Stanbic Holdings Plc

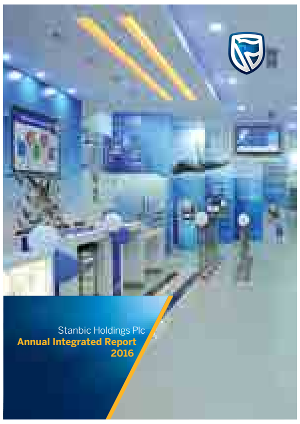
Annual Integrated Report 2016

Who we are

Africa is our home and we are focused on driving her growth. With a heritage of over 100 years, we are a leading financial services organisation with an on-the-ground presence in Kenya and Africa.

Stanbic Holdings Plc is a member of the Standard Bank Group Limited, Africa's leading bank and financial services group, which operates in 20 African countries

Contents



About this report

The main purpose of an integrated report is to explain to financial capital providers how an organisation creates value over time. In accordance with the International Integrated Reporting Council (IIRC), the integrated report is a concise document about strategy, governance, performance and the prospects of an organisation in the context of its external environment, which lead to the creation of shared value in the short, medium and long term. Integrated reporting captures core issues in and outside the bank and encourages us to integrate them into our thinking. It creates an added discipline around reporting our progress to our stakeholders and communicating our long-term objectives.

The interdependence between social and economic development and our commercial success requires that we conduct our business ethically and responsibly to create value in the long-term interest of society. Although our Annual Integrated Report is aimed principally at providers of capital, it is also of interest to a diverse range of other stakeholders.

Scope and boundary of this report

The content presented here is the report on our strategies, businesses, products and services and, primarily, on the way we create shared value and ensure the longevity of business to our customers, stockholders, employees and society.

This report refers mainly to the period between 1 January to 31 December 2016. All financial information presented, including the comparative periods, is in accordance with the International Financial Reporting Standards (IFRS) applicable to our operations and businesses. Non-financial information deemed material is also included, guided by the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework. Meanwhile, the sector information, the economic forecasts and the performance indicators are management information and their calculation bases are also presented.

Determining Materiality

Our Annual Integrated Report is aimed at presenting a balanced and concise analysis of our strategy and performance, as well as governance and prospects. In determining the content to be included in this report, we consider the most pertinent developments and initiatives, as well as related performance indicators and future expectations that relate to our material issues.

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

The specific short, medium and long-term matters that relate to how we deliver on our strategy and manage each of these sustainability issues are discussed with leadership every year to produce our Annual Integrated Report.

Based on our leadership engagement, governance processes and stakeholder engagement initiatives, particularly with investors, we are confident that all material matters have been identified and disclosed in this report.

Who we are

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

In August 2016, shareholders approved the formal adoption of the Stanbic brand and we consequently renamed CfC Stanbic Holdings Ltd to Stanbic Holdings Plc. This enabled us to align our naming and branding with our parent group. Our customers now enjoy a seamless one brand experience across 20 countries on the continent.

We subscribe to:

EQUATOR PRINCIPLES

Sfi Sustainable Financial Initiative

Our History

1911

The first East African branch of Standard Bank of South Africa opens in Mombasa on January 2nd, with the Nairobi branch opening its doors on January 3rd

1920

The bank also starts agency business in the Light Industrial Area (now Industrial Area) and Westlands area

1962

The Standard Bank of South Africa incorporates a new holding company for all its operations outside South Africa, known as Standard Bank Investment Corporation (Stanbic)

1964

Standard Bank pioneers the first "drive-in" bank in East Africa at its Westlands branch

1992

Standard Bank Investment Corporation (Stanbic) acquires ANZ Grindlays operations in Africa

In Kenya, ANZ Grindlays is known as Grindlays Bank International (Kenya) Limited (GBI)

1993

GBI Head Office is housed at former famous Torr's Hotel building on Kenyatta Avenue, the current location of CfC Stanbic Bank Kenyatta Avenue branch and bank offices

The bank's name changes to GBI Stanbic Bank Kenya Limited

2008

CfC Group and Stanbic Bank merge to become CfC Stanbic Holdings Limited

2011

Demerger of the insurance and banking business leads to separate listing at the Nairobi Securities Exchange (NSE) as CfC Stanbic Holdings Limited and CfC Insurance Holdings Limited

2013

CfC Stanbic Financial Services rebrands to SBG Securities

2016

CfC Stanbic Holdings Limited rebrands to Stanbic Holdings Plc

CfC Stanbic Bank Limited rebrands to Stanbic Bank Kenya Limited

Our vision

The Group's vision is to be a leading financial services organisation in, for and across Africa, delivering exceptional customer experiences and superior value. This is supported by a strong set of values that are inculturated across the organisation.

Our values

Our success and growth over the long term is built on making a difference in the communities in which we operate. We are committed to moving Kenya forward.

01 Serving our customers

We do everything in our power to ensure that we provide our customers with the products, services and solutions to suit their needs, provided that everything we do for them is based on sound business principles.

02 Growing our people

We encourage and help our people to develop to their full potential and measure our leaders on how well they grow and challenge the people they lead.

03 Delivering to our shareholders

We understand that we earn the right to exist by providing appropriate long-term returns to our shareholders. We try extremely hard to meet our various targets and deliver on our commitments.

04 Being proactive

We strive to stay ahead by anticipating rather than reacting, but our actions are always carefully considered.

05 Working in teams

We, and all aspects of our work, are interdependent. We appreciate that, as teams, we can achieve much greater things than as individuals. We value teams within and across business units, divisions and countries.

06 Constantly raising the bar

We have confidence in our ability to achieve ambitious goals and we celebrate success, but we must never allow ourselves to become complacent or arrogant.

07 Respecting each other

We have the highest regard for the dignity of all people. We respect each other and what Stanbic stands for. We recognise that there are corresponding obligations associated with our individual rights.

08 Upholding the highest levels of integrity

Our entire business model is based on trust and integrity as perceived by our stakeholders, especially our customers.

Review of performance

1,116
EMPLOYEES
2015: 1,078

119,328 million
DEPOSITS FROM CUSTOMERS
2015: 106,246 million

115,588 million
LOANS AND ADVANCES TO CUSTOMERS
2015: 104,982 million

57.9%
COST-TO-INCOME RATIO (CTI)*
2015: 51.2%

11.3%
RETURN ON AVERAGE EQUITY
2015: 13.0%

15.9%
TIER 1 CAPITAL ADEQUACY RATIO
2015: 15.9%

* CTI of 52.4% excluding impact of hyperinflation in South Sudan

2016 Awards

Category	Award
Best Foreign Exchange provider- Kenya	Best Foreign Exchange Provider Award • 2016 Global Finance
Best Treasury and Cash Management provider - Kenya	Best Treasury and Cash Management Provider Award • 2016 Global Finance
Best Trade Finance Bank - Kenya	Best Trade Finance Bank Award • 2016 Global Finance
2nd Runners up Best Bank in Internet Banking	Think Business Banking Awards 2016
2nd Runners up Best Bank in Mortgage Finance	Think Business Banking Awards 2016
2nd Runners up Best Bank in Product Marketing	Think Business Banking Awards 2016

Category	Award
Corporate Bank of the year	Banker Africa East Africa Awards 2016
Best Investment Bank - Kenya	emeafinance African Banking Awards 2016
Best Broker - Uganda and Rwanda (SBG Securities)	emeafinance African Banking Awards 2016
Stock Broker of the year (SBG Securities)	Think Business Investment Awards 2016
IPO of the year 2016	Think Business Investment Awards 2016
Best Private Bank - Kenya	The Banker & Professional Wealth Management Magazines

Our stakeholders

Stakeholders are the parties with which we have interdependent relationships. The engagement with these stakeholders has enabled us to gain insight to perfect our decision-making process and improve our capacity to generate shared value. In addition, we believe that cultivating mutual trust and respect with stakeholders is clearly the seed for a sustainable performance.

Our key stakeholders fall under three categories which defines how we interact with them;

- Stakeholders who are directly or indirectly impacted by our operations and activities;
- Stakeholders towards whom we have a legal, commercial, operational, societal or ethical responsibility;
- Stakeholders who can impact on our strategy and operational decision making.

Through this consistent engagement, we identify major issues of shared concern and incorporate them, to the best of our ability, into our operations. The issues that have been identified as key to our stakeholders are discussed throughout this report.

We continue to map our performance on issues that have the potential to influence the decision, action and performance of our diverse stakeholder groups with the ultimate goal of ensuring sustainable operation and financial success. We have incorporated some of these performance indicators throughout this report.

Our key stakeholders include:

Shareholders and Investors

Transparency is our main guiding principle in relationships with shareholders and investors. Being transparent is directly related to good corporate governance, which is concerned about creating an efficient set of mechanisms to ensure that the management behaviour is always aligned with the shareholders' interests. By focusing on realising the vision of our business and implementing a robust risk management framework, we give confidence on the business' ability to generate value over time.

- Timely communication
- Strong corporate governance structures
- Ease of access to management
- A fair return on investment

Regulators

We have an open and ongoing relationship with regulatory bodies and participate in relevant public policies discussions. Our relationship with the government and regulatory bodies is guided by ethics and transparency. The Central Bank of Kenya is our primary regulator. Other important regulators within the region whom we engage include; The Bank of South Sudan, The Nairobi Securities Exchange, The Capital Markets Authority, The South African Reserve Bank; and The Kenya Revenue Authority.

Customers

One of our priorities is to have a long-lasting relationship with our customers. As we seek to be among the leaders in sustainable performance in the region, we place strong emphasis on the quality of our products and services, particularly the quick resolution of demands and complaints, the improvement of processes and the understanding of the needs of our customers.

Accordingly, we seek to map all key points valued by our customers to achieve our purpose of being the leading financial group in customer satisfaction.

What do our customers value most?

- **Agility** - Fast and efficient solutions and direct responses to queries.
- **Trust** - Trust is the foundation of any long-term relationship.
- **Convenience** - Customers want services that offer easiness and convenience.
- **Closeness** - Customers want the Group to know their needs and momentum in life and that it offers a fair solution to their profile.
- **Solution** - Our customers understand that some failures may occur. But they do expect any issue to be settled with agility, readiness and courtesy.
- **Transparency** - We are keen to hear what customers have to say about their relationship with the Group through a simple and objective way and ensure that our products, services and points of assistance become increasingly clear.

Community

In the course of our business, we relate to different segments of society and give priority to those relationships aligned with the generation of value to stakeholders. All our social investments focus on the well-being of society and how to improve conditions of life, education and culture, thus showing our concern about society. Generating financial results is not enough for us, because we are also concerned with shared values. We want to be partners in the development of people, the society and in the countries in which we operate and, through ongoing dialogue, understand their expectations and ethically and responsibly act in view of these expectations.

Employees

In our journey towards a sustainable performance, the starting point is our employees. They are one of the pillars that is key in achieving our objective to generate shared value to all our stakeholder groups and ensuring the longevity of our business. Our focus revolves around creating a favourable work environment, promoting employee wellness and strengthening the capacity and capability of our employees. We benchmark our human resource policies to ensure fairness, inclusivity and foster career development.

Employee Benefits

- Variable compensation linked to each employee's differentiated performance
- Medical insurance
- Pension Scheme
- Group Life Insurance
- Preferential service when using bank products and services
- Right to association
- Continuous professional development

Suppliers

Through rigorous processes, we go about selecting suppliers who share in our social and environmental practices. We seek to align our ethical and moral values with the companies we engage with by demanding their adherence to our Code of Ethics. Our relationship is guided by dialogue and transparency. We provide our guidelines on supplier approval, engagement and evaluation processes.

Business organisations and Peers

We are members of the Kenya Bankers Association (KBA). This is our primary forum for engaging with our peers for our common interest in growing the Kenyan economy and banking sector as a whole. In 2016, we engaged with the KBA and its subcommittees on a range of issues,

- Upcoming laws and regulations
- IT governance
- Financial crime
- Consumer education
- Sustainable Finance Principles
- Tax legislation

Our Capitals

Capitals are stocks of value that, in one way or another, become inputs to our business model. They are increased, decreased or transformed through the activities and outputs of the Group, being improved, consumed, changed or otherwise affected by these activities and outputs.

1

Financial Capital

The financial capital is composed of the financial resources available and allocated to the business, our own or third parties. It is obtained and distributed in the form of products and services provided to our customers, such as loan operations, financial investments, deposits and funding and dividends.

2

Human Capital

Our human capital is one of the greatest assets we have, because we believe that everything starts with our employees and the way we relate to them. It encompasses their competences and experiences, as well as their motivation to innovate, develop and improve processes, products and services, in an ethical and responsible way, through capabilities of management, leadership and co-operation. The strength of our corporate culture, the appreciation based on meritocracy and the investments in our employees' professional development are some of the initiatives that add value over time.

3

Intellectual Capital

It is comprised of the reputation achieved by our brand, technical knowledge and ability to develop new technologies, products and services for the maintenance and sustainability of our business.

4

Social and relationship Capital

This comprises of ethical and transparent relationships with our customers, stockholders, investors, suppliers, regulatory bodies, government and society and of the skill of sharing value with our audiences to improve the individual and collective welfare.

5

Manufactured Capital

It is composed of equipment and facilities, such as branches, ATMs, applications and systems that are made available by the Group for use and offer of products and services. Our equipment and facilities aim at providing more comfort, convenience and security to our customers and employees. We invest constantly to improve our infrastructure, which is essential for the efficacy and efficiency of our business model.

6

Natural Capital

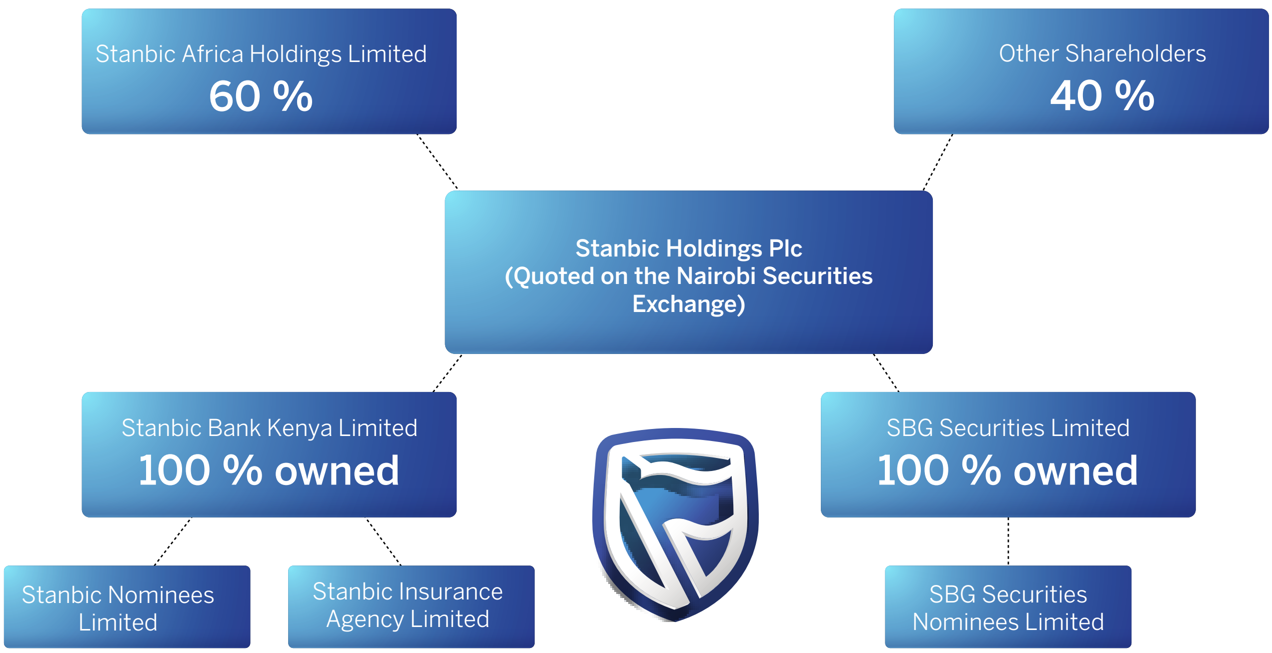
This is composed of renewable and non-renewable environmental resources consumed or affected by the business for the prosperity of the organisation. The main natural resources are air, water, soil, ores, forests and biodiversity. As a financial agent, we relate with several sectors of the economy and, therefore, we have the potential to influence changes in society and how it relates to natural resources.

Business structure

Stanbic Holdings Plc (the Company) and its subsidiaries (the Group) is a subsidiary of Stanbic Africa Holdings Limited (SAHL), which is in turn owned by Standard Bank Group Limited (SBG), Africa's leading banking and financial services group.

Stanbic Holdings Plc owns 100% of Stanbic Bank Kenya Limited (the Bank) and 100% of SBG Securities Limited (SBGS). Stanbic Bank Kenya Limited owns 100% of Stanbic Nominees Limited and Stanbic Insurance Agency Limited (SIAL).

SBG Securities Limited owns 100% of SBG Securities Nominees Limited.



Stanbic Holdings Plc

Personal & Business Banking (PBB) provides banking and other financial services to individual customers, commercial businesses and small to medium-sized enterprises.

Corporate & Investment Banking (CIB) provides corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties.

Business units

Legal entities operate under Personal and Business Banking (PBB) and Corporate and Investment Banking (CIB) business unit segments.

Personal and Business Banking (PBB)

provides banking and other financial services to individual customers, commercial businesses and small to medium-sized enterprises.

What we offer

- Transactional Products
- Lending Products
- Wealth and Investments & Bancassurance
- Digital Banking Solutions
- Vehicle and Asset Financing
- Trade Finance
- Chinese Desk

Corporate and Investment Banking (CIB)

provides services to larger corporates, financial institutions, international counterparties, governments and parastatals.

What we offer

- Global Markets
- Investment Banking
- Transactional Products and Services

Our vision and goal is to see Stanbic Holdings Plc ascend to be one of the most sought after financial services provider in Kenya. The brand Stanbic is as truly Kenyan as it is African and international. We will optimise on this obvious strength as we enter into the new year.

Chairman's statement

I am glad that in the financial year 2016, our Group maintained the tradition of generating consistent results, as it has done over the years. Our focus is to create and sustain long-term value by conducting business in a way which rhymes with and is relevant to the society in which we operate.

Our overriding objective for last year was to stamp a more pronounced footprint in the market by appealing to hearts and minds. For a long time Stanbic has been seen as a major corporate and investment bank. That is in itself very commendable. Yet there is a need for us to be at the centre of conversation in the entire banking sector. The populace should be thinking about us, talking about us, associating with us and aspiring to be part of our success.

As a step in that direction, in October last year, we rebranded from the mouthful CfC Stanbic Holdings Limited to the easier, and more pronounceable, Stanbic Holdings Plc in order to emphasize anew, our Africa wide and international connections and also to enable the public to easily recognise and associate us with the well-established brand.

Along with this came the opening of new branches and leveraging on technology and innovation to bring the customer even closer. Through sustained improvement in our digital channels, we have enhanced our capability and capacity to reach even more customers and serve them more efficiently.

Indeed, efficiency in service delivery was another of our prime focus areas during the year. We do not consider it overreach to want to be the most efficient banking institution. All banks now operate on a reasonably level playing field. The top spot will be for those who do what they say they will do, and who do it exceptionally well. Opening ourselves up for easy access by the customer, meeting their expectations, dealing effectively with their feedback, proactively communicating with them, ensuring shorter turnaround times, fast and correct resolution of issues raised and provision of products and services that are customer driven. That, in a word, was the seamless customer experience we sought to build, and wish to improve.

The amendment to the Banking Act (Interest caps) that came into effect in late 2016 introduced a paradigm shift on how banks provide exemplary service while remaining profitable. As a business we are committed to providing superior shareholder value. To do so, we remain at the forefront of innovation and seeking fresh areas and opportunities by which we may generate income through strategic partnerships with like-minded entities.

Our vision and goal is to see Stanbic Holdings Plc ascend to be one of the most sought after financial services provider in Kenya. We are not unaware that the environment in which we operate is fluid, exemplified, in no small measure, by the huge challenge to the banking sector last year when regrettably some banks closed down. Those events triggered consumer panic as questions abounded about corporate governance, the integrity of oversight and fiduciary duty to stakeholders. Of course this has shone a keener spotlight on the role Boards play in ensuring sustainability of business, the occurrence of conflict of interest and true and fair reporting of the health of an organisation.

As a Board we have continued to strengthen our oversight role by demanding more information and frequent communication with management to ensure that our role remains relevant and impactful on the business.

“We will continue to strengthen the Board in its diversity and skills set so as to effectively steer the Group towards its strategic destination.”

I am proud of and grateful for the commitment of my colleagues on the Board. The vigour and hawk-eyed vigilance of each of them continues to provide much comfort to management and employees, and also to the shareholders, about the sanctity and safety of their investment in the bank. Each Board member has discharged his or her responsibility honourably. We will continue to strengthen the Board in its diversity and skills set so as to effectively steer the Group towards its strategic destination.

Going forward, one area we want to quickly turn around is completing the structure of the Board committees so as to mirror the various constituencies within the society with increasing emphasis on entrepreneurship across the Board, and incorporating fittingly the women and youth agenda.

The brand Stanbic is as truly Kenyan as it is African and international. We will optimise on this obvious strength as we enter into the new year. We realise that 2017 will be a year with its own unique circumstances, but our overall view is that it will also present its own unique opportunities. We are well poised to move enthusiastically into the space in which we may play exceptionally well.

In closing I would like to thank management and employees for their sustained efforts and commitment that have seen us post yet another year of good results. To our shareholders we equally owe a great debt of gratitude for staying the course with us. Without you we would be much diminished. On the contrary, we are most excited about what we see as bright future prospects. We know the future holds more exciting times for Stanbic.

Fred Ojiambo, MBS, S.C
Chairman of the Board of Directors

Where we execute particularly well is in our ability to knit all of these offerings from our different businesses together in a manner that is relevant and easy for uptake by the customer.

Interview with Greg Brackenridge

Chief Executive Stanbic Holdings Plc

What were your major concerns in 2016?

2016 was characterised by the introduction of interest rate caps which brought uncertainties around the impact this would have on the availability of credit. As a consequence this resulted to a decline in private sector credit growth and hence a slowdown in economic activity. The capping however, only impacted the last quarter of 2016 and the full effect will be felt in 2017.

The South Sudan business was and is an area of concern with the ongoing political instability and effects of a hyperinflationary economy. To mitigate the risks associated with the South Sudan business, management took a view to dollarise the balance sheet beginning in 2015 and which we continued to do through 2016. We believe that the negative impact of the South Sudan business on the Group has largely been washed out in 2016 and hence we should not see a repeat of this in 2017. We remain confident in the recovery of the South Sudan economy based on the progress in engaging regional and global partners as well as development agencies to rebuild the economy and get the country back on track. In addition, the Government of South Sudan is working on increasing the production of oil which is the major revenue earner for the country.

We also witnessed a drop in the Equities market with turnover impacted by the declining indices at the Nairobi Securities Exchange. This negatively impacted our stock broking business but the business remains a fundamental part of our offering to customers of our Corporate and Investment Banking and Wealth segments.

Considering the difficult operating environment, we continue to diversify our revenue streams both by products and segments. This is a strategy we started executing a while back and we continue to see it pay off. It has enabled the Group to weather the many challenges it was faced with.

How did the business perform in the year under review?

We saw some pressure on the customers of our Corporate and Investment Banking business which necessitated an increase in general provisioning. There was also subdued capital market activity as reflected in the Stock Exchange which meant lower levels of activity for the Investment Banking unit. However, we remain well positioned in the Corporate and Investment Banking arena with significant mandates which are expected to close in 2017.

Overall, it has been a good year and certain areas of our business achieved some notable successes. Special mention must be made of our Wealth and Investment business which continues to win international recognition for the quality of its offering as well as a strong growth in customer numbers. Our offering to high net worth individuals remains a distinct and unique service which goes beyond transactional banking needs to include a full spectrum of investment and borrowing products to meet the lifestyle needs of our customers. This is a key differentiator for us which is further boosted by our relationship with Liberty.

As Stanbic Group, we offer a wide range of products and services and increasingly we are doing so through digital platforms that make it easier and more convenient for our customers. Historically we have been very purposeful in the expansion of our branch network and we will continue to invest in both our physical infrastructure and digital capabilities.

In a world where all banks largely have the same products and the same access to technology, our people will always be our biggest asset and our investment in our staff is central and fundamental to building the capabilities that will differentiate us from our competitors. In that regard we continue to

invest in fit-for-purpose training including international assignments within the Standard Bank Group for selected individuals.

Our businesses regionally and globally continue to collaborate exceptionally well such that we are a natural partner for any of our clients seeking to expand or trade regionally or internationally. Our linkage with China offers us a unique advantage for businesses looking to trade and do business with China, which over the last few years has become a significant trading partner with Africa.

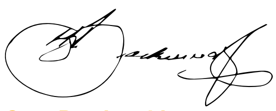
So, what is the future strategy for the Group?

We are a very product rich organisation in terms of being a universal financial services Group and our focus will continue to become more customer centric by putting the customer at the centre of everything we do as we create innovative life style solutions for people for all the different stages in their life, whether as an individual or as a business.

We are closely monitoring the effects of the introduction of interest rate caps and 2017 being an election year in Kenya, we are optimistic that we shall see a return to normal business after the election with no major policy changes or interruptions. We have put adequate measures in place to properly manage our risks and this has always been an area of real strength for us as a Group. With the alignment of the Kenyan operation to the Stanbic brand, we are now able to better leverage on our association with the regional Group to attract customers through improved brand recognition. To further bolster this, we are focused on delivering our brand promise and improving visibility of the brand so that it acts as a natural magnet that attracts customers to us.

2017 Outlook

- Inflation is expected to remain above the Central Bank of Kenya upper target of 7.5% in the second quarter of 2017 as supply driven pressures persist.
- Private sector credit growth likely to contract further with the full impact of interest rate cap being felt in 2017.
- Market liquidity and fiscal policy will continue to inform the direction of interest rates.



Greg Brackenridge
Chief Executive
Stanbic Holdings Plc

The road towards sustainability involves engaging with our stakeholders to ensure that their aspirations and needs are addressed. As a bank, it is our duty to be attentive to our context, to increase our ability to engage people, stimulate discussions, listen sincerely and innovate accordingly. Our key objective is to be a nationally relevant bank that is creating shared value for our stakeholders and among the top three banks in the country, as highlighted in this report.

Q & A

with Stanbic Bank Kenya Limited Chief Executive

2016 was a bag of mixed fortunes for the banking sector in Kenya. How would you describe the year for Stanbic Bank?

2016 was not lacking in its share of disruptions with the major occurrence being the introduction of interest rate caps in September. With the introduction of the interest caps law, there are only two differentiators for banks. These are the ability to provide superior service as perceived by the customer and also to provide value in the eyes of the customer or their business.

The bank that is able to add value to its customers or their businesses will survive since they will continue to come back and if that is backed up with superior service, then that bank will thrive in our new context. The entity that gets that right consistently is the entity that the consuming public will gravitate towards.

We are driving the adoption of online banking amongst our customer base and adding features such as access to borrowing online with a paperless capability. We see our investment in technology as a tool to enable us achieve scalability of the business. Business growth especially through digital channels will give us an advantage over the traditional brick and mortar branches.

More and more, the driver for success is ease and convenience, and hence our gearing towards reliance on technology that drives superior service delivery and also drives down the cost of serving the customer. To drive the technology agenda, we are investing in our human capital to foster a workforce that is young at heart and has an affinity for technology, who are comfortable with and are driven by technology.

Through these approaches, we are aligning ourselves well with our overarching intention to be a nationally relevant bank. By 2020, we want to be among the top 3 banks in the country as measured by profit, which is in line with the broader Standard Bank Group strategy.

Picking up from that statement, how has Stanbic entrenched itself within the Kenyan context?

For a long time we were seen as an effective niche bank doing very well in that space but this year we focused more on being a nationally relevant bank. To this end, we opened more branches throughout the country and leveraged on technology to afford us reach with the capability of servicing our customers anywhere and anytime. We opened a number of digital branches which are a unique offering because they are agile, fit-for-purpose, technology driven and customers can access them well beyond branch hours. We are quick to adapt to the demands of an increasingly tech savvy customer base that desires to transact at their convenience.

For example, in our digital branches we have Bulk Note Acceptors (BNAs) which enables our clients to deposit large amounts of cash at any time, day or night directly into their accounts. Our BNAs will also be placed in the premises of some of our clients who are scattered all over the country and have linkages to distributors, retailers and customers. We plan to roll out even more of these devices in 2017.

Last year you also talked about using your customers' ecosystem as a point of growth for the bank. Has that worked out in 2016?

We didn't move as fast on that as we would have liked, however we have chosen to concentrate our efforts on four or five ecosystems and also focus on payments and collections for our large customers and their ecosystem partners. We will provide all these services by applying technology and ensuring we are more nationally relevant and present within their geography.

“For the Bank, 2017 is about achieving scalability of our operations. We have the platforms and as such the basics are in place and now all that is left to do is to scale up.”

How was the Bank’s performance in 2016?

2016 was a particularly turbulent year in terms of the operating environment and generated a mixed bag of fortunes with it being probably the best year for our PBB but a difficult year for CIB due to provisions made on a few large customers which materially impacted on CIB. We believe that making those provisions was necessary and the prudent thing to do. We also achieved great milestones in service delivery and in rewarding service delivery. For the first time we rewarded staff by providing major awards for superior service delivery.

Cyber security continues to be a key area of focus as the economy and our business becomes increasingly technology driven. We have invested heavily in security as we take stock of the fact that criminals are busy devising ways to penetrate systems. We have the unique advantage of being linked to the biggest banking Group in Africa and borrow heavily from their expertise to continuously bolster our systems and track threats.

What is in the offing for 2017?

The Bank is in a good position for 2017. It is an election year but we remain optimistic that the Kenyan economy will be able to withstand the temporary shocks and achieve a steady recovery thereafter. For the Bank, 2017 is about achieving scalability of its operations. We have the platforms and as such the basics are in place and now all that is left to do is to scale up. We are planning on driving uptake of our digital platforms and increase usage by ensuring that the platforms are user friendly and allow for the transactions that customers need. We will continue rolling out more of our BNAs throughout the country to allow businesses to focus on their trade rather than banking cash. We will also continue to dive even deeper into the ecosystem strategy to leverage further on existing relationships we have with Kenya corporates and drive our value offering through their linkages with their suppliers, retailers, staff and customers.

Philip Odera
Chief Executive
Stanbic Bank Kenya Limited

Personal & Business Banking (PBB)	Corporate & Investment Banking (CIB)

Business unit reviews

Reflecting on our operating environment, financial resources for expansion will have to be utilised in a very rational manner and we shall peg our expansion agenda heavily on driving penetration and utilisation of the digital platforms.

6,987 million
TOTAL INCOME
2015: 6,141 million

52,465 million
CUSTOMER LOANS & ADVANCES
2015: 49,486 million

57,095 million
CUSTOMER DEPOSITS
2015: 53,667 million

Adam Jones
Head – PBB

Under Personal and Business Banking we focus on banking business customers (i.e. Commercial businesses and Small and Medium Sized businesses), high net worth individuals and personal customers. We lead with business banking and leverage on ecosystems to grow the Personal Banking and high net worth segments. We provide simple, affordable, convenient and accessible financial solutions that range from transactional products, lending products, wealth and investment and bancassurance, digital banking solutions and trade finance.

2016 saw the introduction of interest rate caps in Kenya. This only enhanced our strategy execution which has the goal of diversifying our revenues especially the non-interest revenue. We continue to improve our payments and collections capabilities, enhance the bancassurance offering and aggressively grow our customer base in chosen segments based on excellent customer experience.

The launch of the bancassurance agency better known as Stanbic Insurance Agency Ltd (SIAL) in late 2015 has enabled us to set up a full team which is now in place to service existing and new clientele with customised insurance solutions. To support the business, we implemented a new IT platform. Our focus has been to embed the bancassurance products within our current customer base and current product offering such as life insurance for our unsecured loans. Over the next year we will focus on scaling up our bancassurance business as it is an area we are keen on growing and evolving over time. We see the bancassurance business evolving into an advisory role where it will be able to capitalise on our large corporate and business banking base to advice on risk assessment, mitigation and management through suitable insurance products.

Digital platforms remain a key differentiator in service delivery especially in Personal and Business Banking. With our limitation in geographical footprint compared to our competitors, it becomes even more critical to have the best systems, technologies and innovations and be connected with the customer anywhere, anytime. This year we made further enhancements on our fastest growing digital platform, the mobile banking App which currently has a utilisation of over 70%. Our online banking offering was also enhanced through upgrades that introduced a more user friendly interface and accords the user new capabilities such as real-time account opening, bill payments and tax payments.

A new digital platform that we launched this year is the Bulk Note Acceptor (BNA), a first of its kind in this market, which allows customers to bank bulk cash on a 24-hour basis. It is a device that primarily targets our Small and Medium Enterprises (SME) customer base who after business hours can bank their cash without having to worry about banking hours. It also allows non-bank customers to deposit into our customers' accounts and has proved to be a popular cash management solution to our Corporate and SME customers. This has been rolled out in six premier digital branches namely, Two Rivers, The Hub, Garden City, Nanyuki, Kenyatta Avenue and Digo branch in Mombasa where over 70% of all cash deposits are being done through BNA devices. We will be rolling out a significant number of these devises in 2017 to afford a larger number of our customers with the same convenience.

Reflecting on our operating environment, financial resources for expansion will have to be utilised in a very rational manner and we shall peg our expansion agenda heavily on driving penetration and utilisation of the digital platforms. Increasing the functionality of these platforms supported by improved quality of systems in terms of reliability and stability will ensure we remain relevant in this market into the long term.

We have been successful with the payments and collections strategy and it is clear to us that this is indeed the right strategy to mobilise local currency funds and grow non-interest transactional revenues. We continue to partner with enterprises across different industries to propel their success via relevant financial products throughout their business models and across their operating ecosystems. We rolled out the pilot phase of our university fees collection system with Strathmore University and we shall be rolling out more components of this offering in the next year. Our Chinese desk is now fully operational and servicing mainly our business banking customers. This is one area we are excited about as it has a huge growth potential in light of the deepening trade relations between Kenya and China. We are well poised to capitalise on the inherent opportunity as 20% of the Group parent company, SBG, is owned by China's ICBC, the largest bank in the world.

We accelerated on our cross-sell agenda within the Personal Banking segment as a key component in growing our non-interest income. Our strategy is not only to be the primary transactional partner for our diversified customer base, but also be able to offer complementary financial services that appeal to a different set of needs. This year we placed more emphasis on increasing customer awareness around the different types of transaction services we offer and our competitive rates for processing these transactions. As a result we had significant year on year growth in our transactional fee income.

Our high-end customer offering through private banking and wealth and investment propositions has continued to perform well. We gained more market share by offering competitive propositions. We continuously leverage on our parent company experience, expertise and reach in order to win the confidence of our customers in this area. We are the only bank in the market that offers an onshore-offshore model and this is one of our key selling points to this niche market.

In general, this has been a good year for both Personal and Business Banking with increased uptake of our offerings. Business Banking growth was driven by exceptional performance in the commercial and agri-business segments. In SME banking, we implemented Enterprise Direct which is a customer contact system that allows them to get into contact with us without having to visit the branches.

One of the areas we could have done better is to drive further into our transactional customer base especially local currency account holders. In the era of interest caps, the ability to control higher amounts of customer deposits will accord us the required levels of liquidity that will enable us to execute on our strategy.

Our strategy in PBB is to continue to lead with the business banking segment. In doing so, we shall continue our focus on solving for cash through the payments and collections initiatives as well as clever use of technology by digitising processes. In addition, we continue to focus on scaling the bancassurance business and our wealth and investment proposition. We shall leverage on the chosen ecosystems to drive growth both in Business Banking and Personal Banking. These ecosystems are key as we strive to aggressively grow our customer base in chosen markets and in support, we are enhancing our value propositions in the Personal Banking segment. The launch of Enterprise Direct will help us better connect with SMEs thus profitably scale the SME customer base.

Our products and services in PBB

Whether our customers want to transact, save or borrow, we offer financial solutions with innovative products and services designed to evolve with their ever changing needs. We understand what it means to do business in Africa and beyond. We strive to empower business people to succeed. We have specialist product expertise, strong local capacity and global distribution reach.

Mortgage lending

- Residential accommodation loans to individual customers.

Vehicle and asset financing

- Comprises two areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.

Card products

- Credit card facilities to individuals and businesses (credit card issuing).

Lending products

- Lending products offered to both personal and business markets.
- Business lending offerings constitute a comprehensive suite of lending products, structured working capital finance solutions and commercial property finance solutions.

Transactional products

- Comprehensive suite of transactional, savings, investment trade, foreign exchange, payment and liquidity management solutions made accessible through a range of physical and electronic facilities.

Wealth and investment & Bancassurance

- Short-term and long-term insurance comprising of Credit life and Home Owners and Commercial Business Cover.
- Wealth management services through investment services, trust and fiduciary, philanthropy, risk solutions, specialized lending and transactional banking services.

Personal & Business Banking (PBB) | **Corporate & Investment Banking (CIB)**

We remain a strong player in the arranging of finance for infrastructure development. This includes supporting the Governments renewable energy projects, thermal energy and the Kenya Roads program.

11,530 million
TOTAL INCOME
2015: 10,803 million

63,123 million
CUSTOMER LOANS AND ADVANCES
2015: 55,496 million

62,233 million
CUSTOMER DEPOSITS
2015: 52,579 million

Mike Blades
Regional Head – CIB

Corporate Investment Banking (CIB)

The Corporate and Investment Banking ("CIB") business provides our corporate clients with a diversified suite of financial products and services that range from banking, finance, trading, investment and advisory. Being part of the Standard Bank Group allows us to access capital for significant transactions in Kenya as well as provides us with access to our centres of excellence in Johannesburg, Beijing, London and New York. In CIB, we pride ourselves in having the best people with the appropriate skills to deliver exceptional products and services that address our clients' needs.

At the end of 2015, CIB embarked on a new strategic direction which, inter alia, focused on being a transactions led bank differentiating itself through superior service delivery. We also set about formalising working streams with our PBB colleagues on Payments and Collections initiatives which has now progressed into a formal ecosystem committee.

Like other Corporate and Investment Banks in Kenya, 2016 proved to be challenging for CIB on a number of fronts. In 2016, both Kenya and South Sudan experienced different challenges in their economies which ultimately impacted the financial services sectors in both countries. In Kenya, a bearish performance at the Nairobi Securities Exchange, relative stability of the Kenyan Shilling and the implementation of the interest rate capping in September 2016 had an adverse impact on our clients and a knock on effect on the CIB financial performance. In addition to this, the unexpected Brexit referendum decision negatively impacted the financial health of our exporting clients which resulted in our impairments growing at a faster rate than we had anticipated. In South Sudan, political unrest and a shrinking economy exacerbated by hyperinflation also contributed to a soft financial performance.

Despite this, we made good progress with our CIB strategy and have laid the platform to ensure that we grow our revenues in a sustainable fashion. We continued our partnership with PBB to ensure we bank and maximise the revenue opportunity from our clients, ecosystems. The case study on KenolKobil below, is just one example of how PBB and CIB are working together to ensure we exploit the synergies between the two business units. As part of our universal bank, we have rolled out our Point of Sale (POS) and card acquisition offerings to our Fast Moving Consumer Goods (FMCG) and Oil and Gas clientele to allow us capture the client flows, hence growing the local currency transactional accounts.

CIB has also established a customer service function which specifically services the CIB clients. This has resulted in a big improvement in the customer experience as the clients have a more informed and dedicated team dealing with their service issues. We have also invested in our systems and technology to ensure stability and reliability of our platforms. All of these initiatives have been customised by a customer needs analysis to ensure that their experience at Stanbic Bank is unparalleled.

We remain a strong player in arranging of finance for infrastructure development. This includes supporting the Governments renewable energy projects, thermal energy and the Kenya Roads program. Together with the Standard Bank Group's strategic shareholder ICBC, we have been able to leverage relationships with large Chinese infrastructure players who are investing and building the key infrastructure projects in Kenya. The solutions we offer range from Investment Banking advisory, sophisticated lending structures, trade finance and basic transactional banking.

Being an election year, 2017 presents further uncertainty, as from past experience, both international and local investors typically adopt a "wait and see" attitude for their large investment and expansion decisions. The impact of interest rate capping on the economy reaches full swing in the first quarter of 2017. With the private sector credit growth the lowest it has been in a decade, we expect economic growth to be negatively impacted, which could dampen CIB's performance. We nonetheless believe that our transactional banking strategy is now more relevant than ever and so in 2017 we will continue to focus on:

- Growing the local currency transactional business
- Superior service delivery
- Deepening our client relationships and increasing the share of wallet in our clients
- Working with PBB to achieve universal bank synergies and banking the ecosystem
- Rationalise our products and systems to ensure efficiency and cost management

Our products and services in CIB

We aspire to be the leading Corporate and Investment bank in Kenya with a deep specialisation in key sectors such as Power and Infrastructure, Oil and Gas, Mining and Metals, Financial Institutions, Telecommunication, Media and Technology and Consumer.

Global Markets

- Foreign exchange
- Debt security trading
- Equity
- Markets and interest trading
- Fixed income trading

Investment Banking

- Project finance
- Advisory
- Corporate lending (including syndicated lending)
- Equity capital markets
- Debt capital markets
- Property finance
- Vehicle and Asset Finance

Transactional Products and Services

- Cash management
- Liquidity management
- Investor services
- Working capital financing
- Trade finance

CASE STUDY

Ecosystem banking

KenolKobil Limited

Background

KenolKobil Limited is the fastest growing indigenous multinational oil company with an expansive investment portfolio spanning the entire Eastern, Central and Southern parts of the African continent. The Group consists of subsidiaries in five African countries outside Kenya, which is the Head Office, including: Uganda, Rwanda, Zambia, Ethiopia and Burundi.

The company is involved in the sale of white oils, LPG and lubricants within the downstream segment. In Kenya, KenolKobil is the leading oil marketer with a market share of 13.8% and a retail footprint 180 retail stations.

Universal Banking- banking the KenolKobil ecosystem

Stanbic Bank's focus is to develop deeper insight into our customers operating environment. The Bank has adopted a universal banking model aimed at:

- understanding the entire customer value chain ecosystem and;
- providing banking support in line with efficient and effective business practices

The Bank therefore sought to identify KenolKobil's entire ecosystem, which includes the suppliers, distributors and employees, and understanding the financial and banking support required. A team comprising of members from various part of the bank was then tasked with coming up with a holistic solution to bank the "ecosystem".

Business Solutions on the ecosystem

Corporate solutions

Over the course of our relationship with KenolKobil, Stanbic Bank has sought to understand the banking needs of the client and has been able to provide the following solutions:

- Payments and Collections solutions- Stanbic is currently the principal payments and collections bank for KenolKobil. Availability of the Bank's cash management solutions (both physical and electronic) has ensured that the client's payments and collections requirements have been addressed. The Bank won the mandate to manage the client's dividends payments in 2015 and has continued to do so ever since.

- Working capital financing- The Bank has provided working capital facilities in the form of funded and non-funded lines that have made it possible for the client to trade.

- Structured Trade Finance – Tailor-made solutions aimed at supporting KenolKobil's participation in the open tender system. The Bank has supported KenolKobil import circa 230,000 MT of white fuels in 2016.

- Digital Banking through Business Online, which allows the client to "be your own banker" and makes reconciliations on the accounts easier.

- Investment Banking mainly targeted towards providing mergers & acquisitions and advisory services on areas of strategic importance to the client.

- Global Markets: Foreign exchange (FX) hedging solutions aimed at assisting the client manage FX risk.

Dealers' solutions

The dealer remains the most important link between KenolKobil and its final customers and is critical in ensuring timely and efficient distribution of product across the country. Tailoring the solutions for the dealers is a continuous process and involves interacting with the dealers as well as understanding their trade cycle and critical aspects of their business to ensure that they continue running their business profitably. The wide array of solutions provided include;-

- Bundled product solution which allows the client to pay a flat fee for a number of transactional solutions thereby removing the issue of reconciling bank charges from the dealers' daily routine.

- Bancassurance offering structured solutions to meet specific requirements unique to the dealers. This has been done in partnership with leading insurance companies.

- Payments and collection solutions including cash management solutions; we have PDQ terminals at the dealers for card payments, Till2Bank solution for MPesa payments, Bulk Note Acceptors for cash payments integrated in our core offering for this segment.

- Working capital solutions including issuance of payment guarantees and overdrafts

Suppliers' solutions

The transporter remains a critical link between KenolKobil and the dealer. An efficient and reliable transport system is therefore critical to KenolKobil's operations. We have been working closely with the KenolKobil's transporters to provide them with access to asset financing in the Bank.

Employees

For the employees, Stanbic Bank also partnered with KenolKobil to offer attractive mortgage rates in addition to the unique products that the bank offers. Employees of KenolKobil will now enjoy an competitive interest rate on their mortgage owing to the partnership between Stanbic Bank and KenolKobil. The partnership will enable KenolKobil employees make considerable savings on their financial costs as well as be able to afford homes which they could not afford previously owing to the attractive interest rate that they have been given. In addition to this, the employees will also benefit from the convenience of having their financial solutions from one financial institution which includes faster processing of salaries and also better access to credit facilities.

How does KenolKobil benefit from the solutions offered within the ecosystem?

Being able to bank the client ecosystem is ultimately beneficial to the client in the following ways:

- lower transaction fees for the client as the transaction flows to between the client and its suppliers, dealers and employees will be mostly within one bank;
- speed of execution of transactions for the client
- the client is able to provide competitive employee value proposition to allow for quality human capital resourcing
- employee motivation

Value of banking the KenolKobil ecosystem for Stanbic Bank

Stanbic Bank's focus on the KenolKobil had initially been on identifying and banking opportunities from the dealers, suppliers and employees. However, as a result of various engagements and a deeper understanding of the client and its supply chains, we have been able to identify additional opportunities with the client's suppliers and related companies and their shareholders through our Wealth and Investment offering. As a result of our work with KenolKobil, we have also been approached by other industry players to support and bank their ecosystems. We have had notable revenue growth through this initiative and intend to use the lessons we have learnt from this specific case to grow our business.

The signing of MOU between KenolKobil and Stanbic Bank Kenya on 12th Oct 2016, by Stanbic Bank Kenya Limited CE Mr. Philip Odera and KenolKobil MD Mr. David Ohana

Financial Review

CFO Statement

The operating environment in 2016 was characterised by several challenges that affected the banking sector as a whole. From industry shocks occasioned by bank failures, the implementation of interest rate caps and slow economic growth in the region, the banking industry has experienced several shakeups which have translated into lower returns in the sector.

Our performance reflects prudence in a year of dynamic changes that necessitated a conservative view around expectations for the future. The growth in our revenues augments the consistent performance we have espoused and envisages sustainable financial strength and stability. We continue to hold the view of proper risk management with a long term view of sustainable growth and financial return to our stakeholders.

The challenging economic environment in South Sudan continues to impact the performance of the branch. The economy in South Sudan is now considered hyperinflationary. Following this, we have applied hyperinflation accounting for South Sudan branch on the reported results by applying a Consumer Price Index (CPI) published by the South Sudan National Bureau of Statistics to remeasure the South Sudan financial position. The resultant impact has been adjusted in the Income Statement.

Observing our performance this year, we have delivered solid results against most of our key drivers displaying our sound and stable financial fundamentals, which the Group has conceptualised and executed to ensure an astute growth trajectory.

Abraham Ongenge
Chief Financial Officer

Economic factors affecting the results

Inflation

The year-end inflation rate stood at 6.3% compared to 8.0% in 2015. The increase was driven by unwinding base effects from the introduction of excise tax in December 2015.

Central Bank Rate (CBR)

The Central Bank Monetary Policy Committee lowered the CBR rate to 10.0% from 11.5 % in comparison to December 2015.

Overview of the key features of 2016 financial results

The Group (Kenya Bank, South Sudan branch, SBG Securities and Stanbic Insurance Agency Limited) reported a profit after tax of KShs 4.4 billion.

- Revenues grew by 9% mainly due to increase in net interest income as a result of loan book growth.
- Non-interest revenue continued to show strong performance as the Bank leveraged on technology to improve our customers' banking experience. This was however partly offset by a decrease in brokerage commission due to decline in market turnover at the Nairobi Securities Exchange.
- Growth in impairment charges reflects increased general debt provisions aligned to challenging operating environment for some of our customers.
- South Sudan performance was impacted by the negative effects of hyperinflation and prudent provisioning to cover for uncertainties in South Sudan.

However the Group continued to report growth in balance sheet with customer deposits growing by 12% and customer loans growing by 10%.

Profitability

Profit after tax declined year on year by 10% to KShs 4.4 billion, a decrease of KShs 487 million. This resulted in a decrease in earnings per share to KShs 11.18 per share from KShs 12.41 per share in 2015.

Return on equity

The return on average equity net of goodwill decreased to 15% in 2016 from 17% in 2015. On a weighted average capital basis, the return on equity was 11% compared to 13% in 2015.

Key financial highlights

Performance Indicators	2016	2015
Total income growth	9.3%	0.4%
Credit impairment charges growth	(93%)	(29%)
Profit before tax growth	(18%)	(4%)
Customer loans and advances growth	10%	19%
Customer deposits growth	12%	10%
Capital adequacy (tier 1 ratio)	16%	16%
Return on average equity	11%	13%
Earnings per share (KShs)	11.18	12.41

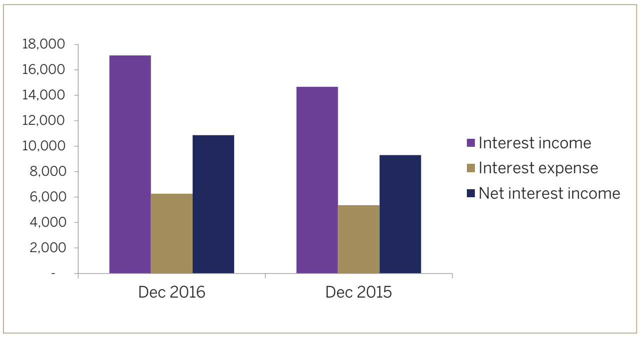
Net interest income increased by KShs 1.6 billion. In 2016, non-interest income accounted for 41% of total operating income as compared to 45% in 2015.

Operating costs increased by KShs 2 billion, a 23% increase from the previous year. The cost to income (CTI) ratio increased to 58% (2015 : 51.2%) due to increase in operating costs by 23% compared to a revenue growth of 9%. Excluding impact of hyperinflation, costs increased by 10% representing a CTI of 52%.

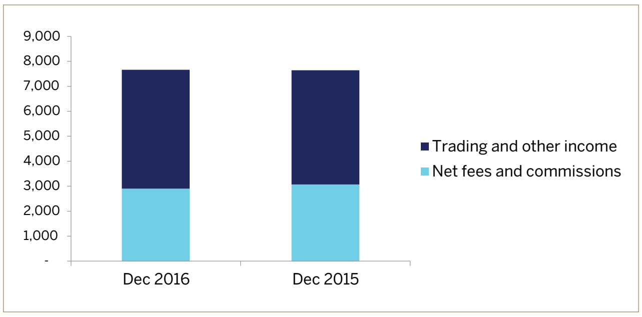
	2016	2015	
	KShs 000	KShs 000	Change
Interest income	17,127,042	14,667,896	17%
Interest expense	(6,266,995)	(5,364,849)	(17%)
Net interest income	**10,860,047**	**9,303,047**	**17%**

The increase in interest income was mainly driven by growth in customer loans and advances and improved margins within the first three quarters of the year. In line with balance sheet growth, the Bank was successful in securing term funding from various funding partners that resulted in interest expense increase year on year. The Bank continues to focus on improving the funding mix by growing core customer balances (current accounts and savings deposits).

Net Interest Income (KShs millions)



Non-interest Revenue (KShs millions)

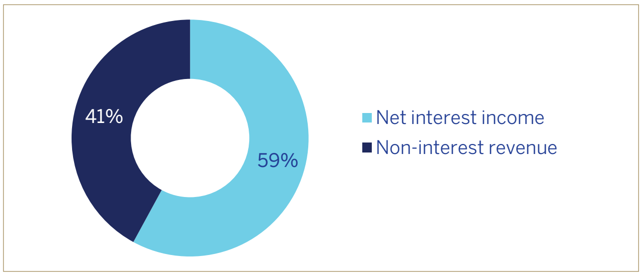


Net fees and commission income

Increase in net fees and commission income arising from increased transaction volumes from our digital channels was offset by decrease in brokerage commission as a result of a decline in market turnover at the Nairobi Securities Exchange. This resulted in net fees and commission income decreasing from KShs 3,069 million in 2015 to KShs 2,905 million in 2016.

Trading revenue

Income from trading increased from KShs 4,307million to KShs 4,723 million. The increase was mainly driven by foreign exchange gains as a result of devaluation of the South Sudanese Pound.



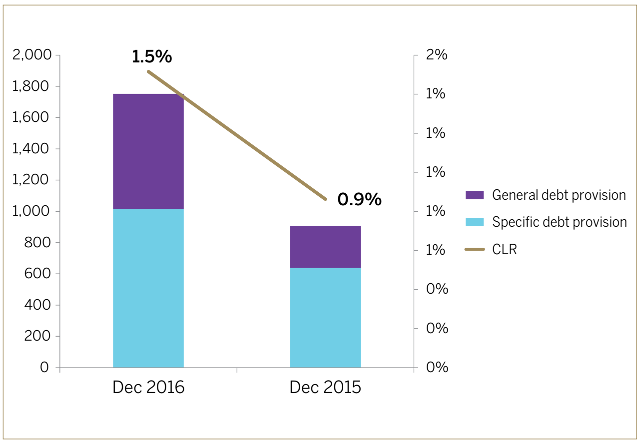
Impairment losses

	2016 KShs 000	2015 KShs 000
Impairment charge for non-performing loans	694,358	1,237,063
Impairment charge for performing loans	1,141,590	335,238
Recoveries during the period	(84,136)	(571,559)
Other movements		(93,438)
Net impairment charge on loans and advances	**1,751,812**	**907,304**

Impairment charges increased year on year due to:

- Growth in loan book
- Prudent provision for South Sudan financial assets
- Downgrade of some corporate clients

Credit Impairment charges (KShs millions)



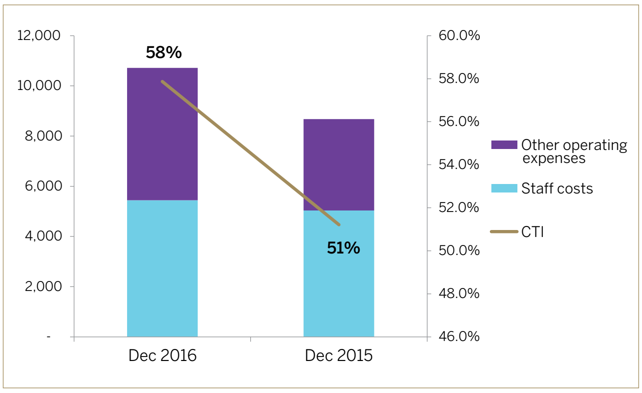
Operating expenses

	2016 KShs 000	2015 KShs 000
Staff costs	5,440,584	5,035,142
Operating expenses	5,275,876	3,642,414
Total expenses	**10,716,460**	**8,677,556**

Employee compensation and related costs increased by KShs 405 million mainly due to annual salary reviews, coupled with an increase in staff head count to support the Bank's growth strategy.

Other operating expenses for 2016 were higher than 2015 costs by KShs 1.6 billion largely due to hyperinflation in South Sudan.

KShs millions

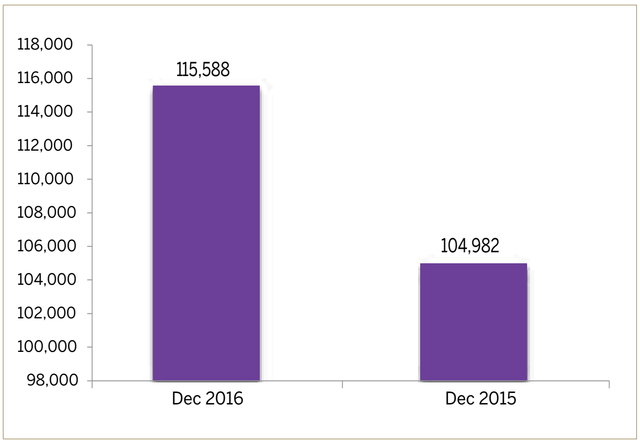


Statement of financial position

During the year under review, the Group's total assets grew by 3% to KShs 215 billion as at close of 2016. The balance sheet growth was largely driven by growth in customer loans and advances. Customer loans grew by KShs 10.6 billion to close the year at KShs 115.6 billion.

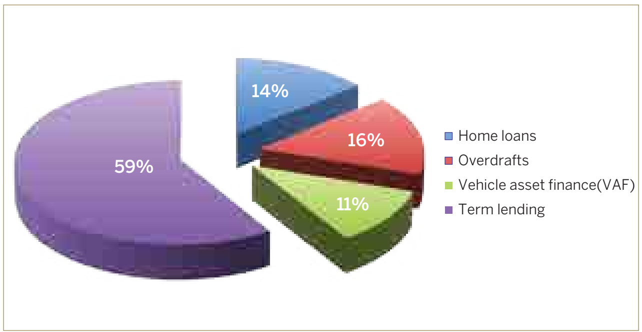
Customer deposits increased by KShs 13.1 billion to close the year at KShs 119.3 billion. Customer deposits grew by 12% year on year with core accounts accounting for 79% of total deposits.

Customer loans and advances

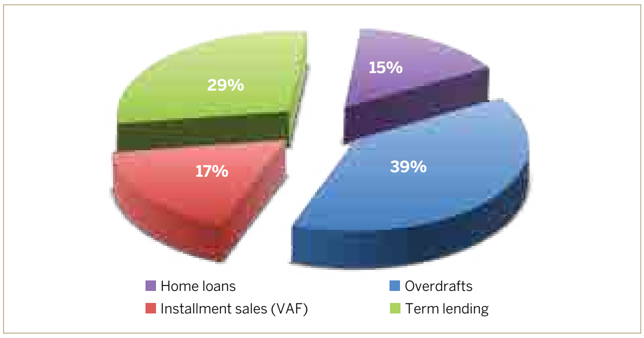


Graphical representation of key statements of financial position lines

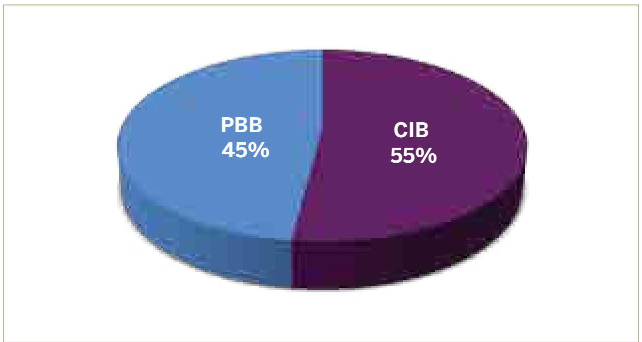
Loans and advances by product



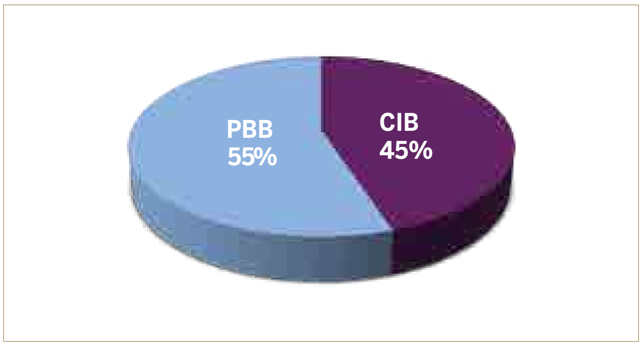
Net NPLs by product



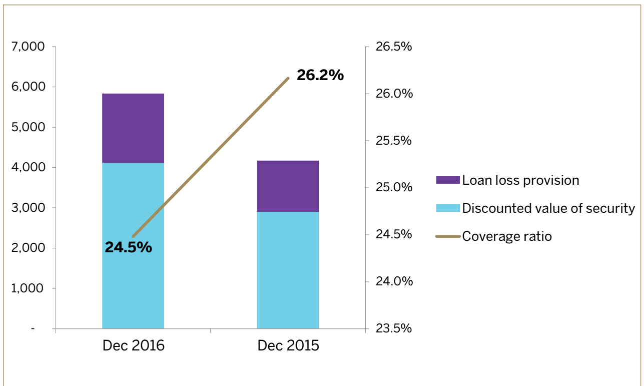
Loans and advances by business unit



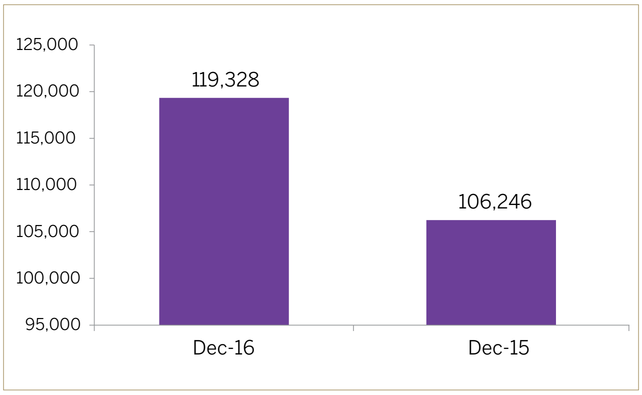
Net NPLs by business unit



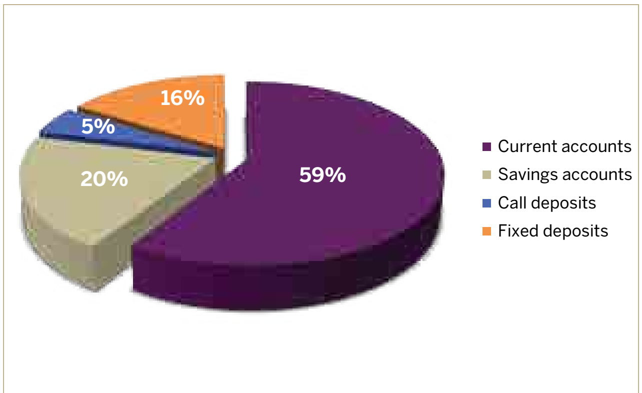
Customer loans and advances non-performing loans (NPLS) KShs millions



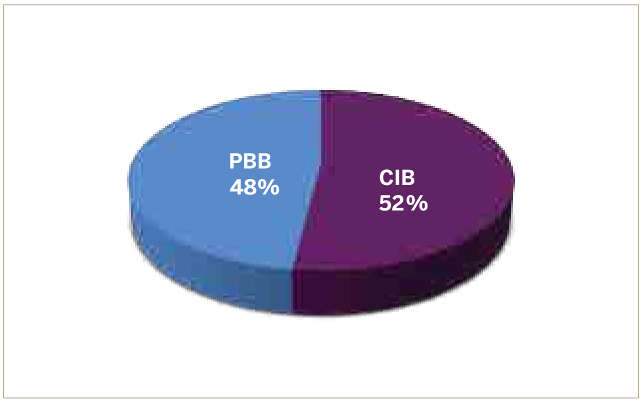
Customer Deposits (KShs millions)



Customer deposits per product



Customer deposits by business unit

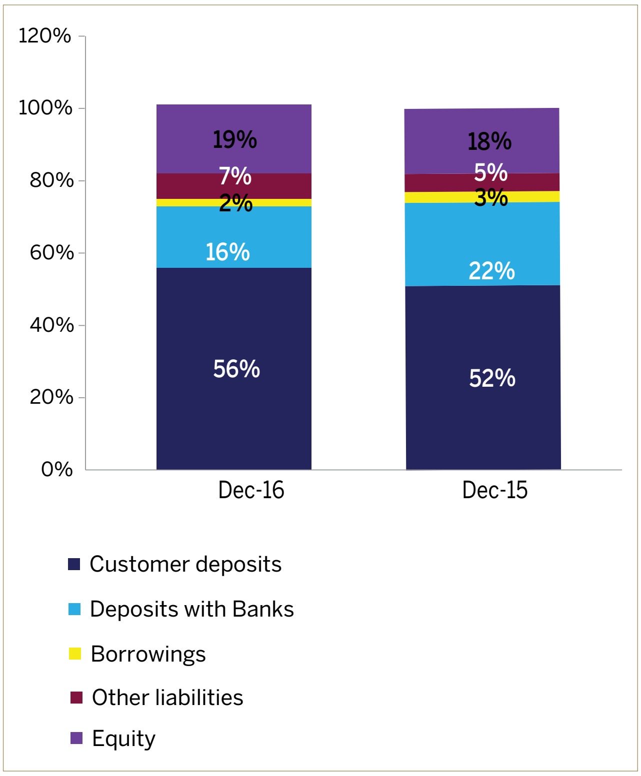


Capital adequacy

At 31 December 2016, the Bank's total capital ratio was 18.1% (2015: 18.7%) of risk-weighted assets, with core capital at 15.9% (2015: 15.9%). The capital adequacy ratios remain above the stipulated regulatory minimum of 14.50% and 10.50% respectively.

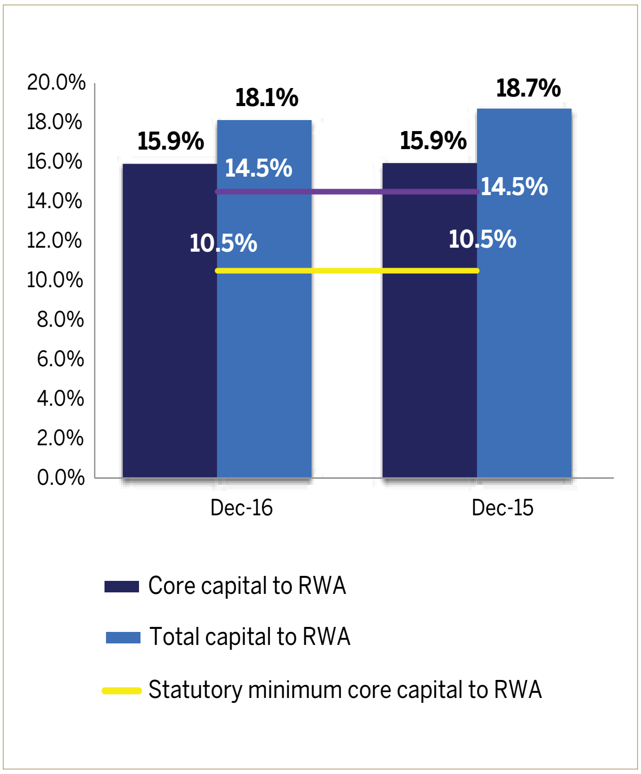
Part of the earnings for the year will be reinvested in the business to enable it grow its assets.

Funding mix



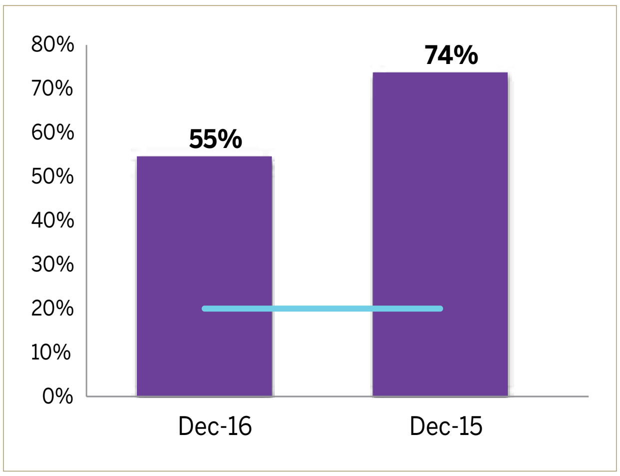
Assets funded mainly from customer deposits

Capital adequacy ratio (Bank only)

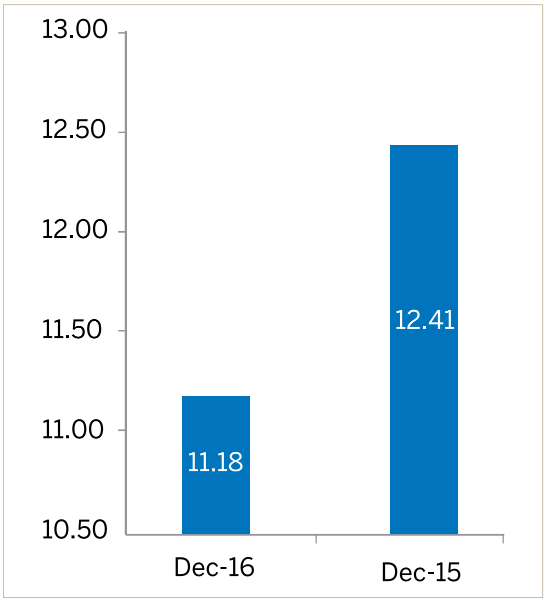


RWA- Risk weighted assets

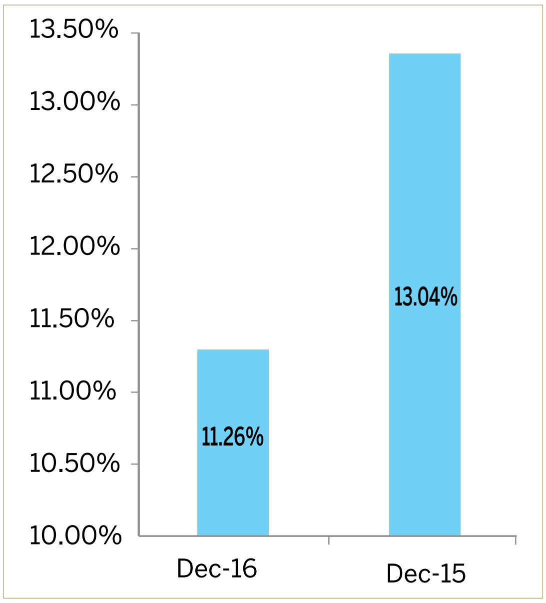
Liquidity ratio (Bank only)



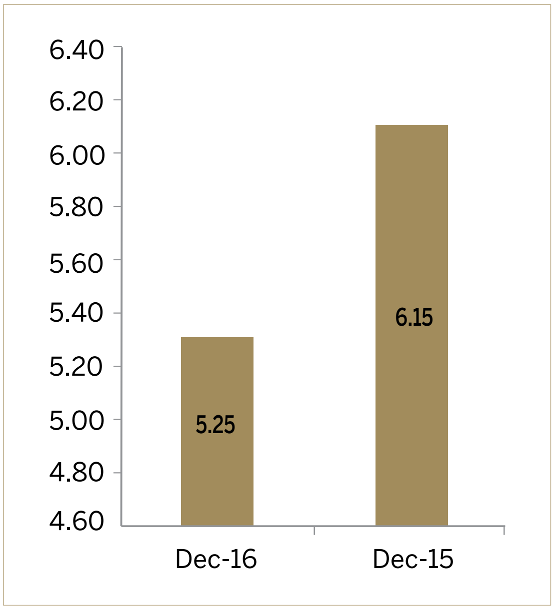
Earnings per share



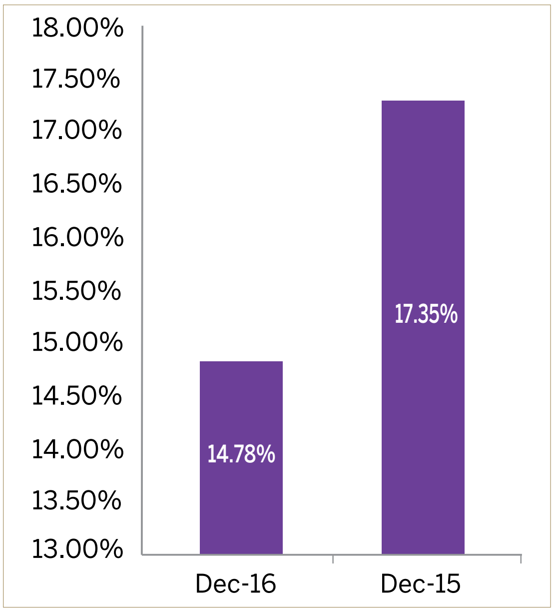
Return on average equity



Dividends per share



Return on average equity net of good will



Economic review

Our Context

Kenya

According to IMF, the Kenyan economy was projected to grow by 6.0% in 2016, up from 5.6% in 2015. By end of year, the economy had grown by an estimated 5.7% underpinned by low oil prices, given Kenya is a net importer of oil, stable agricultural performance as result of stable weather conditions, a supportive monetary policy, ongoing infrastructure projects being undertaken by the government and recovery of tourism sector. However there were a few challenges such as relatively lower earnings expected from the banking sector following the signing of the Banking Amendment Act 2016, diminishing private sector credit growth, further weakened by the signing of the Banking Amendment Act 2016, increased cases of corruption and mismanagement of public funds continue to persist and the upcoming general elections, scheduled for August 2017 have also brought about some measure of uncertainty in the market.

The Kenya shilling remained resilient, depreciating slightly by 0.1% against the USD, having appreciated by 1.2% against the dollar during the first half of the year. This was mainly influenced by the high levels of foreign exchange reserves and improved diaspora remittances. Inflation rate remained relatively stable over the year with the annual average at 6.3%. During the year, the Kenya equities market performed poorly with NASI, NSE 20 and NSE 25 losing 8.5%, 21.1% and 15.8%, respectively, as a result of price declines in large cap stocks.

South Sudan

The political instability in South Sudan has had a significant financial impact on South Sudan with increasing contraction on Gross Domestic Product and rising inflation. Volatility of the international crude oil price, disruptions in oil production due to political unrest and below-average agriculture production negatively impacted economic growth of the young nation.

Key Regulatory Highlights

Several regulations came into effect in 2016 that impact on our business:

- Companies Act 2015 which had far reaching effects on the registration and administration of companies
- Finance Act 2016 which increased the penalties that can be levied on banks by the CBK
- Human Resource Management Professional Regulations that required HR practitioners to be certified
- Banking Amendment Act 2016 which introduced the capping of interest rates
- Land Amendment Act 2016 which affects land matters in Kenya
- Bribery Act 2016 that requires institutions to implement measures to curb bribery

We are monitoring the progression of the following proposed regulation that will have an impact on us when they come into effect

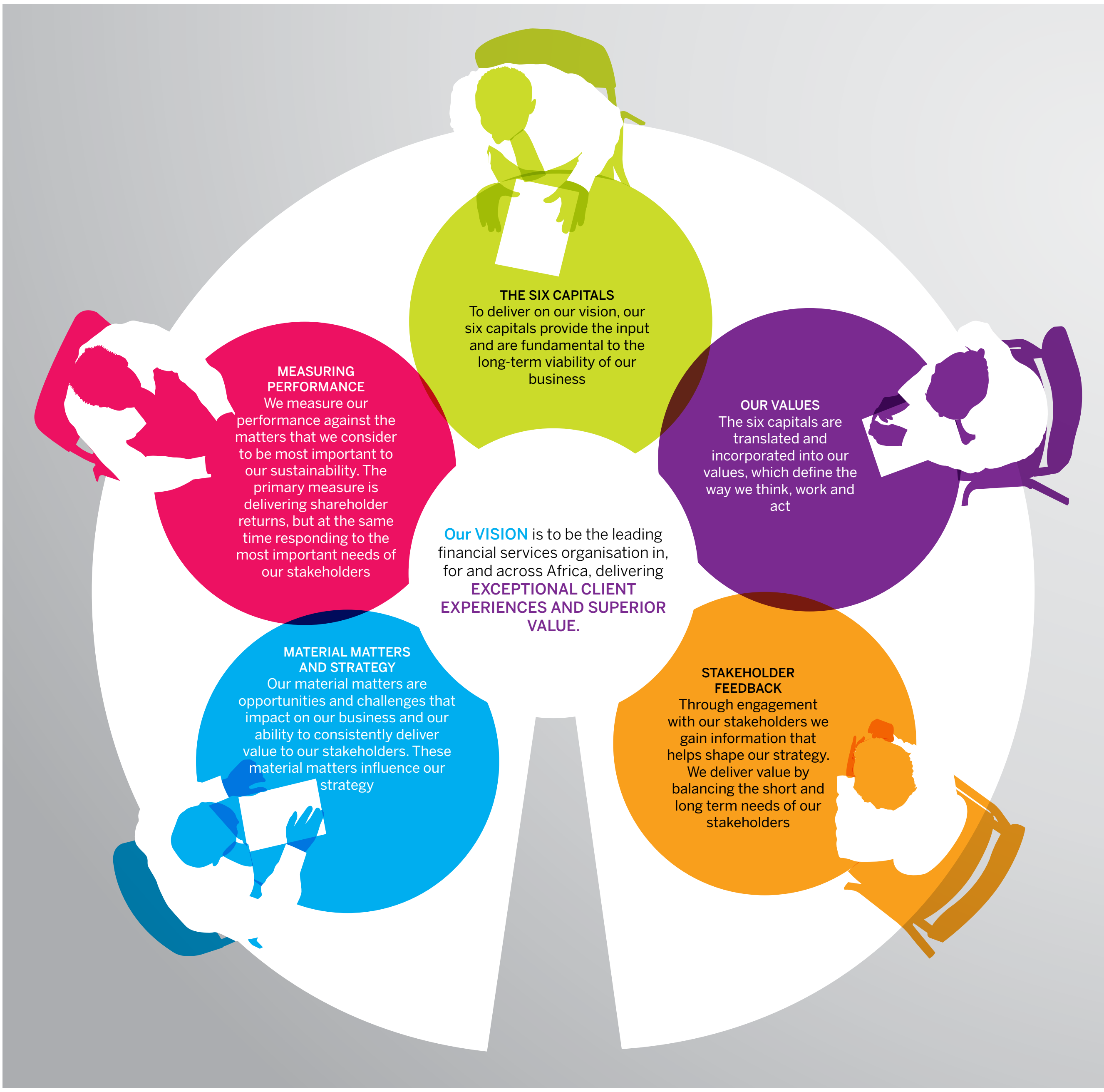
- The Employment Amendment Bill
- The Health Bill
- Kenya deposit insurance draft regulations
- VAT amendment bill
- Information Communication Technology Practitioners Bill

Ensuring our sustainability

To us, integrated thinking is about ensuring the long-term sustainability of organisations through the sustained creation of value for stakeholders. This requires active consideration of the relationships between our various operating and functional units and the capitals that the organisation uses or affects. The Group is committed to embedding the principles of integrated thinking in its business. The extension of this, integrated reporting, allows us to communicate our commitment to creating value for all our stakeholders, and to describe where we are on that journey at this point in time.

We have structured this report by looking at the inputs (in the form of the six capitals, introduced in page 9) required in order for us to do business and generate value over the long-term; our material issues driving our strategy, our impacts (positive and negative), and how they respond to the needs of our key stakeholders.

We hope that this report will be useful to our existing and prospective investors, but also for our diverse range of other stakeholders, and provide them with accountability measures, transparency and a clear picture of the issues that affect us the most.



Our Material Issues

Definition

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

Identification

The process of identifying and determining matters that are material to the Company and our stakeholders is dynamic and is based on formal and informal stakeholder feedback, as well as integrated sustainability thinking.

Response

In response to these issues, our strategy is designed to create maximum value for our shareholders and minimise the risks identified over the short, medium and long-term. This value creation is intrinsically linked to our long-term success. Our material matters and key strategic areas, including short- to medium-term execution areas and targets are summarised in this section.

Operating within the macro-economic conditions in the region

The East Africa region continues to be among the African regions that continues to witness impressive economic growth. The region is also a major recipient of foreign direct investments as well as donor funding. Kenya's economy was one of the star performers in the region last year with growth rates above 5.0% in the first three quarters of the year. Gross Domestic Product expanded 5.7% on an annual basis which is a strong indicator of the economy's strong performance. Economic activity was supported by expansions in all sectors, with services and mining and quarrying leading the way. Nevertheless, downside risks remain. The interest rate cap introduced by the Government in September 2016 has so far had a negative impact on credit growth as bank lending to the private sector has slowed considerably in recent months, compared to the double-digit increases recorded in 2015. This, coupled with the uncertainty surrounding the presidential elections in August 2017, has affected business sentiment as investors take a wait-and-see approach. However, public investment, loose monetary policy and closer integration in the East African Community will support Kenya's economy in 2017.

Increased competition and evolving customer trends

In light of the interest rate cap that came into effect in September, competition within the industry has been taken a step higher as margins from interest income tighten. Banks will now compete on their capability to interpret customer needs, provide solutions through innovative and cutting edge product and services, and deliver this through technological advancements. There will also now be a greater focus on non-funded income as banks focus on revenue generated from fees and commissions which are heavily reliant on the ability to satisfy and exceed customer expectations. We also continue to face competition from shadow banking systems whose core strength is innovation but are less regulated in comparison to the banking sector.

Increasing regulatory activity

The financial sector remains one of the most regulated sectors anywhere in the world, and Kenya is no exception. It is indeed very necessary as we hold our customers' money in trust. Across the financial services industry, all stakeholders are working with a shared objective which is to protect and enhance the stability of the sector and to continuously raise the bar in terms of upholding the highest environmental, social and governance (ESG) standards. The Central Bank of Kenya has tightened its regulations on banks with emphasis on transparency on lending rates, governance and capitalisation.

In September 2016, an amendment to the Banking Act was passed which put a cap on lending rates at 4.0% above the Central Bank Rate (CBR) and a floor on the deposit rates at 70% of the CBR. This has affected the bank's approach towards certain risk profiles and credit policies.

Confidence in the banking industry

With erosion of consumer confidence in small and mid-sized banks following the placement of three banks into statutory management, our stakeholders are now keener on the health of our operations and the security of their investments or interests in us. Kenya's banking sector will continue to be shaped by stricter prudential and conduct regulations that have been enforced by the CBK. Consolidation in the banking sector is expected in the wake of tighter margins and stricter regulation. This implies that banks will need to effectively communicate their core values, cement brand love and leverage on their strengths not only to attract customers but also to retain them.

Increased reliance on technology and innovation

Infrastructure development is crucial in terms of opening up new markets and spurring the growth of industry as well as the ancillary businesses that grow around them. This will help unlock even more opportunities for individuals and corporates, stimulating broad-based economic growth, business development and job creation across the economy over the long term.

Environmentally and socially sustainable growth

Our development has to be environmentally-friendly to ensure it does not compromise on long-term benefits and opportunities of future generations. In a resource-based economy like Kenya's, using our resources in a sustainable manner will help strengthen food security, prevent resource conflicts and protect key economic sectors such as agriculture and tourism. These are critical considerations for businesses going forward. Two significant indicators of human development and social progress are education and health. Access to adequate health facilities and quality education are key to breaking more people out of the poverty cycle. However, services, facilities, human resourcing, as well as research and development in these two issue areas, remain underfunded, especially in the developing world. Kenya was recently rated a middle-income country. We must ensure that sectors such as education and health attract adequate investment to sustain our middle-income status and drive further growth.

Our socio-economic impact

As a leading financial services provider, we recognise that our products and services should be both commercially and socially relevant. We understand the impact of our operations on the economy and the broader society, and work to enhance our relevance by creating positive value and impacts on our key stakeholders.

Access to Finance

Access to financial services is a key building block for socio-economic transformation of society including enhancing livelihoods, reducing inequality and driving economic growth. Our credit and savings products enable individuals and businesses to progress, leading to improved living standards, creation of jobs and wealth and economic growth.

We provide finance through the entire spectrum of large transformational national projects to small and medium enterprises, ensuring we have a marked footprint in the local and national economy. In addition, while we pay great attention to the economic benefits that accrue from our financing, we also place a high premium on the social and environmental components including mitigating adverse impacts and enhancing benefits whenever possible. We believe that sustainable development is fundamental for long term prosperity and shared value creation.

Responsible lending and consumer protection

We are cognisant of the importance of finance in driving business growth and improving lives. However, these changes should be anchored on responsible lending practices to ensure financing is not detrimental to borrowers. Provision of information is a key part of ensuring that our customers can make informed decision as they transact with us. We provide accurate and adequate product information through our diverse information channels including our product fact sheets. This provide our customers and stakeholders with the necessary inputs that they can use to make informed and appropriate decisions based on their interests and needs.

Transformational and large impact projects

We are a leading financier of high quality, transformational projects that are essential for the growth and modernisation of the Kenyan and South Sudan economies. We revel in projects that have a clear impact on the broader society and present opportunities for a wide variety of businesses and individuals in society. Our engagement in such projects is driven both by profitability and clearly designated and anticipated social impacts. As a leading financier, we seek to be a part of the socio-economic improvements of society through the project we engage in and the financing models we design.

Financial crime

Financial crime is a key concern of the financial sector. Increasingly, the use of technology in banking has created new risks around financial crime including issues such as money laundering, fraud, data protection, misuse of funds, profiteering from illegal activities and funding of illegal activities including terrorism. In response to these risks, we have made major investments in policies and procedures for addressing financial crime. We consistently evaluate our procedures to ensure they are robust and responsive to emerging trends in financial crime. We also review our polices on an annual basis ensuring they are current and appropriate.

Financing agriculture

Agriculture is the mainstay of the Kenyan economy More than 75% of Kenyans make a living through agriculture and the sector accounts for more than 25% of Kenya's Gross Domestic Product (GDP). Despite this significance the sector has seen a marked decline in productivity and limited adoption of new methods and technologies. Our financing seeks to support innovative and cutting edge solutions targeting the agriculture sector. We have a fully-fledged specialist team that works to ensure the needs of agro-based customers are appropriately addressed through financial support, operational guidance, training and partnership.

Employee wellbeing

Our employees are our greatest asset and key drivers of our purpose and vision. We invest heavily in ensuring that the welfare of our employees is upheld. In 2016, we made major investments in employee engagement and recognition. In addition, we continue to operate using fair employment policies ensuring equity and fairness within the workplace. We invest in employees through training and development, career and lifestyle support, mentorship and employee wellness programmes among several initiatives.

Procurement

Our procurement policies and practices aim to support local companies with business opportunities while observing the highest levels of ethics and stricture in line with our position as a leading player in the financial sector. We are increasingly investing in the ecosystems of our suppliers, enabling ease and convenience of transactions and providing financial products to enable business growth. Oversight for the procurement function is provided by a tender committee which is governed by several internal policies.

Community investment

We are committed to contributing to the communities in which we operate. This is in line with our vision to empower communities and enhance shared value. Our Corporate Social Investment (CSI) is anchored on three pillars, education, community health and wellness, and entrepreneurship and financial literacy. We support community activities through our CSR committee and our branches providing financial and in-kind support.

Sustainability review

Financial Capital

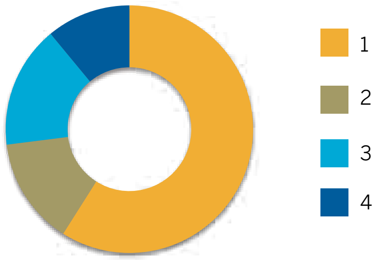
Our ability to raise funds is dependent on a number of factors, including credit ratings, economic conditions and the perception of the market.

Our main types of financing comprise deposits, interbank borrowing, capital, corporate bonds issued in the NSE.

We manage our capital with the purpose of meeting requirements imposed by the Central Bank of Kenya. During the year, we complied with all capital requirements we are subject to.

We utilise the financial capital at our disposal through credit solution and offering with an aim of bettering the lives of our customer and at the same time generating a return. More than offering a proper credit solution to each customer profile, our role is to show that the use of credit is positive for peoples' lives provided that it is done in a well-planned way.

We have been prioritising the reduction of the risks of our credit portfolio so as to maintain a good quality of our assets. Our NPL stood at 24.5% in 2016.



2016 Loans and Advances by product

1	Term lending	59%
2	Overdrafts	16%
3	Home Loans	14%
4	Vehicle Asset Finance(VAF)	11%

Another area we focused on was efficiency, which is the relationship between results achieved and resources used. Our goal is to reduce costs, increase revenues, expedite processes and have more quality in our deliveries and customer service. Our total capital adequacy ratio stood at 18.1% (2015 : 18.7%) of risk weighted assets this year.

We manage our liquidity reserves based on the estimates of funds that will be available for investment, considering the continuity of business in normal conditions. In 2015, we maintained prudent levels of liquidity that supported our business operations. Our liquidity ratio for the year stood at 55% (2015 : 36%).

Diversification of income has been one of the key highlights of our strategy and we are constantly seeking to implement and focus on the sale of new products and services that add value to our customers. By diversifying our sources of income, we allow for the growth of our non-financial income arising mainly from banking service fees, commissions, income from bank charges and insurance as well as trading operations.

Balance of interest and non-interest income

1	Net interest income	59%
2	Non-interest revenue	41%

Human Capital

We seek to recruit and retain people who have a good cultural fit, feel good here and identify with our values. We have a performance-driven and enabling environment where creativity can be developed and where ideas and constructive criticism are encouraged.

Attracting talent

Core to supporting the business strategy is our ability to attract, retain and develop the Group's talent, embed the Group's culture and values while working in partnership with business units to drive sustainable performance and deliver superior value and service to our customers. Our Human Capital team comprises of 13 professionals, responsible for 1,103 employees of the Group.

We view our employees as a major contributor to the creation of value in the long-term, promoting business growth and bringing benefits to the society as a whole. As such, we look for professionals who not only demonstrate the competences required for the achievement of our objectives, but are also committed to improving customer satisfaction and becoming future leaders within the Group. As a reputable Group, it is essential that the values and principles of new and existing employees are in line with our Corporate Culture and Code of Ethics.

Diversity

Diversity plays an integral role in demonstrating respect for others and is a core pillar in our value set. Sound diversity practices contribute to positive results in the Group. We are committed to building an inclusive and engaging culture for our employees where diversity is embraced and leveraged across the Group. We believe that by building an inclusive culture for our employees we will have empowered, motivated and customer focused employees, who are able to innovate and work together to create the best solutions for our customers, our shareholders and the society in which we operate.

Key Human Capital data as at December 2016

Total employee complement	1,116
Gender Parity	47% Female, 53% Male
Age segmentation	Below 30 years - 22% 30-40 years - 60%; Above 40 - 18%
Management / Non-Management	Management 28% Non-Management 72%
Average length of service	5.3 Years
Promotions in the year	115
Distribution of training	Entry Level – 13% Management – 33% Non-Management – 54%
Turnover	2013 - 10.7% 2014 - 11.2% 2015 - 8.4% 2016 - 8%

Learning and Development

Through consistent investment in various interventions, we promote ongoing learning and development of employees, teams and leaders. On our corporate online portal (Network Next), employees are able to access training programs that are best suited for their personal development. We also enrol our employees on external trainings which are either conducted by external parties or within the Standard Bank Group.

The strategic business focus areas for learning and development are:-

- Customer Interfacing Skills (CIS) to enhance customer experience
- Leadership and management skills development to enhance line manager skills in handling people processes in order to enhance employee engagement and create a motivated workforce
- Core credit skills intended to lower the credit loss ratio and reduce impairments
- Selling and relationship management skills offered to our sales people to grow revenue and the asset book
- Product knowledge training offered to enhance cross-selling of the Group's products by frontline employees
- Soft skills such as conflict management, emotional intelligence, oral and written communication and personal finance management skills
- Technical/specialised skills development such as ACI dealing certificate for the global markets dealers
- Compliance training aligned to local and international regulations.

In order to ensure the sustainability of our business we need leaders who are ready for future challenges and to achieve this, we run programs to attract and develop our future leaders. We also enrol our talent and high performers on rotation programs or assignments both within the Group to create exposure to different business operations and functions, and within the region/group to create exposure to global practices and operations.

The future plans for learning and development are focused around deployment of the blended learning approach (the 70:20:10 approach) to deliver skill sets for the current business needs and future skills all aligned to our strategy to become a leading financial services provider.

The 70:20:10 approach is a shift from the current heavy reliance on classroom training. In the new approach, every learning intervention will be structured in such a way that 70% of the learning is on the Job, 20% will be informal through coaching and mentoring and the remaining 10% will be delivered via eLearning and classroom training. This way, learning is more effective and retention is higher. To foster a culture of continuous learning, digital learning will be made available through the Group's learning management system in order to provide just-in-time training.

Beyond work related training, we also focus on personal development of our employees. All new employees undergo personal finance training as part of their induction. The Group is also currently running work-life balance training programs for employees.

Open communication

It is crucial for us to be able to receive feedback from our employees and at the same time be able to effectively communicate with our employees. We welcome feedback from our employees as it highlights areas where we are doing well or need to improve, encourages innovative ideas and solutions and gives employees an opportunity to contribute to future plans for the Group. Frontline employees are also a direct channel for us to receive feedback from customers.

We communicate with employees through:

- E-mails, newsletters
- Intranet
- Snap Comms (internal communications TV channel)
- Employee engagement surveys
- Leadership forums / townhalls

Performance management

Review of employee performance is merit based and is geared at providing fair and transparent feedback, offering development opportunities to employees as well as guiding them on the best opportunities within our Group as a whole.

The Group has a standardised performance management philosophy and framework. The three key performance management processes are goal setting, performance monitoring and performance review. The performance management process is initiated by strategic input whereby business plans are communicated to ensure there is awareness of business priorities and objectives across the Group and to guide the setting of team and individual goals that are Specific, Measurable Attainable, Relevant, Time-based (SMART) and aligned to the respective business unit goals.

Performance monitoring is through continuous feedback, coaching and development while performance review is done through an objective evaluation process based on clearly communicated and measurable goals and targets. Performance is measured by the outcome of the goals that are contained in the employees contract. A fact based rating scale that assesses and rates individual performance is applied annually.

Individual accomplishments are recognised through differentiated pay, bonus and opportunities for career growth. Performance management outcomes provide input into talent management as well as our leadership pipeline.

Criteria for reward or recognition

Performance output is measured against performance contracts in order to determine the extent to which results meet the agreed criteria (performance against contract). The extent to which planned results are achieved is indicated using the Standard Bank Group performance rating scale during a formalised annual process.

The Group's reward philosophy focuses on total reward which consists of fixed remuneration (base salary, benefits, allowances) and variable remuneration (cash bonus, deferred bonus and shares). Our total reward is determined by a combination of factors such as group and individual performance, market value, internal equity, scarcity of skills and retention risk.

Recognising and rewarding performance

As a Group, we recognise and reward exceptional performers and employees who go the extra mile. In addition to annual salary reviews and annual performance-based bonuses which are awarded based on individual performance and market-related factors, we also have recognition programs that acknowledge and award employees who excel.

(1) Beyond Excellence

Beyond Excellence is Standard Bank Group's Recognition program for publicly recognising employees who stand out as exceptional performers and those that have gone above and beyond what their role demands of them. The Beyond Excellence program awards employees who excel in Sales, Service, Leadership, Teamwork, Innovation and Managing Risk. This is a just-in-time, discretionary recognition and comprises different types of rewards including:

- Non-monetary Awards – such as Certificates, Plaques, Beyond Excellence Thank You Emails, Handwritten notes, Public thank you / affirmations.
- Gifts and Vouchers- such as Meal vouchers, Tickets to sports and theatre events, Spa vouchers, Shopping vouchers, Flowers, Chocolate etc
- Cash payments through Payroll

(2) Mark of Excellence

This is managed by the Group and is an annual recognition award that is designed to recognise top performers within each Business Unit and Enabling Function. Mark of Excellence awards are nomination based and the award involves a trip for two to an exciting world destinations.

Compensation and incentives

We are conscious of the fact that it is only equitable to match compensation to the individual's consistent performance in carrying out responsibilities as well as market dynamics. There are two components of compensation.

Fixed and variable compensations acknowledge a professional's competence and seniority. Employees may have their fixed compensation changed in conformity with our promotion and merit policy. Variable compensation acknowledges the individual performance level, the financial result achieved by us and its sustainability in the short, medium and long terms.

Our main variable compensation programs comprise of bonuses (Cash bonus, Deferred bonus & Shares)

We offer a number of benefits such as Medical cover, Pension, Insurances (GPA & GLA) and allowances as well as other facilities such as employee leave, loans, club membership and counselling & advisory services (ICAS).

Health, Safety and Wellness

The purpose of Occupational Health & Safety is to preserve health and comfort at the workplace while ensuring our employees' health and wellness. The Group is committed to providing a healthy and safe working environment for its employees and will only do so by ensuring that all stakeholders comply with applicable laws and regulations and Standard Bank Group policies. This is core to our business and we have a policy in place that guides the implementation of occupational safety in our operations.

Some of the activities carried out in 2016 includes:

- Fire drills
- First aiders' and fire marshals' training
- Signage on evacuation/first aid/emergency handling

Employees are supported through a wellness program known as ICAS (Counselling & Advisory Services) which assists employees and their dependents on matters pertaining to relationships, health and lifestyle, stress, money management, trauma, loss and personal development. This program is voluntary and confidential. In addition, our medical cover provides for a comprehensive annual medical check-up for employees and their dependents.

Involving Employees

We have different forums that provide our employees with the opportunity to participate in decision making within the Group. These include: -

Client Services team: this is a collaborative meeting where different product channels participate as a team, taking responsibility for coming up with client solutions. The different participants bring their expertise to the table and shape the decision around how we approach client business.

Idea Bin: this is an online participation forum where employees provide their ideas on what works well this providing opportunities for innovation. This forum is mainly controlled centrally and the best ideas are considered for implementation.

Engagement Survey: this is an anonymous online feedback survey where employees provide feedback/insights to management on critical matters that affect their business as well as the social environment. The feedback is then filtered down into executable action plans that are then delivered through different means and forums.

Employee meetings and quarterly unit feedback: these are meetings held departmentally where employees are encouraged to participate actively and provide ideas on how to improve business delivery or the work environment. Feedback from employees is then taken for consideration and implementation.

Employee feedback from these engagements has mainly focused on:

- Understanding Strategy and execution
- Leadership values and ethics
- Customer satisfaction and product competitiveness
- Employee wellness and benefits

Workers union

Stanbic Bank Kenya Limited is a member of the Kenya Bankers Association (KBA) and actively participates in the Joint Negotiations Council (JNC) represented by Human Capital. The Union members in the Bank are represented by a Shop Steward who represents the Union. The Group fully subscribes to the signed Collective Bargaining Agreement between members of KBA and the Banking Insurance & Finance Union (BIFU).

Intellectual Capital

Research and forecasting

SBG Securities boast of some of the region's brilliant minds in market and company research that has been cultivated and trained over a period of time with vast exposure to global equity and debt markets. This team has leveraged on its unique skill set to produce world class research and forecasts that have attracted a solid customer base that ranges from the mass market to institutions to high net worth individuals. Our focus is to keep our customers abreast with emerging global, continental, regional and local issues that will affect their investment decisions while maintaining a high level of service. We make available specific publications on economic, markets and company analysis to our customers and the public through our website.

Our Brand

Our brand aims to promote our aspiration as the partner of choice for growth while demonstrating the positive changes in the lives of people and in society. A critical component to brand love is implementation of continuous efforts to provide the best experience for everyone who interacts with us across different touch points. We are aligning our brand to increasingly represent a positive transformation in the lives of people, of society, and of the region we play in.

The brand aspiration is interweaved into our products and services which are now focused on our customers' needs and reflect our goal of delivering on a superior experience. The only way we can create a legacy in the region is by creating a brand image that always resonates with the young generation who are our customers tomorrow. We want to be the brand that they dream of partnering with, working with and associating with. Our focus will be to grow a brand that talks to the local issues and addresses these issues in a manner that brings out the youthfulness and innovation that is inherent in us.

One of our key brand strengths is the reputation of our Commercial and Investment Banking (CIB) business arm in infrastructure and trade financing. We have built a strong name for ourselves in these two areas by capitalising on our specialised skills and expertise as well as exposure to global markets while interlinking with the Standard Bank Group's networks and capabilities.

Our corporate social responsibility initiatives, which cover a broad base of social issues such as health, education and entrepreneurship development, cements our brand as a local bank that is driven by its dedication to uplift the welfare of the society it interacts with.

Over past 3 years the brand tracker has revealed that customers believe that we have very good and knowledgeable people. We leverage on this strength in positioning our brand by putting real human faces to our marketing campaigns, via placement of employees and management that customers would meet in their day to day interaction with us, as the faces of our advertising.

Our content strategy in the social media and the internet was driven by our rebranding exercise as we sought to drive home the image and name change while cementing our core values and capabilities. We aim at inspiring people across all demographics to believe in transforming their lives and that we are the best suited partner for that journey.

Customer experience

We are keen on developing strong relationships with our customers by not only fulfilling their financial needs through a wide product portfolio but also by cross-selling banking and insurance products, servicing them through a variety of channels and more importantly; delivering "best-in-class" customer service. This is the only way through which we can maintain and increase customer satisfaction and increase portfolio profitability through increased uptake and usage of our offering.

Management has been spearheading the adoption of a service culture throughout the Group that puts the customer at the focal point of everything we do.

Some of the key areas we face challenges include system downtimes which limit customers' access to their funds and their ability to transact, lack of awareness of banking charges and fees, delay in the resolution of issues raised by customers as well as a limited footprint within the region.

In light of this, it is critical that we become more accessible and transparent to our customers. We have increased out interactions and stepped up communication with our customers across various channels such as our branch network for customers visiting our branches, a 24 hour contact centre that handles telephone calls, emails, short message services and social media. We have a Customer Service Management tool i.e. (CRM) which we utilise to efficiently resolve any issue raised by customers and as much as possible, within stipulated timelines. We are also leveraging on technology with a deliberate push towards mobile and internet banking that offer convenience and reduces reliance on traditional brick and mortar banking halls.

A key facet of delivering superior customer experience is delivering superior internal customer experience. We believe in the power of teamwork and we are continuously driving across the value of internal teams servicing each other exceptionally well. That is the only way we can ensure that the final link, who is the customer, get the level of service that we desire to deliver. This year, the average bank score in the internal service survey was 9 against our target score of 8.5 recording a progressive improvement from stakeholders in terms of internal service performance.

Technology and innovation

2016 was a special year for us as we reinforced our positioning as a digital bank by combining innovative technology with our vision of making people's daily lives easier through increasingly simpler financial transactions. Our intensive use of technology in opening up distribution channels and the implementation of our collections and payments strategy has contributed significantly to an increase in uptake of products and services.

We invest in technology because we believe that it will be a key differentiator in a playing field that has now been levelled for all banks. Continuous system upgrades and maintenance is carried out through the year to ensure our systems are cutting edge and offer the level of service desired to both internal and external. We also leverage on our affiliation to Standard Bank Group to ensure we have the latest and best of class technological innovations that give us the first mover advantage in our area of operation. The technology change initiatives were geared towards improving turnaround time and reducing cost or error. They included business process improvement within the trade and payments section that have seen our turnaround time improve from 24-48 hours to 3-4 hour, automation of account maintenance and money markets within Investor Services which has delivered improvements in turnaround time from 24 hours to 2-3 hours.

We focus our efforts on the development of platforms and services that use the best of technology, with the purpose of streamlining and making easier the lives of everybody who relate with the bank, with a focus on mobility and convenience. We rolled out the Bulk Cash Handler system, which is a first in the market, within some of our branches which offers ease of cash deposits without having to queue at a teller and can be done outside banking hours just like an ATM.

Business continuity plans have been put in place and investments are sustained on this aspects to ensure that despite any occurrence, the Group can continue to operate and customers can transact with minimal disruptions while securing the Group's data for recovery.

Social and Relationship Capital

Ethics and Transparency

The vision to be the leading financial services organisation in, for and across the region, delivering exceptional customer experiences and superior value expresses our conviction that the Group is willing to be enduring and that its success is dependent on the ability to lead with ethics and responsibility. Our ethics translate into transparency, respect and honesty in the relationships with our stakeholders, into the quality of services and products we provide and into our concern with financial performance as well as social and environmental responsibility.

The purpose of our Code of Ethics is to guide, prevent and settle ethical issues and conflicts of interest related to our activities. It forms the framework of our activities and the decisions we make when dealing with our stakeholders such as employees, customers, shareholders, suppliers, partners, government, competitors, the media and society.

In addition to guidance, our Code of Ethics reflects our attitudes towards how we go about doing what we do and provides for the reporting of misconduct, non-compliance with rules and conflicts of interest.

Governance

The adoption and implementation of good corporate governance practices adds value to our company by giving us better access to capital and adding onto our legacy. The corporate governance practices we have adopted are aligned with the best practices adopted globally. We are constantly reviewing and developing management policies and mechanisms to ensure excellence in our practices and sustainable growth for our organisation. As a publicly listed company we are in the process of implementing the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Listed Companies which came into effect in mid-2016.

Information security

It is our duty to protect corporate information and ensure the customer's privacy in our operations. We have in place as Information Security Risk Management policy that ensures the application of principles and guidelines for the protection of information and intellectual property of the organisation, customers and the public in general. To ensure that this information is properly protected, we have put checks and balances that we classify information and allow access to information to only personnel who have been given rights to access it. We leverage heavily on technology and business continuity plans to ensure that we execute exceptionally well in this aspect.

Customer satisfaction

Building quality relationships and delivering on customer satisfaction is one of our business pillars and is aligned with our vision. It enables us to learn more about the customers' needs and possible areas for improvement. We are aware that we can only deliver sustainable performance by having more enduring relationships, more credibility and trust and therefore become the financial services partner of choice. Surveys are carried out to measure customer satisfaction regarding services from specific business units and compare the results with those of our competitors. We also monitor key players and conduct research to understand the market requirements on satisfaction levels. This affords us the opportunity to define action plans focusing on improvements to better serve and attract new customers. We are compliant with the Consumer Protection Act in Kenya and adhere to the set guidelines by CBK to ensure customers do not get into a state of over-indebtedness.

We believe in open communication and driving awareness amongst our customers. To this end we ensure we communicate and notify them of any changes, system downtimes (planned or unplanned) and upgrades, pricing changes, new products and a variety of other issues through a multitude of channels both print and digital

Shareholders and investment community

As at 31st December 2016, we had in our register a total of 4,424 shareholders and a market capitalisation value of KShs 395,321,638. We seek to continuously engage with our shareholders and host the Annual General Meeting for presentation of our strategy, business plans and presentation of annual accounts. We also have an investor relations team that engages with current and potential investor to disseminate information in a timely manner. The team also receives feedback from the investment community and relays it to management with an aim of eliciting appropriate responses. As a listed company we are compliant with all regulations affecting publicly listed companies as propagated by our regulators, the CMA and NSE.

Fighting corruption and illegal activities

Our commitment to fight all forms of corruption is firmly rooted in our Code of Conduct. We prohibit the offering or accepting of improper advantages to or from individuals or companies in the public and private sectors, in exchange for action or omission inherent to a person's own responsibilities, or to facilitate business.

Proper channels have been availed to settle employees' doubts and receive whistleblowing reports from employees or other audiences on suspected corruption, which may lead to the dismissal and termination of employment for employees or agreements for suppliers.

In our fight against illegal activities which encompasses issues such as money laundering and the misuse of funds for illegal activities including drug trafficking and terrorism, we have in place an Anti-Money Laundering policy. As an actor in the financial sector, our Group has an enormous responsibility in working with our stakeholders to promote policies and regulations that help prevent financial crime.

We have in place systems and procedures that are robust enough to prevent such incidents and are responsive to a fast-evolving external environment. We review our policies on an annual basis to analyse where improvements are needed to ensure we are always one step ahead.

Suppliers

Our suppliers cover a wide range of businesses in which our relationship is based on transparency, longevity and creation of shared value. We also value sustainable practices and the compliance with legislation and ethical principles that must be present in our business relationships. Procurement sourcing within the Group is overseen by a tender committee, which is governed by an outsourcing policy that has been approved by the Board of Directors. The Group supports local businesses by sourcing the majority of its services and products locally. This creates and sustains, directly and indirectly, a number of other jobs in the local economy.

Government

As a corporate citizen, we pride ourselves in contributing to the development agenda of the region. We do this by ensuring that we are fully compliant to our tax obligations and complying with all applicable laws and regulations. In the year we paid a total of KShs 1,195 million in our own taxes and KShs 2,968 million in taxes collected on behalf of the government.

Our compliance department ensures that the building blocks for an effective compliance culture are maintained and inculcated throughout the Group. The effectiveness of our compliance mandate has a direct impact on mitigating loss of income and risk aversion. We have put in place Compliance Risk Management plans, Compliance governance documents and the Compliance Self-Assessment reviews which gauge the levels of compliance with the CBK Prudential Guidelines and legislation that impact on the Group. There has also been increased scrutiny by the CBK and enactment of far reaching laws that have impacted the banking industry. Compliance has ensured that adjustments have been made to ensure adherence to the increasingly stringent regulatory environment. We continued to focus on AML/KYC as the risks associated with money laundering are punitive and include de-risking by correspondent banks and withdrawal of banking license by the CBK. Going forward, we will put more emphasis on supporting business achieve the Group's strategic plans in accordance with our principle of 'doing the right business the right way'. The specific areas of focus will be enhanced due diligence and compliance review exercises that will form part of the overall enhanced engagement process.

Socio-economic impact

By providing access to credit and savings products, we enable individuals and businesses to secure livelihoods and improve the well-being and quality of life of the people they directly benefit. By unlocking finance for businesses of every size, we help to stimulate economic growth and job creation. In addition to this, we are big player in the financing core segments of the economy. We finance infrastructure projects and offer advisory services that stimulate economic growth; this contributes towards equitable access of economic resources, supports the emergence of complementary businesses and services, as well as in support the growth industries. In all the projects we support, we are keen to analyse the potential impact we will have not only on the business or initiative itself, but also on the entire value chain surrounding it.

Agriculture remains a key mainstay of the Kenyan economy providing a livelihood to a majority of the productive demographic of the economy. Because of the nature of our food production, which relies heavily on small-scale farming and is prone to risks presented by the effects of climate change, we provide specific products for the agricultural sector to help promote the growth of a vibrant value chain. We have a dedicated team of agricultural economists, business managers and divisional managers, who provide support to customers and stakeholders within the sector. This includes financial support, operational guidance, insurance products, training and partnership.

Corporate Citizenship

We are a member of the Standard Bank Group which focusses on emerging markets and considers it a business imperative to support and help uplift the communities and economies of the environments in which it operates.

Our Corporate Social Investment (CSI) is more than an intervention in communities, it is an integral part of how we do business. We proactively identify opportunities arising from key social, developmental and business issues when formulating our CSI programs, rather than just reacting to requests from charitable causes. It is our vision to empower the communities in which we operate through facilitating socio-economic development of the underprivileged. We have in place a CSI committee that oversees the activities and enjoys representation from all departments within the Group. All our CSI activities are engagements that extend throughout the Group.

The strategic focus of our CSI investments is on;

- education
- entrepreneurship development and financial literacy
- health and wellness

Education

We support educational initiatives in Primary, Secondary and higher learning institutions (universities and colleges). The main focus within education especially in institutions of higher learning is to provide support to programs addressing the science, mathematics and accounting deficiency in the Kenyan labour market. Our programs include:

• *Strathmore University Scholarship*

2016 was the third year of the scholarship fund in partnership with Strathmore University, offering bright needy students an opportunity to pursue careers in finance and banking.

The scholarship is offered on an annual basis and caters for both tuition fees and accommodation for seven students and is open to all undergraduate students who meet the admission criteria, are academically outstanding and financially in need. The scholarships are worth KShs 11 million.

• *United States International University Scholarship Fund (USIU)*

In 2016, the fund entered its sixth year. Currently there are 4 students on scholarship pursuing degrees in the area of finance and/ or accounting. Apart from the tuition fees payments, the students are given opportunities to visit the Group's head office to get first-hand information and experience of the operations of a financial institution. The second group of students sponsored by the Group at USIU graduated in 2016 and were hired on contract to support the rebranding project.

• *Palmhouse Foundation Sponsorship and Mentorship Program*

It has been seven years since we partnered with Palmhouse Foundation to sponsor bright and needy students through their four years of secondary school education.

Currently, 16 students are enrolled in various secondary schools across the country with 10 having successfully completed their secondary education since the inception of the program. Four other students will be sitting for the Kenya Certificate of Secondary Education at the end of this year. Throughout the year, our employees are constantly involved in the mentoring of these students during the school holidays.

• *SOS Children's Villages*

The SOS Buruburu Village in Nairobi continued to benefit from the Group as it renewed its sponsorship for another year. The sponsorship caters for the education and upkeep of 20 children of different ages throughout the year.

Stanbic Bank Kenya Limited Communications Manager presents cheque to Palmhouse Foundation

Other projects that benefitted from our Corporate Social Investments in 2016 were:

- New Life Home Trust (Nairobi)
- Wema Centre (Mombasa)
- Magenka Primary School (Meru)
- Tushinde Children's Trust

Health and wellness

Investments in Community Health and Wellness are mainly directed towards HIV/AIDS, tuberculosis (TB) and malaria with particular emphasis on education and awareness around increased uptake of Voluntary Counselling and Testing (VCT), lifestyle management, improved home-based care and support for a community. Programs that assist orphans and the elderly affected by HIV/AIDS can also be supported. To this end, we continued our partnership with ASN Upendo Village in Naivasha.

Entrepreneurship and Financial Literacy

We invested in entrepreneurial skills development and mentorship programs, which are aimed at positioning the Group as a leader in business development of communities, supporting economic development, and finding new ways of growing entrepreneurs' skills in the markets we operate.

Financial literacy is the key to healthy finances and as a responsible financial partner we offer value added services to the business people and organisations we bank. We provide them with opportunities to up-skill their workforce through a series of scheduled financial training programs aimed at helping them grow their businesses.

In 2016, we piloted our financial skills training program for SMEs in partnership with Strathmore Business School dubbed BizConnect and trained over 150 customers across the country.

The program will be officially launched in 2017.

Sponsorships

We are the shirt sponsor for Mwamba Rugby Football Club. This is a Kenyan rugby union club based in Nairobi. The club was founded in 1977 with the aim of promoting rugby among indigenous Kenyans. With the popularity of rugby sevens in Kenya and the fact that the club produces majority of the national sevens rugby team, this is a partnership that we hope will entrench the brand amongst ordinary Kenyans.

Stanbic Bank shirt sponsorship for Mwamba Rugby Football Club

Manufactured Capital

Geographical footprint and technologies

Our distribution network is divided into physical channels that include branches, ATMs and banking service centres, and digital channels, such as Internet Banking and Mobile Banking. It is by means of this distribution network that we offer our products and services to our customers.

Our branch network also operates as our marketing and distribution network for all products and services we offer to our customers. With the roll out of the bulk cash handler and further enhancement on both mobile banking and internet banking our customers may conduct almost all account-related transactions without ever having to queue at the cashier.

Number of branches	26
Number of ATMs	49
Mobile banking penetration	80%
Internet banking penetration	60%
Average number of transactions per customer	4

Administrative centres and offices

We own 2 buildings, Stanbic Centre which is our main office and Digo Road branch building in Mombasa. We also lease 23 properties to host our bank branches.

Service Level Agreements (SLAs)

All transactions that are carried out within and through the Group are driven by a capable and highly experienced Operations team. Our focus is to ensure that services are delivered at expected levels, within required timelines and compliant to all requirements. In the year, we implemented initiatives driven by the strategic pillar of “Change & Continuous Improvement” through which we were able to achieve a couple of milestones

- Over 40 resources within Operations undertook the White, Yellow and/ or Green Belt Six Sigma training and are now certified. The objective was to build a resource base equipped with the skills needed to identify “waste” in our processes and recommend changes that will deliver efficiencies and improve on SLA performance or cut down on cost or mitigate against risk.
- Our SLAs are reviewed annually in collaboration with the business units to ensure end to end targets are agreed and delivered. We have a weekly Operations meeting to review performance at unit level and monthly, we share the metrics with the various businesses that we support.
- All processes are documented and reviewed cyclically. However, whenever there is a change, the process is retrieved and updated to reflect the change. As part of the line manager’s role, they also review processes with their teams and any changes are updated.
- We have designated Operations resources tasked with ensuring SLAs are centrally monitored, changes incorporated and any deviations are addressed.

Our ongoing commitment is to drive projects that will deliver process automation as well as encourage our customers to use online solutions that are straight-through process enabled thereby reducing our cost of operations and improving our bottom line while delivering superior service to our customers. With this, we will become more competitive and able to differentiate ourselves when it comes to delivering superior service.

Strategic Pillar	Key Performance Indicator	Performance 2015	Performance 2016
Service	SLA adherence- meet E2E TAT Implement Operations initiatives that lead to reduced TAT, Errors, Complaints and address business requirements (This KPI was specific to 2016)	SLA/TAT: In 2015, the SLA was measured against processing within a 24-48 hour period. • Payments average SLA adherence was 98.82% in 2015 against (Target 98%) • Account opening transactability (account opened complete with cheque book and debit card) was 5.1 against a (target of 5.0 days)	SLA/TAT- In 2016, SLAs were revised to reflect volumes processed against actual hours , e.g. 3- 4hours. We are largely meeting SLAs across most products with exception of processes that require manual processing, supporting documents / FX rate confirmations by customers etc. and discussions are ongoing with business to close process gaps herein. • Payments average SLA was 89% against target 98% • Account opening transactability (account opened complete with cheque book and debit card) was 4.1 against a (target of 5.0 days) • A total of 20 Operations change initiatives successfully implemented aimed at improving TAT, error reduction and cost savings
	Output quality- timely and accurate processing	• Payments rework rate was 1.23% (Tolerance 1%) • Account opening rework rate was 8.2% (Tolerance 4%) • Query Resolution was averagely 4 days against a tolerance of 5 days • Operations reported 245 complaints. (relating to Account wrongly opened; Erroneous processing; delayed processing in 2015 ***CIB query resolution not measured in 2015 as the unit transferred into Operations in Q4 of the same year.*	• Payments rework rate was 0.89% • Account opening rework rate was 3.58% (Tolerance 4%) • Query resolution rate average was 3.4days against a tolerance of 5 days • In 2016, we had a 43% reduction in complaints (245 in 2015 and 139 in 2016)
	Customer centricity. Achieve internal service survey rating of 9.0 (Bank target at 8.5)	• Operations average internal service survey score for 2015 was 8.41	• Operations average internal service survey score for 2016 was 8.8

SLA= Service Level Agreement, TAT= Turnaround time, CIB= Corporate & Investment Banking, PBB= Personal & Business Banking, KPI= Key Performance Indicator
E2E= End to End

Natural Capital

Environmental risks and challenges are an important issue area, especially in resource-dependent countries like Kenya. Reputational, legal and operational risks arising from pollution of the environment, as well as the impacts of climate change with extreme weather patterns, including floods and drought, are material considerations for businesses going forward. Below, we outline how we mitigate some of these risks and manage their impacts.

Our Social and Environmental Risk

The management of social and environmental risk is critical to both our short term and long term business strategy as we aim to identify, measure, mitigate and monitor these risks.

By virtue of being a member of the Standard Bank Group, the Group abides by the Equator Principles. The Equator Principles offer a framework for managing environmental and social (E&S) risks. These are applied to all new project finance loans of USD 10 million and above, across all industry sectors. The set of guidelines is also applicable to any advisory services we provide on project finance loans.

Through our E&S Risk Management Policy we are able to identify and evaluate such risks in the credit approval process. The policy is applied to all business, corporate and project finance loans. The policy stipulates the procedure to be followed in accessing a transaction's potential risk exposure to the environment and society and areas of impact.

Environmental management

We have placed special focus on the promotion of clean and renewable off-grid energy solutions which are critical in driving economic growth and promoting the well-being of rural and marginalised communities. Stanbic Bank seeks to support market-based projects that promote the development, access to and use of cleaner energy, including renewable energy finance and carbon trading.

Eco-efficiency

As part of our sustainability philosophy, we introduced guidelines on the mitigation of direct impacts, such as energy, materials, and water consumption and emissions. Our main objective is always to optimise the use of these

Resources while greening our footprint. In addition, as we require robust E&S risk management from our customers, it is only fair that we embed these values in ourselves internally. We believe E&S issues are material to business success and we want to lead by example, with our initiatives mostly employee-led.

Some of the activities rolled out in 2016 include:

- Waste minimisation: We have significantly reduced use of plastic cups and all employees have individual recyclable water bottles.
- Through our internal operational processes we have significantly reduced paper use in the Group from Board and management levels, to the branches of the Company's banking subsidiary branches as we strive towards a "paperless office".
- Recycling: We have placed waste segregation bins throughout our Head office. In 2016 we supported Seed of Hope, a programme under Vision Africa, which addresses the lack of employment and training opportunities for disadvantaged young people in Kenya. In the duration of one to two years, students receive training in life skills, enterprise skills and vocational skills including fashion design, hair & beauty therapy, mechanical engineering and homecare management. Stanbic Kenya Group transported waste paper from the Group's Head of Office to Seed of Hope to support their recycling enterprise. The funds raised from this enterprise contributed to the running costs of the Seed of Hope Nairobi Centre including the provision of the lunch feeding programme and learning materials that students use when in class.

In 2017 we look to support Seed of Hope even more to scale up this recycling programme which has both environmental and social benefits.

Risk Management Statement

Risk Management Overview

More than ever, risk management has become a key driving force in the execution of our strategy as we face a tougher operating and competitive environment whose pace of change is vastly affected by both local and global occurrences as well as advancements in technology. We continuously identify, analyse and put in place mitigation measures for the risks we consider relevant to our business.

2016 was a very dynamic year with regards to management of risks with some types of risk such as credit risk, compliance risk, cyber and information risk and strategic risk coming to the forefront as areas where we put in additional focus and resources in monitoring and management. Through our robust risk management framework, we have ensured that we have operated within the recommended thresholds without any significant breaches. The impact of our initiatives in the implementation of the risk management framework within the year has been:

- Informing the Group's adjustments to risk appetite and risk acceptance criteria in order to maintain acceptable returns on equity targets.
- Identification of new risks e.g. Cyber crime leading to enhanced investment by the Group in risk management resources and capabilities for effective risk management. Prudent risk management is at the forefront of the Group's activities.
- Ensuring a resilient business structure that quickly adapts to the ever changing business environment.
- Increased focus on managing the business across the risk classifications resulting in early identification of risks and implementation of corrective actions.

We operate in a global market that is fast evolving and with it comes the evolution of risk factors. Going forward, we anticipate the following to be the key areas where we shall focus our efforts:

- Cyber crime and information risk.
- IT systems stability given the enhanced risk associated with increased reliance on digital channels for service provision.
- Outsourcing risk given reliance on third parties for the provision of infrastructure to run digital platforms.
- Managing systemic risks that arise from exposure to local and international banking systems.
- Leveraging information technology and "big-data" to address turn-around-time, automated risk management (automated application and behavioural risk scoring etc).

Introduction

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

To support the governance structures and processes the Group has in place:

- Risk governance standards for the major risk types to ensure a standardised approach across business units for the management of risk across the risk life cycle from identification, monitoring, management and reporting.
- Policies and procedures, implemented and independently monitored by the risk management team. This is to ensure that risks taken are within agreed risk appetite parameters.
- Regular detailed risk reporting to enable the management and/or identification of emerging risks evident from visible trends.
- Clear segregation of duties and responsibilities to avoid conflict of interest, ensure independence and objectivity and minimise operational risk.

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

Risk management framework

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

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

Roles in risk management

Board of Directors

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

Board Risk Committee and Board Credit Committee

The two Board sub-committees responsible for risk are the Board Risk Committee (BRC) and the Board Credit Committee (BCC) which report to the main Board through the committee chairmen.

The Bank's Board risk management committees provide independent oversight of risk, compliance and capital management across the Bank:

- Determining the bank's risk appetite as set out in the risk appetite framework and risk appetite statement (RAS).
- Monitoring the current and future risk profile of the bank to confirm that it is managed within risk appetite.

- Evaluating the results of stress tests and providing oversight of the adequacy and effectiveness of the bank's risk governance framework.
- Approving governance standards, frameworks and policies in terms of the risk governance framework.
- Reviewing reports on the implementation of the IT governance framework and updates on significant IT investments.
- Evaluating and approving significant IT outsourcing arrangements.
- Promoting a risk awareness culture within the bank.
- Reporting to the Board any matters within its remit where action or improvement is needed and making recommendations as to the steps to be taken.

The Board Audit Committee (BAC)

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

Internal Audit

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

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

Internal Audit remains independent and has fully discharged its mandate and responsibilities.

Issues raised in various audits are reported to both management for remediation and to the Board Audit Committee for oversight. A tracking system is in place to ensure remedial actions for all issues identified during the audit process is tracked to completion and validated.

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

Management committees

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

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

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

Business units

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

Governance documents

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

Risk management approach

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

First line of defence

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

Second line of defence

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

Third line of defence

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

Approach to risk appetite and stress testing

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

Risk appetite

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

Risk tolerance

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

Risk capacity

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

Risk profile

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

Process

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

- The approach to setting risk appetite triggers and risk tolerance limits
- Responsibilities for monitoring risk profile
- The escalation and resolution process where breaches occur

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

Risk Appetite Statement (RAS) dimensions

Each RAS is made up of RAS dimensions. These dimensions may be either qualitative or quantitative and include stressed earnings, liquidity and regulatory and economic capital.

The quantitative dimensions are translated into portfolio limits for example, concentrations, credit loss ratios and VaR, and operational limits, for example, facilities by borrower or counterparty.

RAS dimension	Statement	Within risk appetite	Exceed risk appetite but within risk tolerance	Breach of risk tolerance
Total capital adequacy ratio	After absorbing the impact of stress events contained in the macroeconomic scenarios approved by the relevant governance committee, and, if necessary, after taking account of the effect of mitigating management actions: the total capital adequacy ratio will not be lower than the specified ratio expressed as a percentage:	> 16.5%	15.5% - 16.5%	< 15.5%
Tier I capital adequacy ratio	After absorbing the impact of stress events contained in the macroeconomic scenarios approved by the relevant governance committee, and, if necessary, after taking account of the effect of mitigating management actions: the Tier 1 capital adequacy ratio will not be lower than the specified ratio expressed as a percentage:	> 12.5%	11.5% - 12.5%	< 11.5%
Economic capital coverage ratio	The economic capital coverage ratio for the current and forward risk profile will not be lower than the specified ratio.	> 1.15	1 – 1.15	< 1
Core capital to deposit ratio	After absorbing the impact of stress events contained in the scenarios approved by the relevant governance committee, and, if necessary, after taking account of the effect of mitigating management actions, the total leverage ratio will not be lower than the specified ratio expressed as a percentage.	> 11%	10% - 11%	< 10%
Stressed earnings	After absorbing the impact of stress events contained in the scenarios approved by the relevant governance committee, and, if necessary, after taking account of the effect of mitigating management actions the stressed forecasted profit before tax will not decrease by more than the specified percentage of the budget/ forecasted headline earnings.	< -20%	-20% to -30%	> -30%
Liquidity (Stressed short term measure)	The minimum unencumbered liquidity available, measured as an internal coverage ratio, will be sufficient such that the specified survival period under the stress scenarios is achieved.	> 105%	100% - 105%	< 100%
Liquidity (Term measure)	The structural liquidity mismatch arising from tenor mismatches between assets and liabilities will be maintained within the liquidity mismatch capacity (as defined in the Liquidity Policy), by ensuring sufficient available stable funding[1] to meet required stable funding demands.	> 102.5%	102.5% - 100%	< 100%
Unacceptable risk	Use best endeavours to avoid exposure to unacceptable risk events, such as activities that may result in adverse reputational damage, illegal activities, breach of regulation and breach of customer mandate. Where such a risk event is identified, it will be addressed through management action with appropriate urgency.			

- The internal capital adequacy assessment process (ICAAP)
- The strategic planning and budgeting process
- Capital planning and management
- The setting of risk appetite and risk tolerance
- The assessment of the impact of stress conditions on the current and forward risk profile
- The development of risk mitigation or contingency plans across a range of stressed conditions

The bank continues to undertake Stress Testing on a regular basis. These facilitate a forward-looking approach to risk management and business performance by identifying possible events or changes in economic conditions that could have an impact on the bank. Executive management considers the outcomes of stress testing on earnings and capital adequacy in determining an appropriate risk appetite, to ensure that these remain above the group's minimum capital requirements. Management reviews the outcomes of stress tests and, where necessary, determines appropriate mitigating actions to minimise and manage the risks induced by potential stresses. Examples of potential mitigating actions include reviewing and tightening risk limits, limiting exposures and hedging strategies.

Risk areas in banking activities

The management of all risks significant to the Bank are discussed below:

Credit risk

Risk description

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

Risk examples

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

Mitigation

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

- Maintaining a strong culture of responsible lending and a robust credit risk policy and control framework.
- Identifying, assessing and measuring credit risk clearly and accurately from the level of individual facility up to the total portfolio.
- Defining, implementing and continually re-evaluating our risk appetite under actual and stressed conditions to effectively align to changes in the market environment.
- Monitoring the Bank's credit risk against the set limits. The approved concentration risk appetite limits (counterparty group, industry, market, product, financial instrument or type of security, or geography, or a maturity) are used to monitor the credit concentration risk.
- Ensuring that there is expert scrutiny and independent approval of the credit models.
- Ensuring there is independent review and approval of credit risks and their mitigation.

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

Refer to the financial statements on page 109 to 120 which highlights the credit risk impact on the Bank, in the current year.

Operational risk

Risk description

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank recognises that operational risk is inherent in all areas of its business. It is not an objective to eliminate all exposure to operational risk as this would be neither commercially viable nor possible. The Bank has developed, implemented and maintained an enterprise-wide operational risk management framework that is fully integrated into the Bank's overall risk management processes. This is underpinned by the Bank's operational risk governance standard which sets out the governing principles for operational risk management and sets out the basic components for the identification, assessment, and management, monitoring and reporting of operational risk in a consistent manner across the Bank. The operational risk framework is further supported by a set of comprehensive operational risk management policies.

Risk examples

- Execution, Delivery, and Process Management – Includes data entry errors, accounting errors, failed regulatory reporting and negligent loss of client assets.
- Business disruption and systems failures – includes utility disruptions, software failures, hardware failures and infrastructure outages.
- External fraud - perpetrated by individuals outside the organisation and covers activities such as theft, deception and computer hacking.
- Internal fraud - occurs when an employee dishonestly makes false representation or wrongfully fails to disclose information or abuses a position of trust.
- Clients, products, and business practice – Includes market manipulation, improper trading, product defects and account churning.
- Employment practices and workplace safety - discrimination, workers compensation, employee health and safety.
- Damage to physical assets – Includes fire, natural disasters, terror and vandalism.

Mitigation

The Operational Risk framework is based on the following core operational risk components:

1. Risk identification

This framework facilitates the identification of risks and the management thereof across each business and operational function. The framework is based on the following elements:

• Mission Critical Processes in line with the provisions of Basel II business lines.

• Cause categories
• Event Categories and
• Effect categories

2. Assessment and measurement

Both quantitative and qualitative components are used in assessing and measuring operational risk as follows:

Risk and control self-assessments:
Each business unit and enabling function is required to analyse their business activities and critical processes to identify the key operational risks to which they are exposed and assess the adequacy and effectiveness of their controls. For any area where management conclude that the level of residual risk is beyond an acceptable level, they are required to define action plans to reduce the level of risk. The assessments are facilitated, monitored and challenged by the operational risk function. To achieve this, the Risk and control self-assessments (RCSAs) embeds a process that identifies and rates risks, causes and controls in a consistent and structured manner.

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

Operational risk incidents: All areas are required to report operational risk incidents to the operational risk function. The definition of operational risk incidents includes not only events resulting in actual loss, but also those resulting in non-financial impact and near misses. This process is intended to help management identify those processes and controls that need to be improved.

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

3. Management and treatment of operational risk

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

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

4. Monitoring

An independent operational risk function performs a monitoring and assurance role and objectively assesses how adequate the operational risk framework and related operational risk policies and operating standards are being implemented across the bank. In addition, the bank operates and maintains a comprehensive internal audit programme on the entire Bank's operations.

5. Reporting

Operational risk reports are produced on both a regular and an event-driven basis. The reports include a profile of the key risks to business unit's achievement of their business objectives, relevant control issues and operational risk incidents. Specific reports are prepared on a regular basis for the relevant business unit and risk committees.

6. Business continuity management

The Bank's ability to protect life, assets, and resources and ensure continued services to customers in the event of a disruption is critical to its sustained financial success.

Business continuity management (BCM) is a process that identifies potential operational disruptions and provides a basis for planning for the mitigation of the negative impact from such disruptions. In addition it promotes operational resilience and ensures an effective response that safeguards the interests of the Bank and its stakeholders.

Contingency and recovery plans for core services, key systems and priority business activities have been developed and are revisited as part of existing management processes to ensure that continuity strategies and plans remain relevant.

The Bank's business continuity capabilities are evaluated by testing business continuity plans and conducting crisis simulations.

Financial crime: The Bank defines financial crime control as the prevention, detection and response to all financial crime in order to mitigate economic loss, reputational risk and regulatory sanction. Financial crime includes fraud, bribery and corruption and misconduct by employees, customers, suppliers, business partners and stakeholders.

Mitigation

Financial crime control: The Bank's financial crime control unit is mandated by the BAC to provide financial crime control capabilities which support the Bank in minimising the overall impact of financial crime. This ensures the safety of our people and assets as well as trust from our stakeholders. The Bank maintains a zero tolerance approach towards fraud and dishonesty. The Financial Crime Control team as with the other functions within operational risk maintains close working with other risk functions, specifically compliance, legal risk and credit risk and with other functions such as information technology, human resources and finance. Anti - money laundering training is mandatory for all employees and the Bank has in place the necessary processes and systems to comply with "The Proceeds of Crime and Anti-Money Laundering Act 2009" and "The Prevention of Terrorism Act 2012". In January 2014 the Financial Reporting Centre rolled out an Annual Compliance Return to determine compliance with Proceeds of Crime and Anti-Money Laundering Regulations. The Bank is in compliance with the Act.

Compliance risk

Risk description

This is the risk of legal or regulatory sanctions, financial loss or damage to reputation that the Bank may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards of good practice that are applicable to its business activities. This includes the exposure to new laws as well as changes in interpretations of existing laws by appropriate authorities.

Risk examples

Commentary on the amendment to the Banking Act and CMA corporate governance guidelines.

Money laundering and terrorist financial control: Legislation pertaining to money laundering and terrorist financing control imposes significant requirements in terms of customer due diligence, record keeping, employee training and the obligation to detect, prevent and report suspected money laundering and terrorist financing.

Occupational health and safety: The health and safety of all employees, clients and other stakeholders is paramount. Any risks to the health and safety of employees resulting from hazards in the workplace or potential exposure to occupational illness are managed by the Occupational Health and Safety team.

Environmental and Social (E&S) risks

The bank has a responsibility to ensure that E&S risks in our loan book, arising from clients activities are adequately identified, managed and where necessary reported.

Mitigation

Compliance is an independent core risk management activity, which also has unrestricted access to the Chief Executive and the Chairman of the Board Risk Committee, thereby ensuring the function's independence.

The Bank's approach to managing compliance risk is proactive and premised on internationally accepted principles of compliance risk management. The Bank is subject to extensive supervisory and regulatory regimes, and while the executive management remains responsible for overseeing the management of the Bank's compliance risk, SBG compliance actively engages with management and the compliance officers within subsidiaries to proactively support the generation of legal, ethical and profitable business.

The Bank operates a centralised compliance risk management structure run by a fully equipped specialised unit that grants oversight on all compliance related matters. The compliance unit supports business in complying with current and emerging regulatory developments, including money laundering and terrorist financing control, sanctions management, identifying and managing conflicts of interest and market abuse and mitigating reputational risks.

Employees including their senior management are made aware of their statutory compliance responsibilities through on-going training and awareness initiatives.

Health and Safety: The Bank aims to effectively identify, reduce or control accidents or injuries to employees, contractors and clients. The framework ensures compliance with current legislation 'Occupational Safety and Health Act No. 15 of 2007.' Occupational health and safety procedures are closely linked to the operational needs of the business. Training for health and safety officers and employee awareness is an on-going endeavour. It's worth noting that there were no workmen's compensation claims lodged in 2015.

E&S risk management: A cornerstone of our sustainability and credit risk approach is to ascertain the environmental and social risk of the transactions that we are involved with are within acceptable criteria. This creates a position from which negative impacts of lending activities on the environment and people are avoided, minimised, mitigated and/or compensated for appropriately.

All relevant employees must apply relevant environmental and social risk and opportunity assessment tools across our financing activities. We ensure risks are properly addressed and that material breaches are reported; and give effect to the environmental and social criteria stipulated by providers of capital. Teams must follow the following procedures:

(i) Annually update their environmental, social and occupational health and safety legal registers;
(ii) Ensure that where appropriate environmental and social risk mitigation clauses are integrated into contracts; and
(iii) Monitor compliance with policy and procedures.

Legal risk

Risk description

Legal risk is defined as exposure to the adverse consequences judgements or private settlements, including punitive damages resulting from inaccurately drafted contracts, their execution, and the absence of written agreements or inadequate agreements. This includes exceeding authority as contained in the contract.

Risk examples

Legal risk is the risk of losses, claims, damages, litigation, penalties, lost opportunities, damaged reputation or any other diminution in enterprise value (legal losses) attributable wholly or partly to the application of any law or legal principle. Non-exhaustive examples of legal losses are those arising from:

- Penalties, fines, imprisonment or invalidity of contracts due to breach of common laws, statutes or regulations contractual rights (such as netting, set-off and security provided) not being enforceable as intended or at all.
- Contractual liabilities being incurred in excess of the quantum intended.
- Contractual terms having unforeseen or unintended insolvency, tax or regulatory consequences.
- Cross-border transactions being subjected to conflicting laws in competing jurisdictions.
- Intangible assets (such as trade names, trade-marks, copyrights and trade secrets) being unlawfully exploited.
- Direct and/or consequential damages becoming payable for breach of contract, breach of statute (such as arise from a finding of anti-competitive collusion or price fixing) or breach of a general duty of care.

Mitigation

The Bank has established processes and controls to manage its legal risk as failure to manage risks effectively could result in legal proceedings impacting the Bank adversely, both financially and reputational.

Tax risk

Risk description

Taxation risk is the possibility of suffering loss, financial or otherwise, as a result of the misapplication of tax systems (whether in legislative systems, rulings or practices) applicable to the entire spectrum of taxes and other fiscal imposts to which the Bank is subject.

The Bank fulfils its responsibilities under tax law in relation to compliance, planning and client service matters. Tax law includes all responsibilities, which the Bank may have in relation to company taxes, personal taxes, capital gains taxes, indirect taxes and tax administration.

Risk examples

- Incorrect application of tax processes by bank employees involved transaction processing.
- Bank employees concluding contracts without understanding of the attendant tax consequences.
- System failure or errors to collect taxes as intended at the development stage.
- Uncertainty in the interpretation of legislation.

Mitigation

The framework to achieve compliance with the Bank's tax policy comprises four elements:

- Identification and management of tax risk.
- Skills development, including methods to maintain and improve managerial and technical competency.
- Communication of information affecting tax within the Bank.
- Human resources policies, including an optimal mix of staffing and outsourcing.

Good corporate governance in the tax context requires that each of these elements is in place, as the absence of any one would seriously undermine the others.

Compliance with this policy is aimed at ensuring that the Bank pays neither more nor less tax than tax law requires.

Reputational risk

Risk description

Reputational risk results from damage to the Bank's image which may impair its ability to retain and generate business through the loss of trust and confidence or a breakdown in business relationships. Safeguarding the Bank's reputation is of paramount importance to its continued success and is the responsibility of every employee.

Risk examples

Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events. Stanbic Bank's strong reputation is dependent upon the way in which it conducts its business but it can also be affected by the way in which its clients, to whom it provides financial services, conduct themselves.

Mitigation

Management of all operating activities is required to establish a strong internal control structure to minimise the risk of operational and financial failure and to ensure that a full assessment of reputational implications is made before strategic decisions are taken. The Bank sets clear standards and policies on all major aspects of business and these standards and policies are integral to the Bank's system of internal control and are communicated though procedures, manuals and appropriate employee training.

Each business unit or enabling function executive is responsible for identifying, assessing and determining all reputational risks that may arise within their respective areas of business. The impact of such risks is considered alongside financial or other impacts.

Should a risk event occur, the Bank's crisis management processes are designed to minimise the reputational impact of the event. Crisis management teams are in place both at executive and business line level to ensure the effective management of any such events. This includes ensuring the Bank's perspective is fairly represented in the media.

Reputational risks are considered and assessed by the Board, the Bank's RMC and executive management.

Business risk

Risk description

Business risk is the risk of loss due to operating revenues not covering operating costs and is usually caused by the following:

- Inflexible cost structures.
- Market-driven pressures, such as decreased demand, increased competition or cost increases.
- Bank -specific causes, such as a poor choice of strategy, reputational damage or the decision to absorb costs or losses to preserve reputation.

Risk examples

Competitors, changing customer behaviour and inappropriate due diligence.

Mitigation

Business risk is governed by the Bank's executive committee, which is ultimately responsible for managing the costs and revenues of the Bank.

The Bank mitigates business risk in a number of ways including:

- Extensive due diligence during the investment appraisal process is performed, in particular for new acquisitions and joint ventures.
- The business lines have a new product process through which the risks and mitigating controls for new and amended products and services are evaluated.
- Stakeholder management to ensure favourable outcomes from external factors beyond the Bank's control.
- Consistently monitoring the profitability of product lines and customer segments.
- Maintaining tight control over the Bank's cost base, including the management of cost-to-income ratio. This allows for early intervention and management action to reduce costs where necessary.
- Being alert and responsive to changes in market forces, exploiting potentially favourable changes and managing the downside risk due to unfavourable changes; and
- A strong focus in the Bank's budgeting process on achieving revenue growth while containing cost growth.
- Contingency plans are built into the budget that allow for costs to be significantly reduced in the event that expected revenue generation does not materialise.
- The Bank continually aims to increase the ratio of variable costs to fixed costs, allowing for more flexibility to proactively manage cost during an economic downturn.

Strategic risk

Risk description

Strategic risk is the risk that the Bank's future business plans and strategies may be inadequate to prevent financial loss or protect the Bank's competitive position and shareholder returns.

Risk examples

Profitability versus risk appetite: Given the turbulent economic environment, managing profitability within risk appetite is becoming increasingly challenging, especially with additional regulatory scrutiny regarding the Bank's capital holdings and liquidity requirements. Customer demand and the competitor environment are placing pressure on the Bank for innovation and customer service. To maintain profit margins and retain customers, the Bank may need to participate in more ventures requiring a higher investment. This will require the Bank to clearly define our risk appetite, ensuring the alignment of decision-making and risk.

Implementation challenges: Achieving our strategic goals requires effective execution – effective planning and integration, appropriate infrastructure and clear understanding of products and service offerings. Clarity in this regard is essential to build appropriate distribution and systems infrastructure for operations, cascade policies and controls and meet regulatory requirements. Being able to track that the integration of the strategies are in line with risk appetite and that the related business decisions positively impact our competitive position and business returns is often hard to monitor.

Pressure on innovation and disruptive thinking: Innovation is fundamental for a business to stay ahead and allows the Bank to meet its strategic objectives, be relevant to its markets and attract and retain top and critical talent. The challenge for the Bank is to create an environment where innovation is encouraged to drive change for simpler and better solutions to enhance key capabilities and embed it into the Bank's culture, whilst balancing the risk associated with this.

Innovation serves as an incubator for new capability development as it is always challenging established toolkits and management approaches. It requires the engagement of new and diversified skill sets, where individuals require a broad understanding of business, strategy and the risk profile of the situation while being empowered to act within risk appetite to foster change. The Bank faces the challenge of creating the right environment for employees while meeting risk and regulatory requirements.

Mitigation

The Bank's business plans and strategies are discussed and approved by executive management and the Board.

Market risk

Risk description

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

Risk examples

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

Mitigation

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

Market risk management process is required to measure, monitor and control market risk exposures. The Bank manages market risk through the following four principles.

1. 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 employee of financial and management accounts balance sheets, income statements, and portfolio structure hierarchies, accounting classification and accounting elections, jointly with financial control, Risk Self Assessments jointly with financial operational risk, price testing reports and profit and loss decomposition reports.

For the purpose of identification, market risk has been categorised as follows:

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

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

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

2. Measurement of market risk

Measurement of market risks deals specifically and separately with normal market conditions and stress market conditions. Measurement of trading exposures under stress market conditions is effected by subjecting the portfolios to stress testing, e.g. historical scenarios, hypothetical scenarios on individual asset classes and across different asset classes. In order to highlight 'points of weakness' and identify particular sources of trading book exposure vulnerability, these stress tests capture the effects of abnormal movements in market variables (yield curves including basis curves, volatility surfaces, spot and/or rate moves, credit spread curves, recovery rate sensitivities etc).

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

General Measurement Definitions:

a) Value at Risk ("VaR") is the loss with a given probability defined as the confidence level, over a given period of time. b) Historical VaR ("HVaR") is the calculation of the VaR using historically observed rate changes with a defined holding period (typically 1day or 10day) and for a specific date range (typically 1year and 5 years). c) Expected Tail Loss ("ETL") is the average of returns that exceed VaR (also known as expected shortfall).

3. Management of market risk

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

a) Market risk exposure on trading activities

The Bank's policies, processes and controls for trading activities are designed to achieve a balance between pursuing profitable trading opportunities and managing earnings volatility within a framework of sound and prudent practices. Trading activities are primarily customer focused, but also include a proprietary component.

Market risk arising from the Bank's trading activities is managed in accordance with Board- approved policies, and aggregate VaR and stress testing limits. The quality of the Bank's VaR is validated by regular backtesting analysis, in which the VaR is compared to theoretical and actual profit and loss results. A VaR at the 95% confidence interval is an indication of the probability that losses will exceed the VaR if positions remain unchanged during the next business day. The Bank also calculates a Stressed VaR which uses the same basic methodology as the Normal VaR. However, Stressed VaR is calculated using 10 day holding period for the last 1,250 business days.

Calculation of market risk capital for trading

The assessment of market risk capital for trading activities can be aggregated using general market risk VaR and specific risk. The Bank applies the Standardised Approach for calculating market risk capital. The standardised method uses a "building block" approach, with the capital charge for each risk category calculated separately.

Market risk Qualifying Assets includes interest rate risk assets in the trading book and foreign currency assets throughout the bank. Specific Risk refers to potentially adverse movement in the price of an individual loan/debt owing to factors related to the individual issuers. Specific risk does not affect foreign exchange. This is because changes in FX rates are completely dependent on general market movements.

b) Market risk exposure on banking operations

Banking-related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and the economic value of equity. This structural interest rate risk is caused by the differing re-pricing characteristics of banking assets and liabilities. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk. The governance framework adopted for the management of structural interest rate risk mirrors that of liquidity risk management in terms of committee structures and the setting of standards, policies and limits. This is also true for the monitoring process and internal controls.

The market risk function is independent of trading operations and it is accountable to ALCO. It is responsible for identifying, measuring, managing, controlling and reporting market risk as outlined in the market risk governance standard, with support from the central market risk function. The market risk function also has the ability to set individual trader mandates. Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk management unit to move exposures back in line with approved market risk appetite, with such breaches being reported to management and ALCO.

4. Derivative instruments and structured transactions

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

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

Reporting on market risk

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

Information & Technology (IT) risk

Information Risk is defined as the risk of accidental or intentional unauthorised use, access, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity and availability of information assets. Technology risk on the other hand is the risk of loss and disruption due to exploitation of network vulnerabilities, system failures or defects or from unauthorised use of bank systems.

Management of Information and Technology risk involves definition, design and implementation of processes and methodologies to protect print, electronic, or any other form of confidential and sensitive information or data belonging to the bank or our customers.

In this regard, the bank has adopted a formal Information Risk Governance Standard (IRGS) which outlines high level policy objectives and commitment to implement good information risk management and information security practices.

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

How the bank is managing this risk

The rapid advancement of Information Technology and digitisation has brought about drastic changes in the way the financial sector operates and serves customers. With Information Technology growing in scope and complexity, there come additional risks that the bank must continuously monitor, understand and respond to.

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

- An effective and robust governance framework
- End-to-end scope/view of bank network and assets
- Thorough risk assessment, threat modelling and scenario analysis
- Proactive cyber and technology incidents response planning
- Dedicated information security and cyber security resources

Cyber risk has become an emerging risk within the financial industry with more sophisticated attacks being meted on banks by exploiting vulnerabilities within the banks network infrastructure and financial systems. The bank is proactively managing this risk through implementation of a holistic cyber resilience framework – a multi-layered strategy that encompasses people, process and technology to address the risks and allow the bank prepare, protect, detect, respond and recover from any cyber security incident.

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

Board of Directors

1 **FRED N. OJIAMBO, MBS, SC /67**
Chairman
Appointed 2010

2 **GREG BRACKENRIDGE /59**
Chief Executive
Appointed 2010

3 **KITILI MBATHI /58**
Non-Executive Director
Appointed 2008

4 **CHRISTOPHER J. BLANDFORD - NEWSON /52**
Non-Executive Director
Appointed 2014

5 **MICHAEL A. BLADES /50**
Non-Executive Director
Appointed 2013

6 **EDWARD W. NJOROGE, CBS /64**
Non-Executive Director
Appointed 2010

7 **ROSE KIMOTHO, MBS /61**
Non-Executive Director
Appointed 2008

8 **RUTH T. NGOBI /56**
Non-Executive Director
Appointed 2011

9 **PETER NDERITU GETHI /51**
Non-Executive Director
Appointed 2013

10 **LILLIAN N. MBINDYO**
Company Secretary

Director Profiles

Fred N. Ojiambo, MBS, SC, 67

Chairman

Appointed 2010

Mr Fred N. Ojiambo was appointed as a Non-Executive Director of Stanbic Holdings Plc on 9 April 2010 and as Chairman of the Board on 28 May 2010. Mr Ojiambo is also the Chairman of the Board of Stanbic Bank Kenya Limited. Mr Ojiambo is a lawyer and holds a Bachelor of Laws, (LLB) (Hons) Degree from the University of Nairobi, as well as a post-graduate diploma in Advocacy (Council of Legal Education), from the Kenya School of Law. He has had a long career in private practice and his experience was recognised with an award of Senior Counsel in 2007. Mr Ojiambo sits on various Boards of companies and corporations, including Bata Shoe Company Limited, The International Leadership University, The Council of Legal Education, Windle Charitable Trust and Rafiki Orthopaedic Limited, among others. He is also a member and former Chairman of the Law Society of Kenya, a member of the International Bar Association and the Commonwealth Law Association, and is a Senior Partner in the legal firm of Messrs. Kaplan & Stratton Advocates. Mr Ojiambo was also appointed as chancellor of Kirinyaga University in 2017.

Kitili Mbathi, 58

Non-Executive Director

Appointed 2008

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

Greg Brackenridge, 59

Chief Executive

Appointed 2010

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

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

Christopher J. Blandford - Newson, 52

Non-Executive Director

Appointed 2014

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

Michael A. Blades, 50
Non-Executive Director
Appointed 2013

Mr Michael Blades was appointed as an Executive Director of Stanbic Holdings Plc in August 20 2013. Mr Blades is the Regional Head of Corporate and Investment Banking (CIB), East Africa for Standard Bank Group and an Executive Director on the Board of Stanbic Bank Kenya Limited. Mr Blades oversees all of Standard Bank's CIB activities in Kenya, Uganda, Tanzania, Ethiopia and South Sudan. A qualified Economist, Mr Blades has worked in various positions in the Corporate and Investment Banking Business Unit of Standard Bank Group for over 20 years, most recently as the Head of International Business Development and Corporate Banking Coverage in China.

Edward W. Njoroge, CBS, 64
Non-Executive Director
Appointed 2010

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

Rose W. Kimotho, 61
Non-Executive Director
Appointed 2008

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

Ruth T. Ngobi, 56
Non-Executive Director
Appointed 2011

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

Peter Nderitu Gethi, 51
Non-Executive Director
Appointed 2013

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

Lillian N. Mbindyo
Company Secretary

Ms Lillian N. Mbindyo holds Bachelor of Laws and Master of Laws degrees from University of Warwick, as well as a Master of Business Administration from Warwick Business School. Ms Mbindyo is an advocate of the High Court of Kenya and a Certified Public Secretary. Prior to joining Stanbic Bank, she worked as the Head of Compliance and Legal at the Nairobi Securities Exchange and thereafter as the Head of Legal and Compliance at SBG Securities Limited.

Ms Mbindyo has over fifteen years work experience and currently serves as the Company Secretary of Stanbic Holdings Plc, Stanbic Bank Kenya Limited, SBG Securities Limited, Stanbic Insurance Agency Limited and Stanbic Nominees Limited.

Corporate Governance Report for Stanbic Holdings Plc

Standard Bank Group Limited: An Overview

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

The Standard Bank Group's governance framework enables the Board to fulfil its role of providing oversight and strategic counsel in consonance with responsibility while ensuring conformity with regulatory requirements and acceptable risk tolerance parameters. Stanbic Holdings Plc, as a member of the Standard Bank Group, is guided by these principles in its governance framework.

Stanbic Holdings Plc: An Overview

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

Codes and Regulations

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

Shareholders' Responsibilities

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

Board of Directors

The Company is led by a highly competent and diverse Board, with the majority consisting of independent members of the Board who, by their skills and diversity, contribute to the efficient running of the Company.

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

Board Composition and Evaluation

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

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

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

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

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

Strategy

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

Directors' Appointment

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

Suitable candidates are submitted to the Board for consideration and appointment in terms of the Company's Articles of Association, under which a Director appointed by the Board holds office until the next Annual General Meeting (AGM) at which time the Director will retire and will be eligible for election as a Director by the shareholders. The appointments comply with the requirements of the Companies Act and the Capital Markets Act of the Republic of Kenya and the regulations of the South Africa Reserve Bank.

Since the last Annual General Meeting, the Board did not appoint any new member to the Company's Board of Directors.

Induction and Ongoing Education

Induction of new Directors and ongoing education of Directors is the responsibility of the Company Secretary. The Group's Code of Ethics is provided to new Directors on their appointment and an induction programme tailored to the new Director's specific requirements implemented.

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

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

Board Evaluation

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

Going concern

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

Remuneration

Stanbic Holdings Plc remunerates its Executive and Non-Executive Directors at levels that are fair and reasonable in a competitive market, taking into account the skills, knowledge, and experience required in the Board.

The amount paid to Directors is included in Note 38 of the financial statements which represents the total remuneration paid to Executive and Non-Executive Directors for the year under review.

Social Responsibility

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

The Group concentrates its social investment expenditure in defined focus areas in order to make the greatest impact. These areas of focus are subject to annual revision, as the Country's socio-economic needs change.

Shareholder Relations

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

Board meetings

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

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

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

STANBIC HOLDINGS PLC BOARD ATTENDANCE FOR 2016

		Q1, MARCH 2ND, 2016	Q2, MAY 5TH, 2016	Q3, AUGUST 11TH, 2016	Q4, NOVEMBER 24TH, 2016
	DIRECTOR'S NAME				
1	Fred Ojiambo	P	P	P	P
2	Greg Brackenridge	P	P	P	P
3	Mike Blades	P	P	P	P
4	Christopher Newson	P	P	P	P
5	Kitili Mbathi	P	P	P	P
6	Rose Kimotho	P	P	P	P
7	Edward Njoroge	P	P	P	P
8	Ruth T. Ngobi	P	P	P	P
9	Peter Gethi	P	P	P	P
10	Charles Muchene	P	P	N/A	N/A

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

Board Attrition and Impact in 2016

The period 2016 saw the resignation of one Director, Mr Charles Muchene, an independent Non-Executive Director and a Certified Public Accountant. Mr Muchene was also the Chairman of the Board Audit Committee. Mr. Muchene resigned in order to take up a Board position in a banking institution

Overview of anticipated changes In the In-Country Board Composition over the remainder of 2016 and 2017

The Board is in the process of adding to its composition of Directors to replace vacancies within the Board for Directors who have retired and resigned; to address gender balance; and to include skills needed to be in line with the Group's strategy in Kenya.

No.	Name	Gender	Description of Independence	Nationality
1	Fred N Ojiambo	Male	Chairman (Independent Non-Executive Director)	Kenyan
2	Greg Brackenridge	Male	Regional Chief Executive	South African
3	Mike Blades	Male	Non-Executive Director	South African & British
4	Kitili Mbathi	Male	Non-Executive Director	Kenyan
5	Christopher Blandford-Newson	Male	Non-Executive Director	South African & British
6	Edward Njoroge	Male	Independent Non-Executive Director	Kenyan
7	Rose W Kimotho	Female	Independent Non-Executive Director	Kenyan
8	Peter Gethi	Male	Independent Non-Executive Director	Kenyan
9	Ruth T Ngobi	Female	Independent Non-Executive Director	Kenyan

Board Nominations Committee

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

The Committee's mandate details its purpose as follows:

- To determine and evaluate the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the Company;
- To establish and maintain a Board directorship continuity programme;
- To nominate successors to key positions in the Company as part of ensuring that a management succession plan is in place;
- To determine whether the services of any Director should be terminated;
- To recommend the continuation (or not) in the service of any Director who has reached the retirement age in the Company's Articles of Association;
- To ensure that the Company is at all times in compliance with all applicable laws, regulations and codes of conduct and practices;
- To perform such further functions, as may be prescribed by regulations from time to time;
- To ensure that the Board composition and structure enable it to fulfil the obligations of the Board mandate; and
- To identify, nominate and recommend for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Committee composition in 2016 consisted of two members, namely: the Chairman, an Independent Non-Executive Director and the Chief Executive of Stanbic Holdings Plc.

During the year, the Committee carried out its duties as dictated by its Mandate. The Committee held 2 meetings during the year, with attendance as follows:

	DIRECTOR'S NAME	Q2, APRIL 4TH, 2016	Q3, AUGUST 5TH, 2016
1	Fred N. Ojiambo (Chairman)	P	P
2	Greg Brackenridge	P	P
3	Philip Odera*	P	P

P = Present
** An attendee*

Principles for Corporate Social Investment (CSI)

1. Stanbic Holdings Plc (the Group) will articulate a clear business rationale for CSI. CSI will not be viewed as "pure" philanthropy; it should deliver shared value to the Group and the communities within which the Group operates.
2. The guideline for annual spend on CSI will be a minimum of 1% of Profit after Tax. However, this must exclude sponsorships and be dedicated entirely to CSI.
3. The Group should limit the range of "focus" areas of CSI spend. It is recommended that no more than three (and preferably two) focus areas be chosen, and that at least one of these should be health or education. (It should be noted that one focus area does not mean only one project, a number of different projects could be included in one focus area).
4. Funding should move away from one-off donations to longer term project partnerships with implementing partners. However, a small "discretionary fund" could be kept aside to respond to pressing ad-hoc needs which may arise from time to time.
5. The Group should play a pro-active role in seeking out projects and partnerships that will deliver on the CSI strategy, rather than simply waiting for proposals to be submitted by a range of organisations.
6. It is preferable for the CSI function to be separated from Marketing and to be located in an area like Corporate Affairs. Where location in Marketing is unavoidable, care must be taken to clearly delineate CSI spend, governance and reporting from that of Marketing.
7. The Group must have a CSI policy which will set out:
   - CSI principles
   - CSI governance structures
   - Roles and responsibilities
   - Reporting requirements
   - Prevention and management of conflicts of interest
8. Employee Community Involvement should be encouraged and where possible, should align with the Group's chosen CSI focus areas. If the Group chooses to have a process of matching staff donations, strict controls must be put in place to prevent fraud and reputational risk.
9. The Group will be expected to report annually to the Standard Bank Group Social and Ethics Committee on expenditure and projects undertaken in the year.

Statement of Compliance with CMA Corporate Governance Code

Company market to book ratio at end of financial year	0.68
No of outstanding shares at end of financial year	Issued Shares: 395,321,638 Unissued shares: 78,362,573
Closing price of stock at end of financial year	KShs 69.50
Total income as per Income Statement at end of financial year	KShs 16,765,546,000
Net profit as per Income Statement at end of financial year	KShs 4,418,589,000
Total debt (short and long term) as per Balance Sheet at end of financial year	3,986,138,000
Total equity as per Balance Sheet at end of financial year	KShs 40,140,874,000
Stanbic Holdings price-to-book as at end of 2016	0.6x
Stanbic Bank P/ B as at end of 2016	0.9x
Total no. of Board members at end of financial year:	Nine
No. of independent Directors at end of financial year:	Four
No. of non-executive Directors at end of financial year:	Eight

The Board is ultimately responsible for corporate governance within the Company and provide effective leadership premised on an ethical foundation. The Board is accountable for the long term sustainability and profitability of the Company in the best interest of all its stakeholders. The Board's role and responsibilities are included in the terms of reference set out in the Board mandate. The mandate is reviewed at least annually and complies with the provisions of the Companies Act, 2015; the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (the Code); and the Company's Articles of Association. The Company applies the principles of the Code which adopts an "apply or explain" approach requiring that the Company provides a reasonable explanation in instances where a principle or recommendation is not applied. Exceptions to the application of the Code are monitored by the Board and the instances of non-application which occurred during the reporting year, have been considered and explained in the checklist below. The Board believes that governance can contribute to value creation through enhanced and effective accountability, risk management, leadership and transparency.

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3 & 4	Application or Explanation - Note 2
		A	INTRODUCTION			
1	M	A.1	Has the company developed and published a Board Charter which is periodically reviewed and which sets out the Board responsibility for internal control?	1.1.2, 2.6.2, 6.3.2	FA	There is a Board Charter/Mandate in place and which is reviewed on an annual basis by the Board. The Board Mandate is available on the Company's website.
2	M	A.2	Does the Board Charter or company documents distinguish the responsibilities of the Board from management in line with Code requirements?	1.1.2, 2.3.1, 2.3.2, 2.6.2	FA	Yes. The distinction is articulated in the terms of reference contained in the Board, Board Committee and Management Committee Mandates.
3	A or E	A.3	Is there a statement indicating the responsibility of Board members for the application of corporate governance policies and procedures of the company?	1.1.6	FA	The statement is included in the Board Mandate under the opening paragraph on the Board's Purpose and in the Terms of Reference.
4	M	A.4	How has the Board ensured all Directors, CEOs and management are fully aware of the requirements of this Code?	1.1.6	FA	The Board had internal training on the Code in February, 2016, conducted by qualified external consultants; and in addition, indivdidual Directors, the Company Secretary and the Chief Financial Officer have attended seminars on the Code hosted by the Capital Markets Authority and IFC. A checklist of the regulatory sections was also tabled to the Board.

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3 & 4	Application or Explanation - Note 2
5	M	A.5	Do company documents indicate the role of the Board in developing and monitoring the company strategy?	Part II - Overview, 2.3	FA	This is articulated in the Board Mandate.
6	A or E	A.6	Does the company strategy promote sustainability of the company?	2.3.6	FA	This is indicated in the Company's subsidiary companies strategies.
7	M	A.7	Are all Board committees governed by a written charter/terms of reference, disclosing its mandate, authority, duties, composition, leadership and working processes?	2.2.2	FA	Yes. These are contained in the Board Committee Charters/Mandates.
		B	**BOARD OPERATIONS and CONTROL**			
8	M	B.1	Has the Board established a Nomination Committee comprised mainly of independent and non-executive Board members?	2.1.2, 2.2.2	FA	Yes. The membership is confirmed in the Board minutes which record the appointment of members.
9	M	B.2	Is the chairperson of the Nomination Committee an independent Director?	2.2.3	FA	Yes. This is contained in the Nominations Committee Mandate.
10	M	B.3	Has the Board adopted and published procedures for nomination and appointment of new Board members?	2.1.1, 2.1.7	FA	These are contained in the Nominations Committee Mandate and in the Company's Articles of Association.
11	M	B.4	Is the Board size adequate for the exercise of the company business?	2.1.4	FA	Yes, there are currently eight Directors above minimum number stipulated in the Company's Articles of Association.
12	A or E	B.5	Has the Board adopted a policy to ensure the achievement of diversity including age, race and gender) in its composition?	2.1.2, 2.1.3, 2.1.5, 2.5.1	FA	This policy is contained in the Board and Nominations Committee Mandates.
13	M	B.6	Do the Board members represent a mix of skills, experience, business knowledge and independence to enable the discharge of their duties?	2.2.1	FA	Yes. This has been indicated in the Director profiles contained in the Annual Report.
14	M	B.7	Has the Board adopted and applied a policy limiting the number of Board positions each Board member may hold at any one time?	2.1.6	FA	The number of Board positions each Board member holds in other public companies at any one time is in compliance with the Corporate Governance Regulations. The Conflicts of Interest section of the Board Mandate requires disclosure of multiple directorships; however, the Board Mandate will be amended in May, 2017, to specifically indicate the limitations articulated under the Corporate Governance Regulations.
15	M	B.8	Have any Alternate Board members been appointed? If so, have the Alternate Director/s been appointed according to regulation and Code requirements?	2.1.6, 2.1.7	FA	There are no alternate Directors appointed.
16	M	B.9	Are independent Directors at least one-third of the total number of Board members?	1.1.2, 2.1.3, 2.4.1	FA	Four of the current eight Directors are indpendent Non-Executive Directors.

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3 & 4	Application or Explanation - Note 2
17	A or E	B.10	Does the Board have policies and procedures to annually assess the independence of independent Board members?	2.4.1	FA	Yes and this conducted annually during Board Self-Evaluations and is stipulated in the Board Mandate/Charter.
18	M	B.11	Do all independent Board members have a tenure of less than 9 years?	2.4.2	FA	Yes and this stipulated in the Board Mandate.
19	M	B.12	Is the Board comprised of a majority of non-executive Board members?	2.1.3	FA	Yes. Seven of the current eight Directors are Non-Executive Directors.
20	M	B.13	How does the Board ensure a smooth transition of Board members?	2.1.8	FA	By ensuring an adequate composition of the Board and that no more than a third of Directors retire at one time. This is contained in the Company's Articles of Association.
21	M	B.14	Has the Board established an effective Audit Committee according to Code requirements?	2.2.4, 6.5.1, 2.1.7	PA	The Board has established an effective Audit Committee; however, with the resignation of the chairman on 19 May 2016, the current chairman who has a professional qualification in accounting is a Non-Executive Director but not independent. The current members are one independent Non-Executive Director and two Non-Executive Directors. The Company is working to be fully compliant by end of 2017.
22	M	B.15	Are the functions of the Chairperson and the Chief Executive Officer exercised by different individuals?	2.3.3	FA	Yes.
23	A or E	B.16	Is the Chairman of the Board a Non-Executive Board member?	2.3.4	FA	Yes.
24	A or E	B.17	Has the Board established procedures to allow its members access to relevant, accurate and complete information and professional advice?	2.3.5	FA	Yes, this is provided under the Board and Committee Mandates.
25	M	B.18	Has the Board adopted a policy on managing conflict of interest?	2.3.8	FA	Yes this is contained in the Board mandate and in the Company's Articles of Association.
26	M	B.19	Has the Board adopted a policy on related party transactions to protect the interests of the company and all its shareholders and which meets the requirements of the Code?	2.3.7	FA	Yes this is contained in the Board mandate under the section on Conflict of Interest.
27	M	B.20	Has the company appointed a qualified and competent company secretary who is a member in good standing of ICPSK?	2.3.9	FA	Yes.
28	A or E	B.21	Has the Board adopted policies and processes to ensure oversight of sustainability, environmental and social risks and issues?	2.3.2, 2.3.6	FA	Yes.
29	A or E	B.22	Has the Board developed an annual work-plan to guide its activities?	2.6.3	FA	Yes. This is approved at the meeting prior to the new financial year.

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3 & 4	Application or Explanation - Note 2
30	M	B.23	Has the Board determined, agreed on its annual evaluation process and undertaken the evaluation or the performance of the Board, the Board Committees, the CEO and the company secretary?	2.6.4, 2.8	FA	Yes. The reports on the same including the minutes of the session have been prepared.
31	A or E	B.24	Has the Board established and applied a formal induction program for in-coming members?	2.7.1	FA	There is a formal induction program for all in-coming members.
32	A or E	B.25	Do Board members participate in on-going corporate governance training to the extent of 12 hours per year?	2.7.3	FA	Yes. There are records showing the same.
33	A or E	B.26	Has the Board set up an independent Remuneration Committee or assigned to another Board committee the responsibility for determination of remuneration of Directors?	2.9.2	FA	This function is under the Nominations Committee; however, the full Board considers and endorses the remuneration for ratification/approval by the shareholders.
34	M	B.27	Has the Board established and approved formal and transparent remuneration policies and procedures that attract and retain Board members?	2.9.1	FA	The Board has formal and transparent remuneration procedures in place and this requirement is referred to in the Terms of Reference in the Board Mandate/Charter.
35	M	B.28	How does the Board ensure compliance with all applicable laws, regulations and standards, including the Constitution and internal policies?	2.10, 2.10.1, 2.10.2	FA	Through the Compliance department which reports to the Board Risk Committee.
36	M	B.29	In the past year, has the Board organised a legal and compliance audit to be carried out on a periodic basis?	2.10.3	FA	The law firm for the Legal & Compliance Audit has been selected and approved by the Board for the audit to commence by end of April, 2017.
37	A or E	B.30	Has the Board subjected the company to an annual governance audit?	2.11.1	FA	The audit firm for the Governance Audit has been selected and approved by the Board for the audit to commence by end of April, 2017.
		C	**RIGHTS of SHAREHOLDERS**			
38	M	C.1	Does the governance framework recognise the need to equitably treat all shareholders, including the minority and foreign shareholders?	3.0 Overview, 3.2.1	FA	Yes. Contained in the Articles of Association.
39	M	C.2	Other than at the AGM, how does the Board facilitate the effective exercise of shareholders' rights?	3.1.1	PA	Public notice to all shareholders in the instance there are changes that are material.
40	M	C.3	How does the Board facilitate shareholders participation at the AGM?	3.1.1	FA	Public notices within the stipulated time, including the agenda, venue and documentation for discussion at the meeting.
41	A or E	C.4	Are minority and foreign shareholders holding the same class of shares treated equitably?	3.2.1	FA	Yes.
42	A or E	C.5	Is there evidence that the Board proactively provides information to shareholders and the media, (and in a timely basis) on corporate affairs and corporate governance?	3.1.1, 3.4.1	FA	Yes the evidence is in the media publications, on the Company website and on the Nairobi Securities Exchange website.

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3 & 4	Application or Explanation - Note 2
		D	STAKEHOLDER RELATIONS			
43	A or E	D.1	Does the Board have a stakeholder-inclusive approach in its practice of corporate governance and which identifies its various stakeholders?	4.1.1	FA	Yes. The Annual Report highlights this.
44	A or E	D.2	Has the Board developed policies, procedures and strategies to manage relations with different/key stakeholder groups?	4.1.2, 4.1.3, 4.1.5, 4.2.1	FA	Stakeholder communication policy and plan are in place.
45	A or E	D.3	How does the Board take into account the interests of key stakeholder groups prior to making decisions?	4.1.4	FA	Through Public Notices and where required by law seek approval at a general meeting.
46	M	D.4	How does the Board ensure effective communications with stakeholders?	4.2, 4.2.1	FA	By complying with the requirements of legislation, regulation and the Company's Articles of Association on public notices to stakeholders.
47	M	D.5	Has the Board established a formal dispute resolution process to address internal and external disputes?	4.3.1	FA	There are formal internal dispute resolution processes and for external stakeholders as contained in contracts.
		E	ETHICS AND SOCIAL RESPONSIBILITY			
48	A or E	E.1	Does the Board ensure that all deliberations, decisions and actions are founded on the core values (responsibility, accountability, fairness and transparency) underpinning good governance and sustainability?	5.1.1	FA	Yes.
49	M	E.2	Has the Board developed a Code of Ethics and Conduct (which includes sustainability) and has it worked to ensure its application by all Directors, management and employees?	2.6.1, 5.2.2, 5.2.3, 5.2.4	FA	Yes. The Code of Ethics is on the Company's website.
50	A or E	E.3	How does the Board ensure that compliance with the Ethics Code and Conduct is integrated into company operations?	5.2.3	FA	The policies of the Company's operational subsidiaries are aligned to the values in the Group Code of Ethics . In addition, all Group employees are required to undertake an online course and examination on the Code of Ethics.
51	A or E	E.4	Does the Board incorporate ethical and sustainability risks and opportunities in the risk management process?	5.2.1	FA	Yes.
52	A or E	E.5	How is the company performance on ethics assessed, monitored and disclosed to internal and external stakeholders?	5.2.4	PA	The Company's perfromance of ethics is dislcosed in the Company's Annual Report; however a formal governance audit will be conducted in 2017 by an independent audit firm.
53	A or E	E.6	Has the company established and implemented a whistle blowing policy?	5.2.5	FA	Yes. The same is on the Company's website.
54	A or E	E.7	Has the Board/or management developed policies on corporate citizenship and sustainability and strategies for company use?	5.3.1, 5.4.1	FA	Yes there is a Group Corporate Social Investment Framework.
55	M	E.8	Does the Board consider not only the financial performance but also the impact of the company's operations on society and the environment?	5.3.2, 5.3.3	FA	Yes. The information is contained in the Annual Report.

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3 & 4	Application or Explanation - Note 2
56	A or E	E.9	Does the Board monitor and report activities leading to good corporate citizenship and sustainability to demonstrate they are well coordinated?	5.4.1	FA	Yes in the Annual Report.
		F	**ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL**			
57	M	F.1	Does the Audit Committee and the Board consider and review the financial statements for integrity of the process and for truthful and factual presentation?	6.1, 6.1.1a	FA	Yes.
58	M	F.2	Does the Annual Report contain a statement from the Board explaining its responsibility for preparing the accounts and is there a statement by the external auditor about his/her reporting responsibilities?	6.1.2	FA	Yes.
59	A or E	F.3	Does the Board or audit committee have a process in place to ensure the independence and competence of the Company's external auditors?	6.1.1b	FA	Yes. The Company uses a reputable firm of qualified auditors and the independence of the external auditors is confirmed in the Post-Audit report on annual basis.
60	M	F.4	Do the shareholders formally appoint the external auditor at the AGM through a formal and transparent process?	6.1.3	FA	Yes. It is part of the agenda that is circulated with the AGM Notice at least 21 days prior to the meeting.
61	A or E	F.5	Is the Company working towards the introduction of integrated reporting or is the company's Annual Report prepared on an integrated basis using a framework available from the Integrated Reporting Council, The Global Reporting Initiative, G4 Sustainability Guidelines and/ or Sustainability Accounting Standards Board standards?	6.1.5	FA	The Company's Annual Report is prepared on an integrated basis using the The Global Reporting Initiative.
62	A or E	F.6	Has the Board established an effective risk management framework which is inclusive of environmental and social risks and issues?	6.2.1	FA	Yes. The Company's main subsidiary, Stanbic Bank Kenya Limited applies the Equator Principles in its lending activities for applicable projects.
63	M	F.7	Has the Board established and reviewed on a regular basis the adequacy, integrity and management of internal control systems and information systems (including for compliance with all applicable laws, regulations, rules and guidelines)?	6.3.1, 6.3.2, 6.3.3	FA	Yes. These are contained in the Board and Board Committee Mandates for the Company and its operating subsidiaries.
64	M	F.8	Does the Board annually conduct a review on the effectiveness of the company's risk management practices and internal control systems and report this to shareholders?	6.4.1	FA	Yes. The shareholders are informed through the Annual Report.

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3 & 4	Application or Explanation - Note 2
65	M	F.9	Has the Board established an effective internal audit function according to Code requirements and which reports directly to the Audit Committee?	6.5.2	FA	Yes. This is contained in the Board Audit Committee Mandate.
66	A or E	F.10	Does the Board disclose details of Audit Committee activities?	6.5.2	FA	Yes. In the Annual Report.
		G	**TRANSPARENCY and DISCLOSURE**			
67	M	G.1	Does the company have policies and processes to ensure timely and balanced disclosure of all material information as required by all laws, regulations and standards and this Code.	7.0 Overview, 7.1.1	FA	Yes. This role is conducted by the Board, Compliance, Company Secretary and Finance.
68	A or E	G.2	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to the company's governance, the Board and the Audit Committee?	7.1.1	FA	Yes.
69	A or E	G.3	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to the company's mission, vision and strategic objectives?	7.1.1	FA	Yes.
70	A or E	G.4	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to remuneration and whistleblowing?	7.1.1	FA	Yes, in the 2016 Annual Report.
71	A or E	G.5	As a minimum, does the company website disclose current information on all areas prescribed in 7.1.1 (Board Charter, Whistleblowing Policy, Code of Ethics and information on resignation of Directors)?	7.1.1	FA	Yes.
72	A or E	G.6	Does the Board disclose the management discussion and analysis as required in 7.1.1?	7.1.1	FA	Yes.
73	A or E	G.7	Has the Board provided disclosures as required in 7.1.1 on compliance with laws, regulations and standards; ethical leadership, conflict of interest, corporate social responsibility and citizenship?	7.1.1	FA	Yes.
74	A or E	G.8	Has the Board made all required disclosures, including confirming requirements of 7.1.1 which include that a governance audit was carried out and that there are no known insider dealings?	7.1.1	PA	Yes. The Governance Audit will be carried out in 2017. There are no known insider dealings.
75	A or E	G.9	Has the Board disclosed the company's risk management policy, company procurement policy, policy on information technology as per 7.1.1?	7.1.1	FA	Yes.

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3 & 4	Application or Explanation - Note 2
76	M	G.10	Has the Board disclosed information on shareholders, including the key shareholders and the extent of their shareholdings as required in 7.1.1 and on stakeholder who influence company performance and sustainability?	7.1.1	FA	Yes. In the Annual Report, annual returns and monthly reporting to CMA and NSE, as well as in the Company website.
77	M	G.11	Has the Board disclosed all related-party transactions?	7.1.1	FA	These are disclosed where theres are related - party transactions as required.
78	M	G.12	Does the Board include in its Annual Report a statement of policy on good governance and the status of the application of this Code?	1.1.3, 7.1.1r	FA	This is contained in the 2016 Annual Report.

Notes to CMA compliance data

Note 1 All elements marked in blue are mandatory and MUST be complied with and , if not, regulatory sanctions will be imposed. When completing column 'F' for MANDATORY ITEMS, 'FA' will mean 'Fully Complied With', 'PA' will mean 'Partially Complied With' and 'NA' will mean 'Not Complied With'.

Note 2 Column 'F' should be marked as follows: 'FA' - Full Application, PA - Partially Applied or 'NA' - Not Applied. Full application of this Code is prescribed, therefore anything less than 'full application' is considered 'non compliance and non-application' of the Code. A response of PA or NA is non-compliance and requires an explanation to be provided with a firm commitment to moving towards full compliance. See also Note 4.

Note 3 An explanation of how the Code provision is applied is required in column 'G' and shall be supported by evidence. If the provision is NOT applied, an explanation for why it is not applied or only partially applied is required in column 'G'. For each question, column 'G ' will be completed.

Note 4 If an explanation is required because of non-application of any element of the Code, the explanation must be satisfactory, must be provided to relevant stakeholders including the Capital Markets Authority and shall include:

a: reasons for non-application
b: time frame required to meet each application requirement
c: the strategies to be put in place to progress to full application.

Report by the Board Audit Committee

This report is provided by the Board Audit Committee (the Committee), in respect of the 2016 financial year of the Company.

The BAC meets at least twice a year in accordance with the half-yearly financial reporting period adopted by the Company. The members attended the meetings as shown herein below in 2016:

BAC Members attendance in 2016

	DIRECTOR'S NAME	Q1, MARCH 2ND, 2016	Q3, AUGUST 11TH, 2016
1	Charles Muchene (Chairman)	P	N/A
2	Chris Newson (Chairman)	N/A	P
3	Kitili Mbathi	P	P
4	Ruth Ngobi	P	P

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

Execution of Functions

During the year, amongst other matters, the Committee considered the following:

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

- Approved the reappointment of PricewaterhouseCoopers (PwC) as external auditors for the financial year ended 31 December 2016, in accordance with all applicable legal requirements
- Approved the External Auditors' terms of engagement, the audit plan and budgeted audit fees payable
- Reviewed the audit process and evaluated the effectiveness of the audit
- Obtained assurance from the External Auditors that their independence was not impaired
- Confirmed that no significant irregularities were identified and reported by the external auditors
- Received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof.

b) In respect of the financial statements:

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

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

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

Based on the above, the Committee formed the opinion that, as at 31 December 2016, there were no material breakdowns in internal control, including internal financial controls, resulting in any material loss to the Company.

Independence of the External Auditors

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

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

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

On behalf of the Board Audit Committee

Christopher J. Blandford - Newson
Chairman, Board Audit Committee
22 February 2017

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 53.

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:

....

Fred N. Ojiambo, MBS, Sc
Chairman

....

Greg Brackenridge
Chief Executive

....

Peter N. Gethi
Director

Independent auditor's report

To the sharehoolders of Stanbic Holdings Plc

Report on the audit of 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 79 to 174, 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.

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.	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.

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
Partners: A Eriksson E Kerich B Kimacia K Muchiru M Mugasa A Murage F Muriu P Ngahu R Njoroge S N Ochieng' B Okundi K Saiti R Shah

Independent auditor’s report

Key audit matter	How our audit addressed the Key audit matter
Credit risk and impairment of loans and advances to customers and other banks (continued)	
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.	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.
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. Because the assessment involves significant judgement, management developed an accounting policy which requires the consideration of the three year cumulative inflation rate together with the monthly year-on-year inflation rate in assessing whether any of the operations of the group are operating in a hyperinflationary environment. An economy is considered to be hyperinflationary when both the three-year cumulative inflation rate and the monthly year-on-year inflation exceed a rate of 100%. Based on the policy, management determined that South Sudan was a hyperinflationary economy from February 2016. As a results, 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.

Independent auditor's report

Key audit matter	How our audit addressed the Key audit matter
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 organisation 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 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.	We evaluated the composition of management's future cash flow forecasts and the underlying assumptions based on the historical performance of the business, industry-specific reports and the macro economic outlook. We assessed the projected cash flows against the approved strategic and business plan of the cash generating unit. We assessed the reasonableness of the 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 organisations, 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 29 of the financial statements.

Independent auditor's report

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.

Independent auditor’s report

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the 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

		Group		Company	
		For the year ended 31 December		For the year ended 31 December	
	Note	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 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	23(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 85 to 174 form an integral part of these financial statements.

Consolidated and Company statement of other comprehensive income

	Group		Company	
	For the year ended 31 December		For the year ended 31 December	
	2016 KShs'000	2015 KShs'000	**2016 KShs'000**	2015 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 85 to 174 form an integral part of these financial statements.

Consolidated and Company statement of financial position

	Note	Group		Company	
		As at 31 December		As at 31 December	
		2016 KShs'000	2015 KShs'000	**2016 KShs'000**	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 85 to 174 form an integral part of these financial statements.

The financial statements on pages 79 to 174 were approved for issue by the Board of Directors on 23 February 2017 and signed on its behalf by:

....

Fred N. Ojiambo, MBS, Sc
Chairman

....

Greg Brackenridge
Chief Executive

....

Peter N. Gethi
Director

....

Lillian N. Mbindyo
Company Secretary

Consolidated statement of changes in equity

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
		Attributable to equity holders					
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 of the Group		-	-	(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**

For the year ended 31 December 2015	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
		Attributable to equity holders					
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	41(a)	-	-	(102,614)	102,614	-	-
Share based payment reserve	41(a)	-	-	14,006	-	-	14,006
Total transactions with owners of the Group		-	-	(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 85 to 174 form an integral part of these financial statements

Company statement of changes in equity

For the year ended 31 December 2016	Note	Attributable to equity holders Share Capital KShs'000	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 by and distributions to owners of the company						
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 of the company		-	-	(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

For the year ended 31 December 2015	Note	Attributable to equity holders Share Capital KShs'000	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 by and distributions to owners of the company						
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 of the company		-	-	(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 85 to 174 form an integral part of these financial statements.

Consolidated and Company statement of cash flows

		Group		Company	
		For the year ended 31 December		For the year ended 31 December	
	Note	**2016 KShs'000**	2015 KShs'000	**2016 KShs'000**	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 85 to 174 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;

- 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.

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 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.

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.

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)

- 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.

  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.

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), Stanbic Nominees Limited (formerly CfC Stanbic Nominees Limited), Stanbic Insurance Agency Limited, SBG Securities Limited and SBG Securities Nominees Limited (formerly 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.

Notes (continued)

2. Significant accounting policies (continued)

a) Basis of preparation (continued)

(i) Subsidiaries (continued)

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.

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

2. Significant accounting policies (continued)

d) Functional currency and translation of foreign currencies (continued)

(iii) Group companies (continued)

(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.

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.

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.

Notes (continued)

2. Significant accounting policies (continued)

f) Revenue and expenditure (continued)

Non-interest revenue (continued)

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.

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.

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).

2. Significant accounting policies (continued)

h) Financial instruments (continued)

(ii) Subsequent measurement (continued)

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.

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.

Notes (continued)

2. Significant accounting policies (continued)

h) Financial instruments (continued)

f) Financial liabilities at amortised cost (continued)

(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.

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

2. Significant accounting policies (continued)

h) Financial instruments (continued)

b) Renegotiated loans (continued)

available-for-sale equity instrument is considered to be impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss.

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

(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.

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

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.

Notes (continued)

2. Significant accounting policies (continued)

h) Financial instruments (continued)

(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.

(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.

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 29 sets out the major cash generating unit to which goodwill has been allocated.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment, an impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use. Any impairment recognised on goodwill is not subsequently reversed.

Computer software

Costs associated with 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 equipment	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.

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.

2. Significant accounting policies (continued)

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.

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.

Notes (continued)

2. Significant accounting policies (continued)

n) Employee benefits (continued)

(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.

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.

2. Significant accounting policies (continued)

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.

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 recognises a contingent asset for the amount that the confirming bank may be entitled to receive from the issuing bank.

Notes (continued)

2. Significant accounting policies (continued)

u) Letters of Credit Acceptances (continued)

ii) Confirming Bank (continued)

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.

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(k). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note 29.

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.

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%.

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

e) Hyperinflation (continued)

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**	-

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.
- Bancassurance and wealth management.

Notes (continued)

4. Operating Segments (continued)

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.

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.

Results by business units

	2016 Total KShs'000	2015 Total KShs'000	**2016 CIB KShs'000**	2015 CIB KShs'000	**2016 PBB KShs'000**	2015 PBB KShs'000
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

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

	2016 Total KShs'000	2015 Total KShs'000	2016 CIB KShs'000	2015 CIB KShs'000	2016 PBB KShs'000	2015 PBB KShs'000
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

Statement of profit or loss

	2016 Total KShs'000	2015 Total KShs'000	2016 South Sudan KShs'000	2015 South Sudan KShs'000	2016 Kenya KShs'000	2015 Kenya KShs'000
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
Total income	16,765,546	16,036,970	1,384,912	1,168,711	15,380,634	14,868,259
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

4. Operating Segments (continued)

Results by geographical area (continued)

Statement of financial position

	2016 Total KShs'000	2015 Total KShs'000	2016 South Sudan KShs'000	2015 South Sudan KShs'000	2016 Kenya KShs'000	2015 Kenya KShs'000
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	342,425	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

	2016 Kshs 000	2015 Kshs 000
Assets		
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.

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.

5. Financial risk management (continued)

Group risk management framework and governance structures (continued)

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.

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.

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.

Notes (continued)

5. Financial risk management (continued)

a) Capital management (continued)

Capital management - Group (continued)

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.

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%

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.

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

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

General approach to managing credit risk (continued)

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

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.

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

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.

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)

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.

i) 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.

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:

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

v) Collateral (continued)

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.

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 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%	Collateral coverage - Total: Greater than 50% to 100%	Collateral coverage - Total: 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							

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							

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.

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

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

(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).

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.

5. Financial risk management (continued)

b) Credit risk (continued)

(vii) Impairment and provisioning policy (continued)

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	Total loans and advances to customers KShs'000 2016	Balance sheet impairments for performing loans KShs'000 2016	Performing loans				Non-performing loans										
			Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans										
							NPL NET OF IIS										
			Normal monitoring KShs'000 2016	Close monitoring KShs'000 2016	Early arrears KShs'000 2016	Non-performing KShs'000 2016	Sub-standard KShs'000 2016	Doubtful KShs'000 2016	Loss KShs'000 2016	Total KShs'000 2016	Securities and expected recoveries on specifically impaired loans KShs'000 2016	Net after securities and expected recoveries on specifically impaired loans KShs'000 2016	Balance sheet impairments for non-performing specifically impaired loans KShs'000 2016	Gross specific impairment coverage %	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%	783,115
- 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%	783,115
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																

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		Not specifically impaired		Specifically impaired loans								Total non-performing loans	Non-performing loans	Interest in Suspense LCY'000
							Non-performing loans										
			Normal monitoring	Close monitoring	Early arrears	Non-performing	Sub-standard	Doubtful	Loss	Total	Securities and expected recoveries on specifically impaired loans	Net after securities and expected recoveries on specifically impaired loans	Balance sheet impairments for non-performing specifically impaired loans	Gross Specific Impairment Coverage			
	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 (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		
	1 to 29 days	30 to 59 days	60 to 89 days	90 to 180 days	More than 180 days	Total
31 December 2016	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	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

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.

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 Standardised Approach for calculating market risk capital. The standardised method uses a "building block" approach, with the capital charge for each risk category calculated separately.

Market risk Qualifying Assets includes interest rate risk assets in the trading book and foreign currency 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.

Notes (continued)

5. Financial risk management (continued)

c) Market risk (continued)

Market risk teams are responsible for identifying, measuring, managing, monitoring and reporting market risk as outlined in the market risk governance standard.

Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk functions to move exposures back in line with approved market risk appetite, with such breaches being reported to management and ALCO.

(a) VaR and SVaR

The Group uses the historical VaR and SVaR approach to quantify market risk under normal conditions and under stressed conditions. For risk management purposes VaR is based on 250 days of unweighted recent historical data, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in four steps:

- Calculate 250 daily market price movements based on 250 days' historical data.
- Calculate hypothetical daily profit or loss for each day using these daily market price movements.
- Aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days.
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

SVaR uses a similar methodology to VaR, but is based on a period of financial stress and assumes a 10-day holding period and a 99% confidence interval.

Where the 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.

(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.

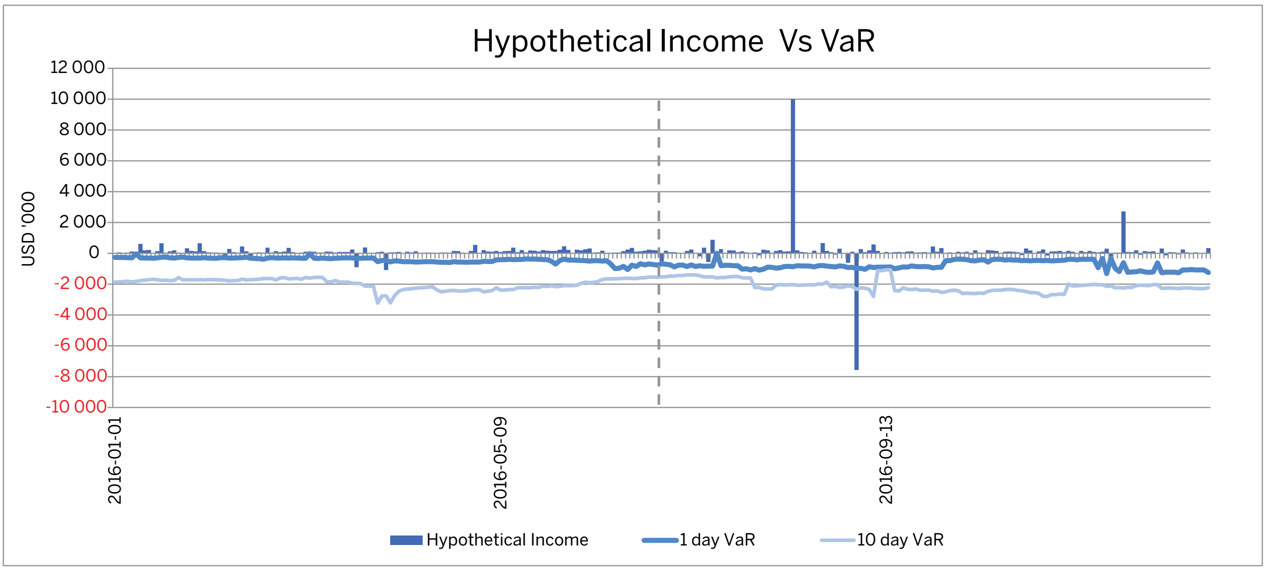
Refer to the graph below for the results of the bank's back-testing during 2016. The increased volatility in the normal VaR towards the end of the year reflects market volatility following USD appreciation on the back of Fed rate hike and the US elections.

We categorise a VaR model as green, amber or red and assign regulatory capital multipliers based on this categorisation. 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).

5. Financial risk management (continued)

c) Market risk (continued)

(d) Back-testing (continued)



(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.

(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

Desk Name	LCY*	EUR	GBP	USD	ZAR	Other FCY**	Total FCY	31 December 2016	31 December 2015
Amounts in thousands									
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)

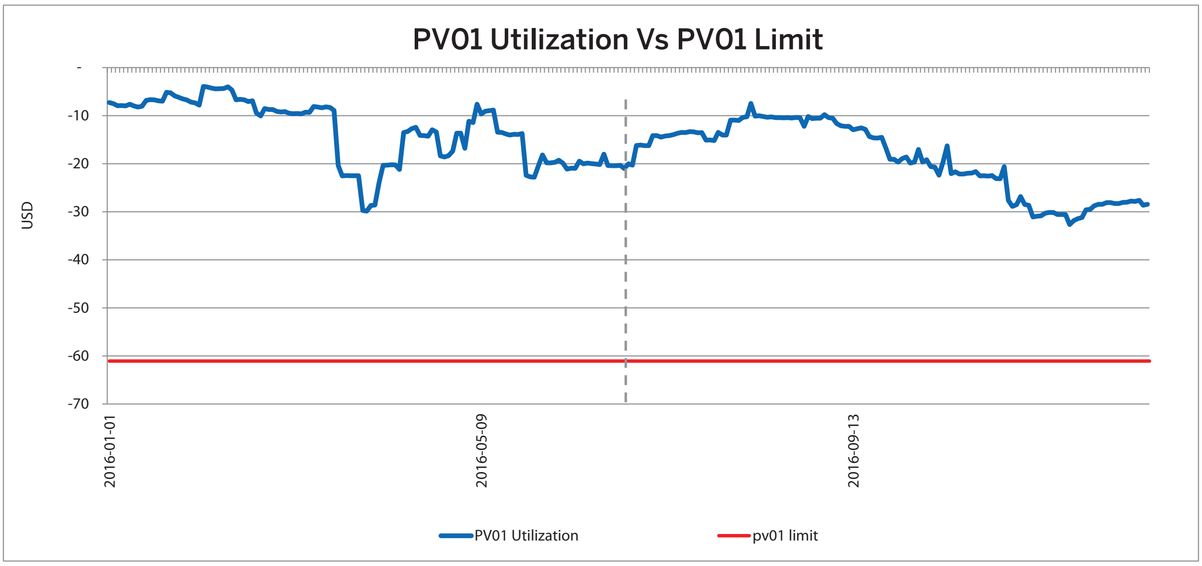
***LCY** – Local currency

****FCY** – Foreign currency

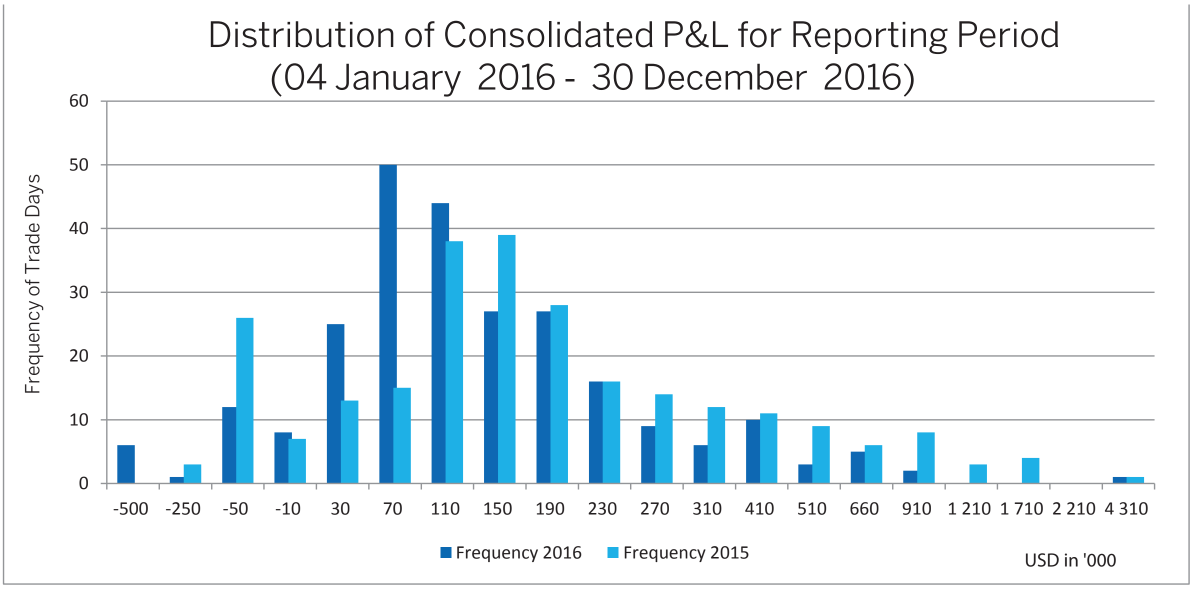
5. Financial risk management (continued)

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)

c) Market risk (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.

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)	(1,954)	(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

5. Financial risk management (continued)

c) Market risk (continued)

(f) Foreign exchange risk (continued)

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

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	2016 Increase in currency rate in %	2016 Effect on profit before tax KShs'000	2016 Effect on equity KShs'000	2016 Decrease in currency rate in %	2016 Effect on profit before tax KShs'000	2016 Effect on equity KShs'000
Currency						
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	2015 Increase in currency rate in %	2015 Effect on profit before tax KShs'000	2015 Effect on equity KShs'000	2015 Decrease in currency rate in %	2015 Effect on profit before tax KShs'000	2015 Effect on equity KShs'000
Currency						
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.

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

5. Financial risk management (continued)

d) Interest rate risk (continued)

Hedging of endowment risk (continued)

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

Currency	2015 Increase in basis points KShs'000	2015 Sensitivity of net interest income KShs'000	2015 Sensitivity of other comprehensive income KShs'000	2015 Decrease in basis points KShs'000	2015 Sensitivity of net interest income KShs'000	2015 Sensitivity of other comprehensive income 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

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 liabilitiesw	**-**	**(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.

Notes (continued)

5. Financial risk management (continued)

e) Liquidity risk (continued)

Liquidity risk management - Group (continued)

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.
- **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.

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.

5. Financial risk management (continued)

e) Liquidity risk (continued)

Approach to managing liquidity risk (continued)

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)

e) Liquidity risk (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	Gross nominal inflow/ (outflow)	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing After 5 years
	2016	2016	2016	2016	2016	2016	2016	2016
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Non- derivative financial assets								
Cash and balances to banks	8,621,228	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

5. Financial risk management (continued)

e) Liquidity risk (continued)

Liquidity risk management - Group (continued)

Maturity analysis for financial assets and financial liabilities (continued)

	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

	2016 Gross amount of recognised financial assets KShs'000	2016 Gross amounts of recognised financial liabilities offset in statement of financial position KShs'000	2016 Net amounts of financial assets presented in the statement of financial position KShs'000	2016 Financial instruments, financial collateral and cash collateral received KShs'000	2016 Net amount 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 KShs'000	Gross amounts of recognised financial assets offset in statement of financial position KShs'000	Net amounts of financial assets presented in the statement of financial position KShs'000	Financial instruments, financial collateral and cash collateral pledged KShs'000	Net amount 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

5. Financial risk management (continued)

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

	2015 Gross amount of recognised financial assets KShs'000	2015 Gross amounts of recognised financial liabilities offset in statement of financial position KShs'000	2015 Net amounts of financial assets presented in the statement of financial position KShs'000	2015 Financial instruments, financial collateral and cash collateral received KShs'000	2015 Net amount 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 KShs'000	Gross amounts of recognised financial assets offset in statement of financial position KShs'000	Net amounts of financial assets presented in the statement of financial position KShs'000	Financial instruments, financial collateral and cash collateral pledged KShs'000	Net amount 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

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 andDerivatives 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 KShs'000	2015 KShs'000	2016 KShs'000	2015 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 KShs'000	2015 KShs'000	2016 KShs'000	2015 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.

9. Fees and commission expense

	Group 2016 KShs'000	Group 2015 KShs'000	Company 2016 KShs'000	Company 2015 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 2016 KShs'000	Group 2015 KShs'000	Company 2016 KShs'000	Company 2015 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 KShs'000	2015 KShs'000	2016 KShs'000	2015 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 KShs'000	2015 KShs'000	2016 KShs'000	2015 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	-	-

15. Finance costs

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 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

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:

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 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 KShs'000	2015 KShs'000	**2016 KShs'000**	2015 KShs'000
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

	Group and Company	
	2016	2015
Dividend		
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.

19. Cash and balances with Central Bank of Kenya

	Group		Company	
	2016 KShs'000	2015 KShs'000	**2016 KShs'000**	2015 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 KShs'000	2015 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 KShs'000	2015 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 KShs'000	2015 KShs'000
Classification		
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 80. 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 KShs'000	2015 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 KShs'000	2015 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

22. Financial liabilities at fair value through profit or loss

	Group	
	2016 KShs'000	2015 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

Notes (continued)

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 KShs'000	2015 KShs'000	**2016 KShs'000**	2015 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

(b) Loans and advances to customers

	Group	
	2016 KShs'000	2015 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.

23. Loans and advances (continued)

(c) Allowances for Impairment

Year ended 31 December 2016	Non-performing loans KShs'000	Portfolio impairment KShs'000	Group Total 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 KShs'000	Portfolio impairment KShs'000	Group Total 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%

23. Loans and advances (continued)

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

	2016 KShs'000	2016 %	2015 KShs'000	2015 %
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 KShs'000	2015 KShs'000	**2016 KShs'000**	2015 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.

26. Property and equipment

(a) Group

Year ended 31 December 2016 Cost	Land and premises KShs'000	Equipment furniture & fittings KShs'000	Motor vehicles KShs'000	Work in progress KShs'000	Total 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	-	(16,005)	(32,789)	-	(48,794)
Impairment	-	(190,058)	-	-	(190,058)
Work in progress transfers		83,441	-	(83,441)	-
WIP transfer from intangible assets	-	10,689	-	-	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 Cost	Land and premises KShs'000	Equipment furniture & fittings KShs'000	Motor vehicles KShs'000	Work in progress KShs'000	Total 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 capitalisation 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.

27. Prepaid operating lease

	Group 2016 KShs'000	2015 KShs'000
Cost		
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 Cost	Work in progress KShs'000	Software KShs'000	Other intangible assets KShs'000	Total KShs'000
At 1 January 2016	48,972	1,952,988	1,099,059	3,101,019
Additions	103,602	454,868	-	558,470
Work in progress transfers	(24,115)	24,115	-	-
WIP transfers to property and equipment	(10,689)	-	-	(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)

Year ended 31 December 2015 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	**Work in progress KShs'000**	**Software KShs'000**
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 KShs'000	2015 KShs'000	**2016 KShs'000**	2015 KShs'000
At 1 January and 31 December	**9,349,759**	**9,349,759**	**-**	**-**

Goodwill relating to Stanbic Holdings Plc was tested for impairment on 31 December 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.

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.

29. Intangible assets – goodwill (continued)

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

(b) Issued share capital

	2016		2015	
	Number of Shares (thousands)	**Share Capital KShs'000**	Number of Shares (thousands)	Share Capital KShs'000
Balance as at 1 January and 31 December	**395,322**	**1,976,608**	395,322	1,976,608
Unissued shares	**78,362**	**391,813**	78,362	391,813

(c) Ordinary share premium

	2016	2015
	KShs'000	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.

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.

34. Other liabilities and accrued expenses

(a) Other liabilities and accrued expenses

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 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 KShs'000	2015 KShs'000	**2016 KShs'000**	2015 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 KShs'000	2015 KShs'000	**2016 KShs'000**	2015 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 KShs'000	2015 KShs'000	**2016 KShs'000**	2015 KShs'000
At start of year	**361,322**	1,435,226	**(2)**	-
Credit/ (charge) to statement of profit or loss (Note 16)	**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)**

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	(3,210)	-	-	(3,745)	(6,955)
Net deferred asset	361,322	1,009,808	39,978	(3,745)	1,407,363

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	Translation movements 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)	-	(346,052)
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)	-	550	(3,210)
Net deferred asset	1,435,226	(1,003,735)	(70,719)	550	361,322

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 KShs'000	2015 KShs'000	2016 KShs'000	2015 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 KShs'000	2015 KShs'000	2016 KShs'000	2015 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.

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.

(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.

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

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 KShs'000	2015 KShs'000	2016 KShs'000	2015 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 KShs'000	2015 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%).

38. Related party transactions (continued)

(c) Company

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

(d) Deposits due to group companies non-bank

	2016	2015
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 38 (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

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		2015	
	KShs'000	**%**	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 amount provided for in other liabilities are KShs 32,500,000 (2015: KShs 32,500,000).

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)
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			

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

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

Group Shareholding

Top 10 Global Investors as at Saturday 31 December 2016

Names	Shares	Percentage
Stanbic Africa Holdings Ltd	163,715,735	41.41%
Stanbic Nominees Ltd A/C NR00901	73,477,246	18.59%
Standard Chartered Nominees Non-Resd A/C 9866	31,884,599	8.07%
Standard Chartered Nominees Non-Resd A/C 9867	15,879,972	4.02%
Standard Chartered Kenya Nominees A/C KE002012	11,724,100	2.97%
Standard Chartered Kenya Nominees A/C KE201510	6,482,745	1.64%
Archer & Wilcock Nominees Limited	6,125,000	1.55%
Standard Chartered Nominees Non-Resd A/C KE9053	4,527,233	1.15%
The Permanent Secretary to Treasury of Kenya	4,342,548	1.10%
Standard Chartered Kenya Nominees Account KE17661	3,446,454	0.87%
Grand Total	**321,605,632**	**81.35%**

Shares Distribution Statistics as at Saturday 31 December 2016

	Range	Records	Range Total	Percentage
1	1 to 500	1,838	344,724	0.09 %
2	501 to 1000	586	486,312	0.12 %
3	1001 to 5000	970	2,349,425	0.59 %
4	5001 to 10000	443	3,276,659	0.83 %
5	10001 to 50000	371	8,105,564	2.05 %
6	50001 to 100000	83	5,885,216	1.49 %
7	100001 to 500000	95	21,532,454	5.45 %
8	500001 to 1000000	18	12,342,145	3.12 %
9	1000001 to 2000000000	20	340,999,139	86.26 %
	Grand Totals:	**4,424**	**395,321,638**	**100.00%**

Notice of Annual General Meeting

Notice is hereby given that the Sixty-Second Annual General Meeting of the Members of Stanbic Holdings Plc (the Company) will be held on 5 May 2017, at Louis Leakey Auditorium, National Museums of Kenya, Nairobi, at 11.00 a.m. to transact the following business:

1 The Secretary to read the notice convening the meeting and confirm the presence of a quorum.

2. To receive and consider the Audited Financial Statements for the year ended 31 December 2016, and the Directors' and Auditor's Report thereon.

3. To consider and approve the recommendation by the Board for a final dividend of KShs 3.48 per share for the year ended 31 December 2016. The published book closure date was 20 March 2017, and if a final dividend is approved by the Company's shareholders, the payment of a final dividend will be made on or about 8 May 2017.

4. To elect Directors:

   i) In accordance with Article 110 of the Company's Articles of Association, Ms Ruth T Ngobi retires by rotation and being eligible, offers herself for re-election.

   ii) In accordance with Article 110 of the Company's Articles of Association, Mr Fred O Ojiambo, MBS, SC, retires by rotation and being eligible, offers himself for re-election.

   iii) In accordance with Article 110 of the Company's Articles of Association, Mr Christopher B Newson retires by rotation and being eligible, offers himself for re-election.

5. To pass an ordinary resolution pursuant to Section 681(1) of the Companies Act, 2015, approving the Directors' remuneration report for the year ended 31 December 2016 as provided in the Audited Financial Statements.

6. To pass an ordinary resolution pursuant to Section 721(4)(a) of the Companies Act, 2015, to appoint Messrs PricewaterhouseCoopers as auditors of the Company, taking note that the auditors have indicated their willingness to continue in office.

7. To pass an ordinary resolution pursuant to Section 724(1) of the Companies Act, 2015, authorising the Directors to fix the remuneration of the appointed auditors.

8. To pass an ordinary resolution pursuant to Section 769(1) of the Companies Act, 2015, to appoint the following members of the Board Audit Committee: Mr Christopher B. Newson, Mr Kitili Mbathi and Ms Ruth T Ngobi.

9. Any other business for which due notice has been given.

BY ORDER OF THE BOARD

Lillian Mbindyo
Company Secretary

Date: 23 February, 2017

NOTE:

1. In accordance with section 298(1) and (2) of the Companies Act, 2015 every member entitled to attend and vote at the above meeting and any adjournment thereof is entitled to appoint a proxy with full rights as the member, to attend, to speak and vote on his/her behalf. The Member may appoint more than one proxy for the meeting provided each proxy is appointed to exercise the rights attached to a different share or different shares held by the member. A proxy need not be a Member of the Company. A proxy form can be downloaded from the Company's website, www.stanbicbank.co.ke, or collected from the Registered Office of the Company at Stanbic Centre, Chiromo Road, Westlands, Nairobi.

2. Completed proxy forms should be returned to the Company Secretary by delivery to the Registered Office or by post to P.O. Box 72833-00200 Nairobi, to arrive not later than 48 hours before the meeting.

3. In accordance with Article 165 of the Company's Articles of Association, a copy of the Annual Report may be obtained from the website stated above or from the Company Secretary or at the offices of Image Registrars at Barclays Plaza, Loita Street, Nairobi.

4. Shareholders wishing to receive a proxy form and/or a copy of the Annual Report by e-mail may send a request, quoting their full name and account number, to info@image.co.ke

Proxy form

To The Company Secretary
Stanbic Holdings Plc
P O Box 30550 – 00100
NAIROBI

I/We,____

of ____

being a member of STANBIC HOLDINGS PLC hereby appoint ______________________________

____

of ____

or failing him ____

of ____

as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on Friday, 5 May, 2017, and at any adjournment thereof.

Dated this __________________________ day of _______________________ 2017

Note: The proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof.

www.stanbicbank.co.ke