	28,947,969
Financial assets – at amortised cost (Note 21(c))	-	64,445
	50,032,732	**45,262,609**

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

Listed securities-trading	**15,995,194**	**16,250,195**
Maturity analysis		
Maturing within 1 month	2,493,499	-
Maturing after 1 month but within 6 months	4,955,950	7,692,808
Maturing after 6 months but within 12 months	8,442,722	6,431,989
Maturing after 12 months	103,023	2,125,398
	15,995,194	**16,250,195**

The maturities represent periods to contractual redemption of trading assets recorded. Dated trading assets had a redemption value at 31 December 2016 of KShs 16,219,650,000 (2015: KShs 16,915,433,000). The weighted average effective interest yield on debt securities held for trading at 31 December 2016 was 12.40% (2015: 13.47%).

(b) Financial assets - available-for-sale

	Group	
	2016	2015
Classification	KShs'000	KShs'000
Listed	34,037,538	28,947,969
Unlisted	-	-
	34,037,538	**28,947,969**
Comprising:		
Government bonds	6,639,184	6,434,015
Treasury bills	27,398,354	22,513,954
	34,037,538	**28,947,969**
Maturity analysis		
Maturing within 1 month	499,133	3,475,545
Maturing after 1 month but within 6 months	22,651,717	16,525,911
Maturing after 6 months but within 12 months	4,952,972	7,285,469
Maturing after 12 months but within 5 years	284,460	688,030
Maturing after 5 years	5,649,256	973,014
	34,037,538	**28,947,969**

21 Financial investments (continued)

(b) Financial assets - available-for-sale (continued)

Dated financial investment securities had a redemption value at 31 December 2016 of KShs 35,085,350,000 (2015: KShs 29,823,000,000).

The weighted average effective interest yield on available-for-sale investment securities at 31 December 2016 was 12.24% (2015: 12.31%). A fair value loss of KShs 69,471,000 (2015: Loss of KShs 121,528,000 has been recognised in the statement of other comprehensive income on page 8. A realised gain of KShs 13,444,196 (2015: Loss of KShs 228,971,000) has been transferred to the statement of profit or loss.

(c) Financial assets – at amortised cost

	Group	
	2016	**2015**
	KShs'000	**KShs'000**
Unlisted	-	64,446
Comprising:		
Corporate bonds	-	5,296
Government securities	-	59,150
	-	**64,446**
Maturity analysis		
Maturing within 1 month	**-**	**64,446**

The Group's financial instruments resulted in the following income, expenses and gains and losses recognised in the statement of profit or loss

	Group	
	2016	**2015**
	KShs'000	**KShs'000**
Interest income from debt investments held at available-for-sale	4,691,764	2,842,722
Interest income from debt investments held at fair value through profit or loss	1,010,891	1,067,669
Fair value gains on debt instruments at fair value through profit or loss	351,249	140,769

Notes (continued)

22 Financial liabilities at fair value through profit and loss

	Group	
	2016	2015
	KShs'000	**KShs'000**
Trading liabilities – designated at fair value through profit or loss	3,867,718	521,973
Maturity analysis		
Maturing within 1 month	1,787,216	-
Maturing after 1 month but within 6 months	2,080,502	521,973
	3,867,718	**521,973**

23 Loans and advances

The Group extends advances to the personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment credit, overdrafts and credit card borrowings.

(a) Loans and advances to banks

	Group		Company	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Balances with banks	2,800,452	9,395,334	-	-
Balances due from Group banks (Note 38 (a))	9,838,465	6,850,230	100,662	108,840
Balances with Bank of South Sudan	4,743,607	6,936,027	-	-
	17,382,524	**23,181,591**	**100,662**	**108,840**
Allowances for impairments				
Impairment for performing loans	(330,270)	-	-	-
Impairment for non-performing loans	(63,373)	-	-	-
Credit impairment allowances	**(393,643)**	-	-	-
Net loans and advances to banks	**16,988,881**	**23,181,591**	**100,662**	**108,840**

Notes (continued)

23 Loans and advances (continued)

(b) Loans and advances to customers

	Group	
	2016	2015
	KShs'000	KShs'000
Mortgage lending	15,349,063	12,926,721
Instalment sale and finance leases	13,166,542	11,947,118
Overdraft and other demand lending	18,010,452	23,167,699
Term lending	71,761,018	59,084,210
Card lending	433,316	286,220
Gross loans and advances to customers	**118,720,391**	**107,411,968**
Allowances for impairments		
Impairment for non-performing loans	(1,653,491)	(1,271,153)
Impairment for performing loans	(1,479,177)	(1,159,249)
Credit impairment allowances (Note 23 (c))	**(3,132,668)**	**(2,430,402)**
Net loans and advances	**115,587,723**	**104,981,566**
Maturity analysis:		
Redeemable on demand	15,027,772	21,383,716
Maturing within 1 month	10,226,706	3,343,504
Maturing after 1 month but within 6 months	10,619,831	13,577,063
Maturing after 6 months but within 12 months	9,354,099	5,460,166
Maturing after 12 months but within 5 years	36,917,927	32,577,385
Maturing after 5 years	33,441,388	28,639,732
Net loans and advances	**115,587,723**	**104,981,566**

The weighted average effective interest rate on loans and advances to customers as at 31 December 2016 was 10.76% (2015: 11.87%). The Group extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment sales and overdrafts.

Notes (continued)

23 Loans and advances (continued)

(c) Allowances for Impairment

Year ended 31 December 2016	Non-performing loans	Portfolio impairment	Group Total
	KShs'000	KShs'000	KShs'000
At 1 January 2016	1,271,153	1,159,249	2,430,402
Amounts written off during the year as uncollectable	(733,208)	-	(733,208)
Amounts recovered during the year	(591,867)	-	(591,867)
Provision for loans impairment	1,708,600	324,395	2,032,995
Exchange difference	(1,187)	(4,467)	(5,654)
At 31 December 2016	**1,653,491**	**1,479,177**	**3,132,668**

Year ended 31 December 2015	Non-performing loans	Portfolio impairment	Group Total
	KShs'000	KShs'000	KShs'000
At 1 January 2015	1,103,066	888,912	1,991,978
Amounts written off during the year as uncollectable	(562,319)	-	(562,319)
Amounts recovered during the year	(506,657)	-	(506,657)
Provision for loans impairment to customers	1,237,063	270,337	1,507,400
At 31 December 2015	**1,271,153**	**1,159,249**	**2,430,402**

(d) Loan impairment charge

	Group	
	2016	2015
	KShs'000	KShs'000
Customers Loans impairment for non-performing loans	1,708,600	1,237,063
Customers Loans impairment for performing loans	324,395	270,337
Banks loans impairment for non-performing loans	63,373	-
Bank loans impairment for performing loans	331,827	-
Amounts recovered during the year	(591,867)	-506,657
Recoveries of amounts previously written off	(84,516)	-93,438
Net loans impairment charge on loans and advances	**1,751,812**	**907,305**

Notes (continued)

23 Loans and advances (continued)

(e) Impaired loans and advances

	Group	
	2016	2015
	KShs'000	KShs'000
Impaired loans and advances to customers	6,574,132	4,858,394
Impaired loans and advances to banks	438,984	-
Total impaired loans and advances	**7,013,116**	**4,858,394**
Impairment for non-performing loans to banks (Note 23 (a))	(63,373)	-
Impairment for non-performing loans to customers (Note 23 (b))	(1,653,491)	(1,271,153)
Recoverable amount of impaired loans and advances	**5,296,252**	**3,587,241**
Interest in suspense to customers	1,177,565	687,954
Interest in suspense to banks	949	-
Total interest in suspense	**1,178,514**	**687,954**

The directors are of the opinion that the net amount of impaired loans and advances is recoverable in full.

(f) Industry analysis

	Group			
	2016		2015	
	KShs'000	%	KShs'000	%
Agriculture	13,780,097	12%	15,865,976	15%
Electricity and water	4,664,183	4%	3,068,322	3%
Manufacturing	17,232,690	15%	19,630,417	19%
Building and construction	2,198,175	2%	1,590,273	2%
Wholesale, retail trade and restaurants	31,951,378	26%	23,444,691	22%
Transport and communication	13,630,463	12%	5,686,427	5%
Finance and insurance	539,889	0%	3,708,618	4%
Real estate and business service	5,304,451	5%	6,820,535	6%
Other activities and social service	26,286,397	24%	25,166,306	24%
	115,587,723	**100%**	**104,981,565**	**100%**

Notes (continued)

23 Loans and advances (continued)

(g) Segmental analysis of non-performing loans and advances – industry

	2016 KShs'000	%	2015 KShs'000	%
Agriculture	2,623,197	37%	1,690,648	35%
Manufacturing	1,001,861	14%	10,579	0%
Building and construction	172,712	3%	128,527	3%
Wholesale, retail trade and restaurants	773,869	11%	722,510	15%
Transport and communication	426,421	6%	289,031	6%
Finance and insurance	199,449	3%	211,551	4%
Real estate and business service	57,869	1%	308,076.	6%
Other activities and social service	1,757,738	25%	1,497,472	31%
	7,013,116	**100%**	**4,858,394**	**100%**

(h) Instalment sales and finance leases

Loans and advances to customers include finance lease receivables, which are analysed below:

	2016 KShs'000	2015 KShs'000
Gross investment in instalment sales and finance leases:		
Not later than 1 year	1,461,570	654,212
Later than 1 year and not later than 5 years	11,698,480	10,854,666
Later than 5 years	122,230	438,276
	13,282,280	**11,947,154**
Unearned finance charge	-	(36)
Net investment in finance leases	**13,282,280**	**11,947,118**

The amount of finance lease receivable included above is nil (2015: KShs 12,380,000).

Impairment provisions of KShs 376,351,000 (2015: KShs 392,013,000) for instalment sale and finance lease receivables are included in the impairment for non-performing loans.

i) Loans to employees

	2016 KShs'000	2015 KShs'000
At start of year	3,710,046	3,674,792
New loans issued	1,235,293	938,332
Interest on loan	150,065	185,718
Loan repayments	(1,387,367)	(1,088,796)
At end of year	**3,708,037**	**3,710,046**

Notes (continued)

24 Other assets and prepayments

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Uncleared effects	1,237,886	976,057	-	-
Off market loan adjustment	901,192	624,333	-	-
Trade receivables and prepayments	680,447	347,100	-	500
Due from related companies (Note 37 (h))	989,075	604,578	-	-
Others	8,887	157,232	-	1,151
	3,817,487	**2,709,300**	**-**	**1,651**

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 are discounted at a market related rate. The asset represents the group's right to receive future service from employees.

25 Investment in subsidiaries

			Company	
Company	**Beneficial ownership**	**Country of Incorporation**	**2016 KShs'000**	**2015 KShs'000**
Stanbic Bank Kenya Limited	100%	Kenya	18,009,808	18,009,808
SBG Securities Limited	100%	Kenya	165,530	165,530
			18,175,338	**18,175,338**

The company has prepared consolidated financial statements as it wholly owns Stanbic Bank Kenya Limited and SBG Securities Limited. Both entities are incorporated and domicile 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 both subsidiaries is Stanbic 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.

Notes (continued)

26 Property and equipment

(a) Group

Year ended 31 December 2016	Land and premises	Equipment furniture & fittings	Motor vehicles	Work in progress	Total
Cost	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2016	385,493	3,406,666	184,846	91,333	4,068,338
Additions	-	259,599	16,848	97,134	373,581
Disposals/retirement	-	(16,005)	(32,789)	-	(48,794)
Impairment	-	(190,058)	-	-	(190,058)
Transfers	-	94,130	-	(83,441)	10,689
Foreign exchange revaluation	-	(58,174)	(2,850)	-	(61,024)
Hyperinflation adjustment	-	61,277	-	-	61,277
At 31 December 2016	**385,493**	**3,557,435**	**166,055**	**105,026**	**4,214,009**
Depreciation					
At 1 January 2015	(80,490)	(1,593,551)	(149,395)	-	(1,823,436)
Depreciation for year	(12,713)	(322,849)	(11,418)	-	(346,980)
Disposals	-	8,278	18,505	-	26,783
Impairment	-	113,205	-	-	113,205
Foreign exchange differences	-	22,019	2,365	-	24,384
At 31 December 2016	**(93,203)**	**(1,772,898)**	**(139,943)**	**-**	**(2,006,044)**
Net book value at 31 December 2016	**292,290**	**1,784,537**	**26,112**	**105,026**	**2,207,965**

Year ended 31 December 2015	Land and premises	Equipment furniture & fittings	Motor vehicles	Work in progress	Total
Cost	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2015	385,493	3,017,782	162,810	346,869	3,912,954
Additions	-	399,056	33,969	68,856	501,881
Disposals	-	(1,003)	-	-	(1,003)
Work in progress transfers	-	104,733	-	(104,733)	-
WIP transfer to intangible assets		-	-	(78,180)	(78,180)
Foreign exchange differences	-	(106,529)	(11,933)	(123,268)	(241,730)
Impairment in 2015	-	(7,373)	-	(18,211)	(25,584)
At 31 December 2015	**385,493**	**3,406,666**	**184,846**	**91,333**	**4,068,338**
Depreciation					
At 1 January 2015	(67,777)	(1,362,912)	(134,036)	-	(1,564,725)
Charge for the year	(12,713)	(306,881)	(24,484)	-	(344,078)
Disposals	-	328	-	-	328
Foreign exchange differences	-	75,914	9,125	-	85,039
At 31 December 2015	**(80,490)**	**(1,593,551)**	**(149,395)**	**-**	**(1,823,436)**
Net book value at 31 December 2015	**305,003**	**1,813,115**	**35,451**	**91,333**	**2,244,902**

Notes (continued)

26 Property and equipment (continued)

(b) Company

	Computer Equipment	
	2016	2015
	KShs'000	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	**-**	**-**

As at 31 December 2016 and 31 December 2015, 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.

Impairment loss mainly relates to assets written off during the rebranding exercises and assets those which can no longer be used by the Group due to refurbishments.

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 in the Group and the Company is non-current.

Notes (continued)

27 Prepaid operating lease

	Group	
	2016	2015
Cost	KShs'000	KShs'000
At 1 January	85,499	85,499
At 31 December	**85,499**	**85,499**
Amortisation		
At 1 January	(28,646)	(25,691)
Charge for the year	(2,952)	(2,954)
At 31 December	**(31,598)**	**(28,645)**
Net book value at 31 December	**53,901**	**56,854**

This relates to the leasehold land leased by the Group for a lease term period of 99 years. The total amount disclosed as prepaid operating lease in the Group is non-current.

28 Other intangible assets – Group

Year ended 31 December 2016	Work in progress	Software	Other intangible assets	Total
Cost	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2016	48,972	1,952,988	1,099,059	3,101,019
Additions	103,602	454,868	-	558,470
Transfers	(34,804)	24,115	-	(10,689)
Foreign exchange differences	(375)	(60)		(435)
Hyperinflation adjustment	-	1,308	-	1,308
At 31 December 2016	**117,395**	**2,433,219**	**1,099,059**	**3,649,673**
Amortisation				
At 1 January 2016	-	(1,583,317)	(763,332)	(2,346,649)
Amortisation charge for year	-	(122,301)	(45,267)	(167,568)
Foreign exchange differences	-	40	-	40
At 31 December 2016	**-**	**(1,705,578)**	**(808,599)**	**(2,514,177)**
Net book value at 31 December 2016	**117,395**	**727,641**	**290,460**	**1,135,496**

Notes (continued)

28 Other intangible assets – Group (continued)

Cost	Work in progress KShs'000	Software KShs'000	Other intangible assets KShs'000	Total KShs'000
At 1 January 2015	-	1,581,353	1,099,059	**2,680,412**
Additions	9,780	332,647	-	**342,427**
Transfer from property and equipment	78,180	-	-	**78,180**
Work in progress transfers	(38,988)	38,988	-	**-**
Foreign exchange differences	-	-	-	**-**
At 31 December	**48,972**	**1,952,988**	**1,099,059**	**3,101,019**
Amortisation				
At 1 January 2015	-	(1,471,784)	(718,065)	**(2,189,849)**
Charge for the year	-	(111,533)	(45,267)	**(156,800)**
At 31 December 2015	**-**	**(1,583,317)**	**(763,332)**	**(2,346,649)**
Net book value at 31 December 2015	**48,972**	**369,671**	**335,727**	**754,370**

The total amount disclosed as intangible assets is non-current and relates to computer software.
Work in progress relates to computer software development systems which had not been completed as at year end.

As at 31 December 2016, the intangible assets had a remaining useful life of 10 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	
	2016	**2015**	**2016**	**2015**
Cost	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January and 31st December	**9,349,759**	**9,349,759**	**-**	**-**

Goodwill relating to Stanbic Holdings Plc was tested for impairment on 31 December 2016. The recoverable amount was determined to be the value in use. Unless indicated otherwise, the value in use in 2016 was determined in a manner consistent with that used in 2015. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use.

a) Discount rate

The pre-tax discount rate used was based on an assessment of the risks applicable to the Stanbic Holdings PLC. The cost of equity discount rate calculated for the forecast years was 17.90% per annum (2015: 17.6%). 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

Notes (continued)

29 Intangible assets – goodwill (continued)

a) Discount rate (continued)

A rise in the pre-tax discount rate to 26.5% (i.e. +8.6%) in the CIB unit would result in a further impairment. A rise in the pre-tax discount rate to 20.4% (i.e +2.5%) in the PBB unit would result in impairment.

b) Future cash flows

The forecast periods adopted reflect a set of cash flows that based on management judgement and expected market conditions could be sustainably generated over such a period. An eight-year forecast was used as a basis for future cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a nominal growth rate of 15.40% (2015: 10.4%). These values are sensitive to the cash flows projected for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows thereafter. Based on the testing performed, no impairment was identified.
A decrease in the net profit by 26.5% would result in a further impairment in the CIB unit. A decrease in the net profit by 9.0% would result in impairment in the PBB unit.

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. All the goodwill has been allocated to Corporate Investment Banking (CIB) CGU.

30 Ordinary share capital and ordinary share premium

(a) Authorised share capital

	2016 Number of Shares (thousands)	2016 Share Capital KShs'000	2015 Number of Shares (thousands)	2015 Share Capital KShs'000
Balance as at 1 January and 31 December	473,684	2,368,421	473,684	2,368,421

(b) Issued share capital

	2016 Number of Shares (thousands)	2016 Share Capital KShs'000	2015 Number of Shares (thousands)	2015 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

(c) Ordinary share premium

	2016 KShs'000	2015 KShs'000
At 1 January and 31 December	16,897,389	16,897,389

Notes (continued)

31 Derivative assets and liabilities

	2016			2015		
		Fair values			Fair values	
	Notional contract amount KShs'000	Assets KShs'000	Liabilities KShs'000	Notional contract amount KShs'000'	Assets KShs'000	Liabilities KShs'000
Foreign exchange derivatives						
Currency forwards	15,869,130	167,449	742,879	27,166,604	806,252	344,391
Currency swaps	20,383,990	114,913	158,372	29,290,760	474,439	169,212
Currency options	13,196,814	147,083	117,067	15,591,707	489,350	240,593
Total over-the-counter derivatives	**49,449,934**	**429,445**	**1,018,318**	**72,049,071**	**1,770,041**	**754,196**
Interest rate derivatives						
Interest rate swaps	31,108,019	1,745,515	1,745,515	38,796,546	2,188,147	2,188,236
Cross currency interest rate swaps	2,059,445	297,230	297,230	2,057,432	419,008	419,008
Total over-the-counter derivatives	**33,167,464**	**2,042,745**	**2,042,746**	**40,853,978**	**2,607,155**	**2,607,244**
Total derivative assets held for trading	**82,617,398**	**2,472,190**	**3,061,063**	**112,903,049**	**4,377,196**	**3,361,440**
Current	46,184,751	367,710	1,025,872	64,485,198	1,571,689	670,595
Non-current	36,432,647	2,104,480	2,035,191	48,417,851	2,805,507	2,690,845
Total	**82,617,398**	**2,472,190**	**3,061,063**	**112,903,049**	**4,377,196**	**3,361,440**

All derivatives are classified as derivatives held for trading.

Fair values
The fair value of a derivative financial instrument represents, for quoted instruments, the quoted market price and for unquoted instruments, the present value of the positive or negative cash flows, which would have occurred if the rights and obligations arising from that instrument were closed out in an orderly market place transaction at year end.

Notional amount
The gross notional amount is the sum of the absolute value of all bought and sold contracts. The amount cannot be used to assess the market risk associated with the position and should be used only as a means of assessing the Group's participation in derivative contracts.

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 exposures. Derivative instruments used by the Group in both trading and hedging activities include forwards and other similar types of instruments based on foreign exchange rates and interest rates.

Notes (continued)

32 Deposits from banks and customers

Deposit products include current accounts, savings accounts, call and fixed deposits and negotiable certificates of deposit.

	Group	
	2016 KShs'000	**2015 KShs'000**
(a) Deposits from Banks		
Deposits from Banks	32,365,282	32,611,128
Deposits due to Group banks (Note 38 (b))	4,141,542	14,813,449
	36,506,824	**47,424,577**

Included in the deposits above is an amount of KShs 3,499,101,000 (2015: KShs 2,116,494,000) which relates to deposits with maturity periods of less than 3 months.

	Group	
	2016 KShs'000	**2015 KShs'000**
(b) Deposits from customers	**119,328,219**	**106,246,235**
Current accounts	68,890,440	61,561,945
Call deposits	6,430,155	6,108,105
Savings accounts	23,177,470	11,165,430
Term deposits	18,584,682	27,410,755
LC acceptances	2,245,472	-
Total deposits from banks and customers	**155,835,043**	**153,670,812**

Maturity analysis of deposits from customers
The maturity analysis is based on the remaining periods to contractual maturity from year end.

	Group	
	2016 KShs'000	**2015 KShs'000**
Repayable on demand	91,792,719	79,044,162
Maturing within 1 month	14,969,648	9,565,257
Maturing after 1 month but within 6 months	8,838,412	5,770,504
Maturing after 6 months but within 12 months	3,581,089	1,559,251
Maturing after 12 months	146,351	10,307,061
	119,328,219	**106,246,235**

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 2016 was 3.00% (2015: 4.03%).

Industry analysis	**2016 KShs'000**	**%**	**2015 KShs'000**	**%**
Central government	15,489,804	13%	10,103,071	10%
Non-financial public enterprises	774,459	1%	1,561,691	1%
Non-bank financial institutions	284,299	0%	382,622	0%
Insurance companies	1,327,366	1%	933,221	1%
Hire purchase companies	7	0%	93	0%
Private enterprises	60,376,911	51%	84,704,136	80%
Non-profit institutions and individuals	41,075,373	34%	8,561,401	8%
	119,328,219	100%	**106,246,235**	**100%**

Notes (continued)

33 Borrowings

At 31 December 2016

	Notional value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	4,000,000	3,986,138	12.95%	15-Dec-14	15-Dec-21
Total	**4,000,000**	**3,986,138**			

At 31 December 2015

	Notional value Kshs'000	Carrying value Kshs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	2,402,093	2,401,094	12.50%	7-Jul-09	7-Jul-16
CfC Stanbic Bond	97,907	97,944	182 day T-bill +175 bps	7-Jul-09	7-Jul-16
CfC Stanbic Bond	4,000,000	3,983,025	12.95%	15-Dec-14	15-Dec-21
Total	**6,500,000**	**6,482,063**			

There were no charges placed on any of the Group's assets in relation to these borrowings.
The Group has not had any defaults of principal, interest or other breaches with regard to any borrowings during 2016 and 2015.The Bonds are payable on their maturity dates at the notional value.

Interest expense incurred in the above borrowings was KShs 685,049,000 (2015: KShs 838,413,000). The weighted average effective interest rate on borrowings as at 31 December 2016 was 12.95% (2015: 12.51%).

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

The borrowings are unsecured subordinated debt instruments.

Notes (continued)

34 Other liabilities and accrued expenses

(a) Other liabilities and accrued expenses

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Items in transit	153,355	79,813	-	-
Accruals	1,659,907	2,343,910	9,695	20,157
Deferred bonus scheme (Note 34(b))	174,828	183,564	-	-
Unpresented bank drafts	105,509	93,367	-	-
Margin on guarantees and letters of credit	1,267,408	1,036,146	-	-
Due to group companies	992,289	950,350	-	-
Sundry creditors	2,035,787	1,274,113	50,415	19,912
	6,389,083	**5,961,263**	**60,110**	**40,069**

(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 174,828,000 at 31 December 2016 (2015: KShs 183,564,000) and the amount charged for the year was KShs 136,373,000 (2015: KShs 95,468,000).

	Units	
Reconciliation	**2016**	**2015**
Units outstanding at beginning of the year	246,954	255,987
Granted	180,604	128,753
Exercised	(129,014)	(121,730)
Lapsed	(36,004)	(16,056)
Transfers	(128,564)	-
Units outstanding at end of the year	**133,976**	**246,954**

	2016	2015
Weighted average fair value at grant date (ZAR)	122.24	156.96
Expected life (years)	2.51	2.51
Risk-free interest rate (%)	5.54	5.54

Notes (continued)

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

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	382,965	(33,615)	-	-
Reallocation of subsidiaries in a recoverable position	(20,711)	-	-	-
Exchange difference on translation	-	10	-	-
Current income tax charge (Note 16)	(2,622,678)	(1,333,050)	-	-
Income tax paid	857,614	1,749,620	-	-
	(1,402,810)	**382,965**	**-**	**-**

The amount above relates to current income tax payable from the tax authorities and is current.

(b) Current income tax asset/ (liability)

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
As at 1 January	(89,535)	37,909	(5,910)	(45)
Reallocation of subsidiaries in a recoverable position	20,711	-	-	-
Exchange difference on translation	67,228	(27,888)	-	-
Current tax charge (Note 16)	(17,627)	(116,895)	(6,655)	(23,204)
Income tax paid	132,770	17,339	31,437	17,339
As at 31 December	**113,547**	**(89,535)**	**18,872**	**(5,910)**

The amount above relates to current income tax liability payable to the tax authorities as at year end. The Group and Company tax positions are current. The group has operations in South Sudan which is in a net tax recoverable position. The tax is recoverable from to the Government of South Sudan.

(c) Deferred income tax asset /(liability)

	Group		Company	
	2016	2015	2016	2015
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
At start of year	361,322	1,435,226	(2)	-
Credit/ (charge) to statement of profit or loss (Note 15)	1,009,808	(1,003,735)	(9)	(2)
Credit/(charge) to other comprehensive income	39,978	(70,719)	-	-
Exchange difference on translation	(3,745)	550	-	-
At end of year	**1,407,363**	**361,322**	**(11)**	**(2)**

Notes (continued)

35 (c) 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 2016	1.1.2016 KShs'000	Credited to statement of profit or loss KShs'000	Charge to statement of other comprehensive income KShs'000	Translation movements KShs'000	31.12.2016 KShs'000
Arising from:					
Property and equipment	(53,447)	11,284	-	-	(42,163)
Fair value gains on AFS instruments	(346,052)	143,050	39,978	-	(163,025)
Portfolio impairment	465,890	355,489	-	-	821,379
Finance leasing	21,487	-	-	-	21,487
Other provisions	560,114	405,056	-	-	965,170
Group intangible assets	(102,406)	13,580	-	-	(88,826)
Unrealised gain on South Sudan retained earnings conversion	(181,054)	81,350	-	-	(99,704)
Foreign currency exchange differences	(3,760)	-	-	(3,745)	(6,955)
Net deferred asset	**360,772**	**1,009,808**	**39,978**	**(3,745)**	**1,406,813**

Year ended 31 December 2015	1.1.2015 KShs'000	(Charge)/ Credited to statement of profit or loss KShs'000	Charge to statement of other comprehensive income KShs'000	31.12.2015 KShs'000
Arising from:				
Property and equipment	(36,392)	(17,055)	-	(53,447)
Fair value gains on AFS instruments	107,719	(383,052)	(70,719)	(346,051)
Portfolio impairment	345,565	120,325	-	465,890
Finance leasing	319,763	(298,276)	-	21,487
Other provisions	814,440	(254,326)	-	560,114
Group intangible assets	(115,988)	13,582	-	(102,406)
Unrealised gain on South Sudan retained earnings conversion	-	(181,054)	-	(181,054)
Foreign currency exchange differences	119	(3,879)	-	(3,760)
Net deferred asset	**1,435,226**	**(1,003,735)**	**(70,719)**	**360,772**

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

Notes (continued)

36 Notes to the cash flow statement

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

	Group		Company	
	2016	2015	2016	2015
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Net income before income tax	6,049,086	7,359,414	2,839,223	2,404,826
Adjusted for:				
- Depreciation - property and equipment (Note 26)	346,980	344,078	-	-
- Amortisation of intangible assets (Note 28)	167,568	156,800	-	-
- Amortisation of prepaid operating lease (Note 27)	2,952	2,953	-	-
- Impairment - property and equipment (Note 13)	76,853	25,584	-	-
- Change in fair value of derivatives (Note 31)	1,604,628	(1,287,605)	-	-
- Share based payment reserve (Note 42)	1,098	14,004	-	-
- Loss on disposal of property and equipment (Note 13)	7,399	158	-	-
Cash flow from operating activities	**8,256,564**	**6,615,386**	**2,839,223**	**2,404,826**

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

	Group		Company	
	2016	2015	2016	2015
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Unrestricted cash and balances with CBK (Note 19)	2,561,793	5,746,551	-	-
Treasury bills	8,934,432	12,777,274	-	-
Loans and advances to banks (Note 23 (a))	16,988,881	23,181,591	100,662	108,839
Amounts due to other banks (Note 32 (a))	(3,499,101)	(2,116,494)	-	-
Cash and cash equivalent at the end of the year	**24,986,005**	**39,588,922**	**100,662**	**108,839**

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)

37 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 on a monthly basis 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)

37 Fair value of financial instruments (continued)

(a) Financial instruments measured at fair value

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy:

Assets measured at fair value on a recurring basis

	Note	Level 2 KShs'000	Total KShs'000
At 31 December 2016			
Assets			
Financial assets – fair value through profit and loss	21 (a)	15,995,194	15,995,194
Financial assets – available-for-sale	21 (b)	34,037,538	34,037,538
Pledged assets - available-for-sale	20	2,894,456	2,894,456
Derivative assets	31	2,472,191	2,472,191
		55,399,379	**55,399,379**
Comprising:			
Held-for-trading		18,467,385	18,467,385
Available-for-sale		36,931,994	36,931,994
		55,399,379	**55,399,379**
Liabilities		-	-
Trading liabilities	22	3,867,718	3,867,718
Derivative liabilities	31	3,061,063	3,061,063
		6,928,781	**6,928,781**
Comprising:			
Held-for-trading		**6,928,781**	**6,928,781**

Notes (continued)

37 Fair value of financial instruments (continued)

(a) Financial instruments measured at fair value (continued)

Assets measured at fair value on a recurring basis

	Note	Level 2 KShs'000	Total KShs'000
At 31 December 2015			
Assets			
Financial assets – fair value through profit and loss	21 (a)	16,250,195	16,250,195
Financial assets – available-for-sale	21 (b)	28,947,969	28,947,969
Pledged assets - available-for-sale	20	3,439,383	3,439,383
Derivative assets	31	4,377,196	4,377,196
		53,014,743	**53,014,743**
Comprising:			
Held-for-trading		20,627,391	20,627,391
Available-for-sale		32,387,352	32,387,352
		53,014,743	**53,014,743**
Liabilities			
Trading liabilities	22	521,973	521,973
Derivative liabilities	31	3,361,440	3,361,440
		3,883,413	**3,883,413**
Comprising:			
Held-for-trading		**3,883,413**	**3,883,413**

There were no financial assets measured at fair value in level 3 as at 31 December 2016 and 31 December 2016.

There were no transfers between financial assets and fair value hierarchy in the year 2016 and 2015.

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

Notes (continued)

37 Fair value of financial instruments (continued)

(a) Financial instruments measured at fair value (continued)

Sensitivity of fair value of level 2 financial instruments

The fair value of level 2 financial instruments is determined using valuation techniques which incorporate assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

Level 2 financial assets and financial liabilities

	Valuation basis/technique	Main assumptions[1]
Derivative instruments	Discounted cash flow model	Discount rate
	Black-Scholes model	Risk-free rate, volatility rate
	Multiple valuation technique	Valuation multiples
Trading assets	Discounted cash flow model	Discount rate, liquidity discount rate
	Black-Scholes model	Risk-free rate, volatility rate
Pledged assets	Discounted cash flow model	Discount rate, liquidity discount rate
Financial investments	Discounted cash flow model	Discount rate, liquidity discount rate
	Multiple valuation technique	Valuation multiples
	Quoted exit price adjusted for notice period	Discount rate
Loans and advances to customers	Discounted cash flow model	Discount rate, liquidity discount rate
Trading 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

(b) Financial instruments not measured at fair value

Cash and balances with Central Bank of Kenya (CBK)

The carrying amount of cash and balances with CBK is a reasonable approximation of fair value

Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight loans is a reasonable approximation of fair value. The estimated fair value of fixed interest bearing loans is based on discounted cash flows using prevailing money-market interest rates for debts (ranging from 9% to 11.75%) with similar credit risk and remaining maturity.

1 The main assumptions for all instruments include applicable credit spreads.

Notes (continued)

37 Fair value of financial instruments (continued)

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

Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates (ranging from 9% to 11.75%) to determine fair value.

Deposits from banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts (ranging from 9% to 11.75%) with similar remaining maturity.

Subordinated debt

The fair value of listed subordinated debt was estimated as the market value listed on the Nairobi Securities Exchange as at 31 December 2016.

The fair value hierarchy for financial assets not measured at fair value is as shown in the table below:

	Level 1	Level 2	Level 3	Fair value	Carrying value
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 31 December 2016					
Assets					
Cash and balances with CBK	8,621,228	-	-	8,621,228	8,621,228
Loans and advances to banks	17,372,706	-	-	17,372,706	16,988,881
Loans and advances to customers		97,345,584	18,010,452	115,356,036	115,587,723
	25,993,934	**97,345,584**	**18,010,452**	**141,349,970**	**141,197,832**
Liabilities					
Deposits from banks	28,318,134		545,947	28,864,081	36,506,824
Deposits from customers	100,743,959		10,295,199	111,039,158	119,328,219
Subordinated debt		6,095,080		6,095,080	3,986,138
	129,062,093	**6,095,080**	**10,841,146**	**145,998,319**	**159,821,181**

Notes (continued)

37 Fair value of financial instruments (continued)

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

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 31 December 2015					
Assets					
Cash and balances with CBK	11,350,098	-	-	11,350,098	11,350,098
Loans and advances to banks	10,671,838	-	15,600,084	26,271,922	23,181,591
Loans and advances to customers	-	-	113,740,365	113,740,365	104,981,565
	22,021,936	**-**	**129,340,449**	**151,362,385**	**139,513,254**
Liabilities					
Deposits from banks	-	-	44,113,497	44,113,497	47,424,577
Deposits from customers	62,349,335	-	35,285,467	97,634,802	106,246,235
Subordinated debt	-	8,657,793	-	8,657,793	6,482,063
	62,349,335	**8,657,793**	**79,398,964**	**150,406,092**	**160,152,875**

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

There were no transfers between financial assets and fair value hierarchy in the year 2016 and 2015.

Notes (continued)

38 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 placing of both foreign and local currencies are made with the parent company and other Group companies at interest rated in line with the market. The relevant balances are as shown below:

a) Loans due from group banks

	Group		Company	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Stanbic Bank Kenya Limited	-	-	100,662	108,840
Stanbic Bank Uganda Limited	83,088	99,260	-	-
Stanbic Bank Tanzania Limited	52,699	27,145	-	-
Standard Bank of South Africa Limited	1,925,295	6,723,822	-	-
Standard Bank Isle of Man Limited	7,777,383	-	-	-
	9,838,465	**6,850,227**	**100,662**	**108,840**
Interest income earned on the above is:	**67,410**	**5,141**	**22,451**	**66,378**

b) Deposits due to group banks

	Group	
	2016	**2015**
	KShs'000	**KShs'000**
Standard Bank of South Africa Limited	218,062	143,793
Standard Bank Namibia Limited	556	460
Stanbic Bank Uganda Limited	311,888	463,722
Stanbic Bank Zambia Limited	321	22
Stanbic Bank Zimbabwe Limited	147	139
Stanbic Bank Botswana Limited	1,632	844
Standard Bank (Mauritius) Limited	1,689,123	1,674,994
Standard Bank Malawi Limited	1,703	759
Standard Bank Isle of Man Limited	1,909,587	12,118,332
Stanbic Bank Tanzania Limited	7,822	5,290
Standard Bank PLC	-	404,912
Standard Bank Swaziland Limited	701	25
Stanbic Bank Ghana	-	158
	4,141,542	**14,813,450**
Interest expense incurred on the above is:	**382,682**	**509,999**

The weighted average effective interest rate on amounts due from group companies as at 31 December 2016 is 1.75% (2015 – 0.28%) and on amounts due to group companies was 3.04% (2015: 1.70%).

Notes (continued)

38. Related party transactions (continued)

c) Company	2016	2015
Amounts due to group companies	KShs'000	KShs'000
Stanbic Bank Kenya Limited	1,550	3,198

d) Deposits due to group companies non-bank		
Heritage	110,147	195,073
STANLIB Kenya Limited	-	88,236
Liberty Life	2,015	123,636
	112,162	**406,945**

(e) Key management compensation

Key management personnel include: the members of the Stanbic Holdings Plc board of directors and prescribed officers effective for 2016 and 2015. 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 37 (f) and 37 (g);

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 2016 and 31 December 2015 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:

	2016 KShs'000	2015 KShs'000
At start of year	33,816	39,107
New loans issued	-	31,685
Accrued interest	(2,751)	2,800
Loan repayments	(2,453)	(39,776)
At end of year	**28,612**	**33,816**

Loans include mortgage loans, instalment sale and finance leases and credit cards. No specific credit impairments have been recognised in respect of loans granted to key management (2015: KShs nil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

Notes (continued)

38. Related party transactions (continued)

g) Key management compensation

	2016 KShs'000	2015 KShs'000
Salaries and other short-term employment benefits	**233,158**	**453,354**
Directors' remuneration		
Fees for services as directors	8,800	6,535
Other emoluments (included in key management compensation above);	79,410	105,617
Post-employment pension	2,748	2,292
Share-based payments	31,811	18,956

h) Other receivable due from related companies

Liberty Life Assurance Limited	1,580	1,515
The Heritage Insurance Company Limited	175	1,281
Standard Bank Jersey Limited	4,543	-
Stanbic Bank Uganda Limited	9,394	7,581
Stanbic Bank Tanzania Limited	297,920	301,336
Standard Bank of South Africa Limited	925,228	535,154
Stanbic Bank Zambia Limited	1,265	704
Standard Bank Malawi Limited	630	139
Standard Bank RDC SARL	412	26
Standard Bank s.a.r.l. (Mozambique)	-	10
Standard Bank Isle of Man Limited	500	-
STANLIB Kenya Limited	-	22,286
Standard Bank Swaziland Limited	332	425
Standard Bank de Angola S.A.	23,156	513
Stanbic Insurance Agency Limited	-	11,345
Standard Advisory London Limited	99	241
	1,265,235	**885,958**
Provisions on regional costs balances	(276,159)	(281,379)
Net receivables due from related companies	**989,075**	**604,579**

Notes (continued)

38. Related party transactions (continued)

i) Other payables due to related companies

	2016 KShs'000	2015 KShs'000
Standard Bank Malawi Limited	3,185	1,079
Standard Bank of South Africa Limited	987,264	949,220
Stanbic Bank Uganda Limited	1,025	50
Stanbic Bank Tanzania Limited	816	-
SBG Securities Limited	-	2,609
Stanbic Insurance Agency Limited	-	34,151
	992,289	**987,109**

There is no interest accruing for these outstanding liabilities

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

	2016 Kshs'000	2015 Kshs'000
Standard Bank South Africa		
Franchise fees	540,690	458,200
Information technology	27,771	86,869
Other operating costs	3,627	508
	572,089	**545,577**

Notes (continued)

39 Contingent liabilities - Group

Commitments were with respect to:	2016 KShs'000	2015 KShs'000
Irrevocable letters of credit and acceptances	2,818,870	5,439,722
Revocable unutilised facilities	13,492,255	9,957,460
Guarantees	27,755,095	21,965,002
	44,066,220	**37,362,184**

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.

b) Segmental analysis of off-balance sheet liabilities

	2016 KShs'000	%	2015 KShs'000	%
Agriculture	1,432,861	3%	1,468,841	4%
Manufacturing	5,694,315	13%	5,585,725	15%
Construction	4,423,594	10%	2,854,395	8%
Energy	3,270,626	7%	1,168,491	3%
Transport and communication	1,982,309	5%	1,891,545	5%
Distribution/wholesale	14,265,648	32%	10,889,978	29%
Financial Services	11,425,162	26%	11,899,498	32%
Tourism	211,126	1%	8,753	0%
Other activities and social service	1,360,579	3%	1,594,958	4%
	44,066,220	**100%**	**37,362,184**	**100%**

c) Legal proceedings

In the conduct of its ordinary course of business, the Group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims eventuating, that the bank has adequate insurance programmes and provisions in place to meet such claims.

The amounts provided for in other liabilities are KShs 32,500,000 (2015: KShs 32,500,000).

Notes (continued)

40 Other reserves

	Note	Group 2016 KShs'000	Group 2015 KShs'000
Statutory reserve		(136,481)	(6,381)
Fair value reserve		120,671	150,161
Foreign currency translation reserve		(878,717)	(1,099,023)
Share based payment reserve	41	13,871	42,393
Revaluation reserve		122,598	122,598
At end of year		**(758,058)**	**(790,252)**

The revaluation reserve 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.

Fair value reserve represents the surplus or losses arising on fair valuation of available-for-sale financial instruments and is non-distributable.

Currency translation reserve represents exchange differences arising on the translation of the net investment in foreign entities and is non-distributable.

The statutory 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.

41. Share-based payment reserve

(a) Group	**2016 KShs’000**	**2015 KShs’000**
At start of year	42,393	131,001
Options exercised during the year	(29,620)	(102,614)
Equity growth scheme for the year	1,098	14,006
At end of year	**13,871**	**42,393**

The Group's share incentive scheme enables key management personnel and senior employees of the Group to benefit from the performance of 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 a Black-Scholes option pricing model. Each grant was valued separately.

At 31 December 2016, the total amount included in staff costs for Group Share Incentive Scheme was KShs.793,000 (2015: KShs 13,947,000) and for Equity Growth Scheme was KShs 360,000 (2015: KShs 57,000).

Notes (continued)

41. Share-based payment reserve (continued)

The two schemes have five different sub-types of vesting categories as illustrated by the table below:

	Year	% vesting	Expiry
Type A	3, 4, 5	50, 75, 100	10 Years
Type B	5, 6, 7	50, 75, 100	10 Years
Type C	2, 3, 4	50, 75, 100	10 Years
Type D	2, 3, 4	33, 67, 100	10 Years
Type E	3, 4, 5	33, 67, 100	10 Years

A reconciliation of the movement of share options and appreciation rights is detailed below:

	Option price range (ZAR)	Number of options	
Group Share Incentive Scheme	**2016**	**2016**	**2015**
Options outstanding at beginning of the year		347,783	476,538
Transfers	62,39 - 111,94	(75,876)	6,000
Exercised	62,39 - 111,94	(115,286)	(113,505)
Lapsed	62,39 - 111,94	(39,058)	(21,250)
		117,563	
Options outstanding at end of the year		**117,563**	**347,783**

The following options granted to employees had not been exercised at 31 December 2016:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5,000	98,00	98,00	Year to 31 December 2017
17,875	92,00	92,00	Year to 31 December 2018
18,750	62,39	62,39	Year to 31 December 2019
34,688	104,53 - 111,94	109,27	Year to 31 December 2020
41,250	98.80 - 99.97	98,94	Year to 31 December 2021
117,563			

Notes (continued)

41. Share-based payment reserve (continued)

The following options granted to employees had not been exercised at 31 December 2015:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5,000,	98,00	98,00	Year to 31 December 2017
17,875,	92,00	92,00	Year to 31 December 2018
26,875,	62,39	62,39	Year to 31 December 2019
128,063,	104,53 - 111,94	109,41	Year to 31 December 2020
169,970,	97,80 - 107,55	99,70	Year to 31 December 2021
347 783			

Equity Growth Scheme	Appreciation right price range (ZAR) 2016	Number of rights 2016	2015
Rights outstanding at beginning of the year		26,200	37,200
Transfers	62.39-111.94	72,725	
Exercised	62.39-105.60		(11,000)
Lapsed		(77,550)	
Rights outstanding at end of the year		**21 375**	**26,200**

The following rights granted to employees had not been exercised at 31 December 2016:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5,125	62,39	62,39	Year to 31 December 2019
3,750	105,60 - 111,94	109,83	Year to 31 December 2020
12,500	98,80	98,80	Year to 31 December 2021
21,375			

The following rights granted to employees had not been exercised at 31 December 2015:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
8,500	98,00	98,00	Year to 31 December 2017
5,500	92,00	92,00	Year to 31 December 2018
12,200	62,39	62,39	Year to 31 December 2019
26,200			

Notes (continued)

42. Capital commitments

The Group has entered into a number of commercial leases for it premises and office equipment. 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.

Capital commitments for the acquisition of property and equipment are summarised below:

	2016 KShs'000	2015 KShs'000
Authorised and contracted for	388,948	208,424
Authorised but not contracted for	-	27,970

43. 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;

	2016 KShs'000	2015 KShs'000
Less than one year	285,375	445,575
Between one and five years	882,767	1,237,280
More than five years	2,157,668	3,435,686
	3,325,810	**5,118,541**

44. Fiduciary activities

The assets held on behalf of individuals, trusts, retirement benefit plans and other institutions:

	2016 KShs'000	2015 KShs'000
Assets held on behalf of individual's trusts and other institutions	**214,868,507**	**177,185,777**

---000---