STANBIC BANK KENYA LIMITED

ANNUAL INTEGRATED REPORT 2020

Stanbic IT CAN BE™

A member of Standard Bank Group

2020 Highlights

Uplifting our clients financially

7 203
Clients received repayment holidays and moratoriums

KShs 665 million
Interest saved by clients in line with lowered interest rate regulations

KShs 40 billion
Restructured loans

KShs 844 million
Loans issued in support of DADAs

Accelerated digital banking – safety and efficiency

KShs 157 million
Waiver of charges on digital channels

KShs 685 million
Digital instant cash advance disbursements

92%
Accounts opened digitally

Building resilience

50
SMEs trained at business survival bootcamps

500
Business-owners trained

681
People trained at financial fitness academies across nine corporates

Safeguarding our clients' future

Over 400
Retrenchment claims fully paid

2020 Highlights

Our people. Our priority.

KShs
7.8 million

Spent on COVID-19 protective gear for staff

60%

Proportion of staff enabled to work remotely

Safeguarding and supporting our communities

192

Ventilator units donated through various partnerships

1 000

Handwashing stations donated across Kenya

KShs
3 million

Spent on education for needy children

Over
3 000

People screened for cancer across 5 counties free of charge

Navigating Our Report

Our strategic value drivers

- CLIENT FOCUS
- EMPLOYEE ENGAGEMENT
- RISK AND CONDUCT
- FINANCIAL OUTCOME
- SEE IMPACT

United Nations Sustainable Development Goals (SDGs)

1. NO POVERTY
2. ZERO HUNGER
3. GOOD HEALTH AND WELL-BEING
4. QUALITY EDUCATION
5. GENDER EQUALITY
6. CLEAN WATER AND SANITATION
7. AFFORDABLE AND CLEAN ENERGY
8. DECENT WORK AND ECONOMIC GROWTH
9. INDUSTRY, INNOVATION AND INFRASTRUCTURE
10. REDUCED INEQUALITIES
11. SUSTAINABLE CITIES AND COMMUNITIES
12. RESPONSIBLE CONSUMPTION AND PRODUCTION
13. CLIMATE ACTION
14. LIFE BELOW WATER
15. LIFE ON LAND
16. PEACE, JUSTICE AND STRONG INSTITUTIONS
17. PARTNERSHIPS FOR THE GOALS

SUSTAINABLE DEVELOPMENT GOALS

Our capital

FINANCIAL CAPITAL	Our reserve of funds
HUMAN CAPITAL	Our people, together with their competencies, abilities, experience and expertise
INTELLECTUAL CAPITAL	Our intellectual property (IP) knowledge, systems, procedures and policies, our purpose and the value of our brand and reputation associated with it
SOCIAL AND RELATIONSHIP CAPITAL	The networks and associations we build with our communities and stakeholders, and the mutual interests that we share
MANUFACTURED CAPITAL	Our buildings, properties, and physical equipment that enable us to operate
NATURAL CAPITAL	The intent, commitment and actions we display to sustain the environment in which we work to grow our business and support our customers

Contents

Our stakeholders

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

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

OUR CLIENTS

- Retail
- Corporate
- High net worth individuals

Client experience through impeccable service is central to our strategic value driver of client centricity in the delivery of an integrated financial service organisation

EMPLOYEES AND THEIR REPRESENTATIVES

- Long-term employees
- Short-term employees
- Banking, insurance and finance union

Our people are the key drivers of our business strategy and the foundation on which delivery of value through our products and services is built

REGULATORS AND GOVERNMENTS

- National Treasury
- Central Bank of Kenya
- Bank of South Sudan
- Capital Markets Authority (CMA)
- Securities Exchange
- Bankers Associations
- Insurance Regulatory Authority

The bodies that represent the formal legal and controlled framework within which we operate, and with which we comply, as well as other organisations impacted by our operations

SHAREHOLDERS AND INVESTMENT ANALYSTS

- Investors
- Shareholders
- Analysts

Those people and organisations for whom we create value and those people and organisations who assess our achievements

COMMUNITIES AND CIVIL SOCIETY

- Beneficiaries
- Corporate Social Investment
- Suppliers/Partners
- Media
- Advocacy groups
- Public
- Government

The broader context within which we operate, including our natural environment, and to whose sustainability and growth we are committed

About Our Report

Our reporting scope and boundary

Our integrated report is the primary report of Stanbic Bank, which together with its subsidiaries is known as the Bank. Unless otherwise stated, it covers the financial year from 1 January 2020 to 31 December 2020. The aim of this report is to inform our stakeholders of both our financial and non-financial performance during the year. It reflects our commitment to our clients, people, shareholders and communities, and describes our strategies and the way we implement them in order to create value for all our stakeholders.

It also includes a description of the ways in which we have structured our strategy to address the challenges, risks and opportunities that Stanbic faced in what was an eventful and demanding year. In demonstrating the integrated thinking that we apply to our business activities, this report also demonstrates our commitment to the principles of integrated reporting as they align with long-term value creation and the role we play as a financial services organisation in society, in striving to live our purpose of moving Kenya forward.

This report outlines the material matters relating to our strategy, value-creation model, operating context, performance, governance, and the material risks that we have identified in line with best practice.

Our reporting frameworks

Our 2020 Annual Integrated Report was prepared with regard to the aspirations and ideals set out in the principles of the King IV Code on Corporate Governance (King IV). All financial information presented, including the comparative periods, is in accordance with the International Financial Reporting Standards (IFRS) applicable to our operations and businesses. The non-financial sections of this report are guided by the International Integrated Reporting Council's (IIRC) International Integrated Reporting <IR> Framework.

Materiality

We consider a material theme to be any matter that has the capacity to affect our shared value creation from the standpoint of the "Bank" and its main stakeholders. Determining material themes is central in guiding decision-

making, since it provides a broader vision of the risks and opportunities inherent to the business and connects our strategies to various outside interests. As part of our engagement with stakeholders, we have identified the environmental, social and governance issues presenting significant risk and opportunity to our business, and our ability to create value.

Forward-looking statements

This report contains certain forward-looking statements in respect of our strategy, performance and operations and most particularly with regard to the advent, challenges and ramifications of the COVID-19 pandemic and the various governmental regulations pertaining to it. These forward-looking statements involve risk and uncertainty as they relate to future events and circumstances which are difficult to predict. They are thus by definition beyond the Bank's control, and could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Directors' statement of responsibility

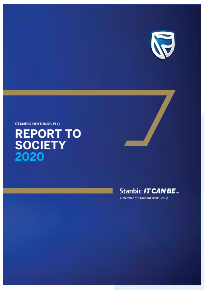
The Board of Directors (the Board), supported by the Board Audit Committee (BAC), acknowledges its responsibility for overseeing and ensuring the integrity of this integrated report. The Board has applied its collective mind to the report's presentation and preparation, which it believes to have been prepared in accordance with the IIRC's <IR> Framework.

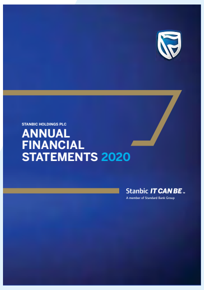
The Board further believes that the report fairly represents the Bank's material matters and that it offers a balanced view of our strategy and value-creation model.

How to Read Our Report

We produce a full suite of reports to cater for the diverse needs of our stakeholders. Our intended readers are primarily our **providers of financial capital, being our shareholders, depositors and corporate bondholders,** but information relevant to all our other stakeholders is also included.

OUR REPORTS

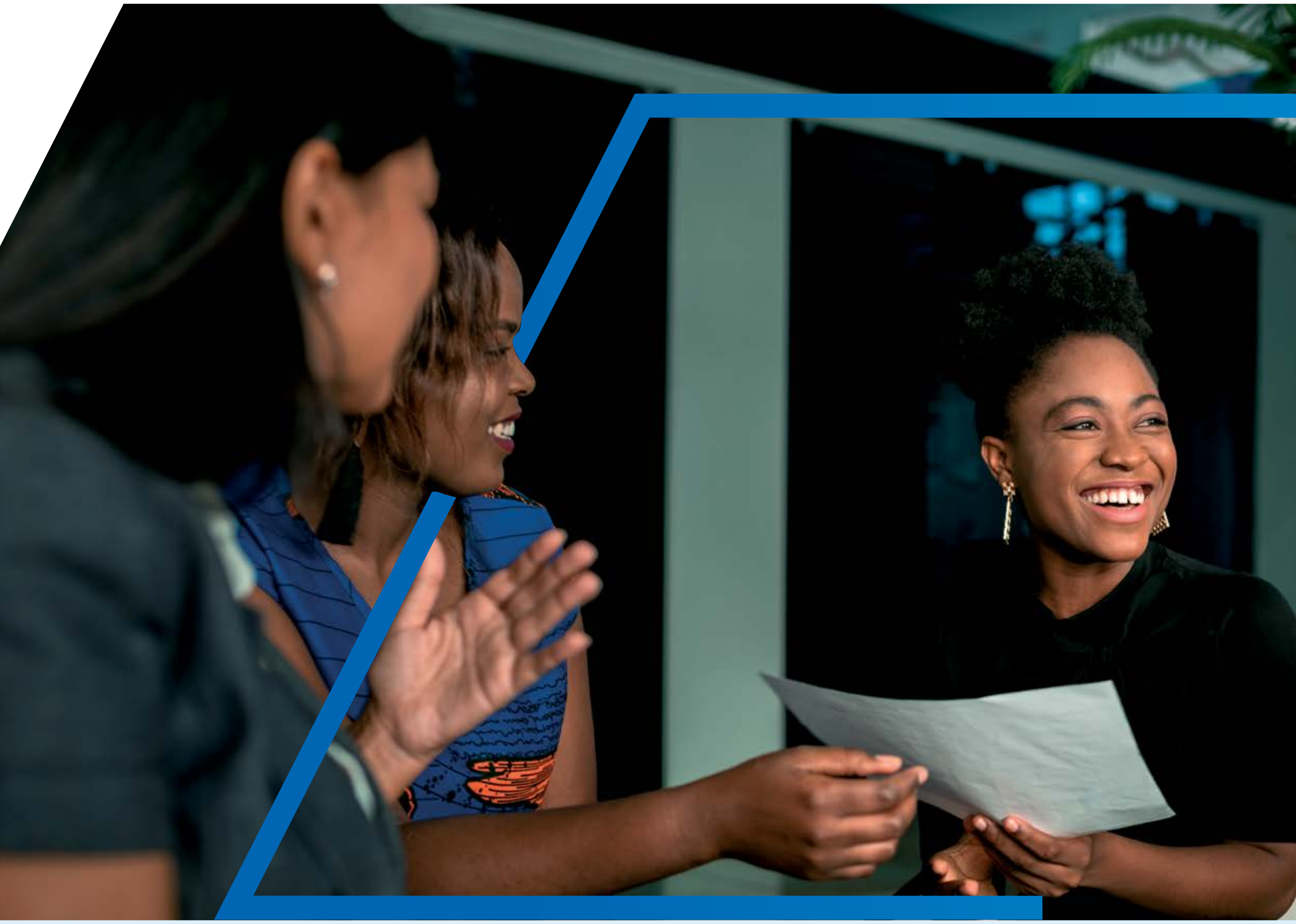




**Definitions:*

1. *IFRS – International Financial Reporting Standards*
2. *Companies Act – Kenya Companies (Amendment) Act of 2017*
3. *CBK Risk Management Guidelines - CBK Risk Management Guidelines of 2013*
4. *Banking Act – Banking (Amendment) Act of 2016*
5. *CBK Prudential Guidelines – Central Bank of Kenya Prudential Guidelines of 2013*
6. *CMA Guidelines - Capital Markets Authority Guidelines*
7. *King Code – King Report on Corporate Governance, also known as King IV*
8. *The Bank – Stanbic Bank Kenya Limited*
9. *IRA Guidelines - Insurance Regulatory Authority Guidelines*

HOW TO READ THIS REPORT	FRAMEWORKS APPLIED*
This section provides information on who we are, our values, our purpose and our vision statement. It also details the financial highlights for 2020.	• King IV • <IR> Framework of the International Integrated Reporting Council (IIRC)
This section provides information on our value-creation model, our strategy, details on how we use our resources and distribute value to our stakeholders and our leadership team. It provides a holistic assessment of the Bank's ability to create value. It considers the issues that are material to our commercial viability and social relevance, which are required to achieve our strategy in the medium to long term. These include the macroeconomic and socio-political conditions in which we operate.	• King Code IV • IIRC
This section contains messages from the Chairman and Chief Executives as well as the Business unit heads. It also details the execution of the various facets of our strategy.	• IFRS • Companies Act • Banking Act • CBK Prudential Guidelines • King IV • Equator Principles • CMA Guidelines • Insurance Act • IRA Guidelines
This section details the Bank's social, economic and environmental impacts and how these contribute to the Bank's sustainability and its ability to achieve its purpose.	• Equator Principles • King IV
This section provides a detailed review of the Bank's risk management statement and corporate governance and remuneration practices, including the Bank's remuneration policy.	• Basel II & III • Companies Act • Banking Act • CBK Prudential Guidelines • King IV
This section sets out the Bank's full audited annual financial statements.	• IFRS • Companies Act • CBK Risk Management Guidelines • Banking Act • CBK Prudential Guidelines • The Bank accounting policies **Assurance** • Unmodified audit opinion expressed by PricewaterhouseCoopers LLP
This section includes other documents such as the Annual General Meeting (AGM) Notice and the Proxy Form as well as an appendix on our progress in the implementation of the CMA Guidelines on Corporate Governance.	• Companies Act • CMA Guidelines



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

Our Business

Who we are

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

OUR PURPOSE

The reason we exist:
Kenya/South Sudan is our home, we drive her growth.

OUR VISION

What we aspire to be:
To be a **leading financial services organisation** in Kenya and South Sudan, delivering exceptional client experiences and superior value.

STANBIC AT A GLANCE

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

Our footprint

Diversified integrated financial services offering

Personal and business banking

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

Corporate and investment banking

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

Wealth

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

Fit-for-purpose infrastructure

BRANCHES

26

2019: 25

Fit-for purpose channel

ATMs

55

2019: 51

Fit-for-purpose channel

BULK NOTE ACCEPTORS

55

2019: 45

Valued people

AGENT OUTLETS

148

2019: 86

Digital capabilities

MODERNISED BANKING PLATFORMS

Recognised brand

STANDARD BANK

STANBIC BANK

SBG SECURITIES

Our Values

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

2 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.

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

4 Being proactive
We strive to stay ahead by anticipating rather than reacting, and our actions are always carefully considered.

5 Working in teams
We and all aspects of our work are independent. 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.

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

7 Upholding the highest levels of integrity
Our entire business model is based on trust and integrity as perceived by our stakeholders, especially our clients.

Our values-driven culture
Our culture is determined by our purpose, vision, values and our approach to ethics. It is the way we do things, and we believe that the way we do things is as important as the things we do.

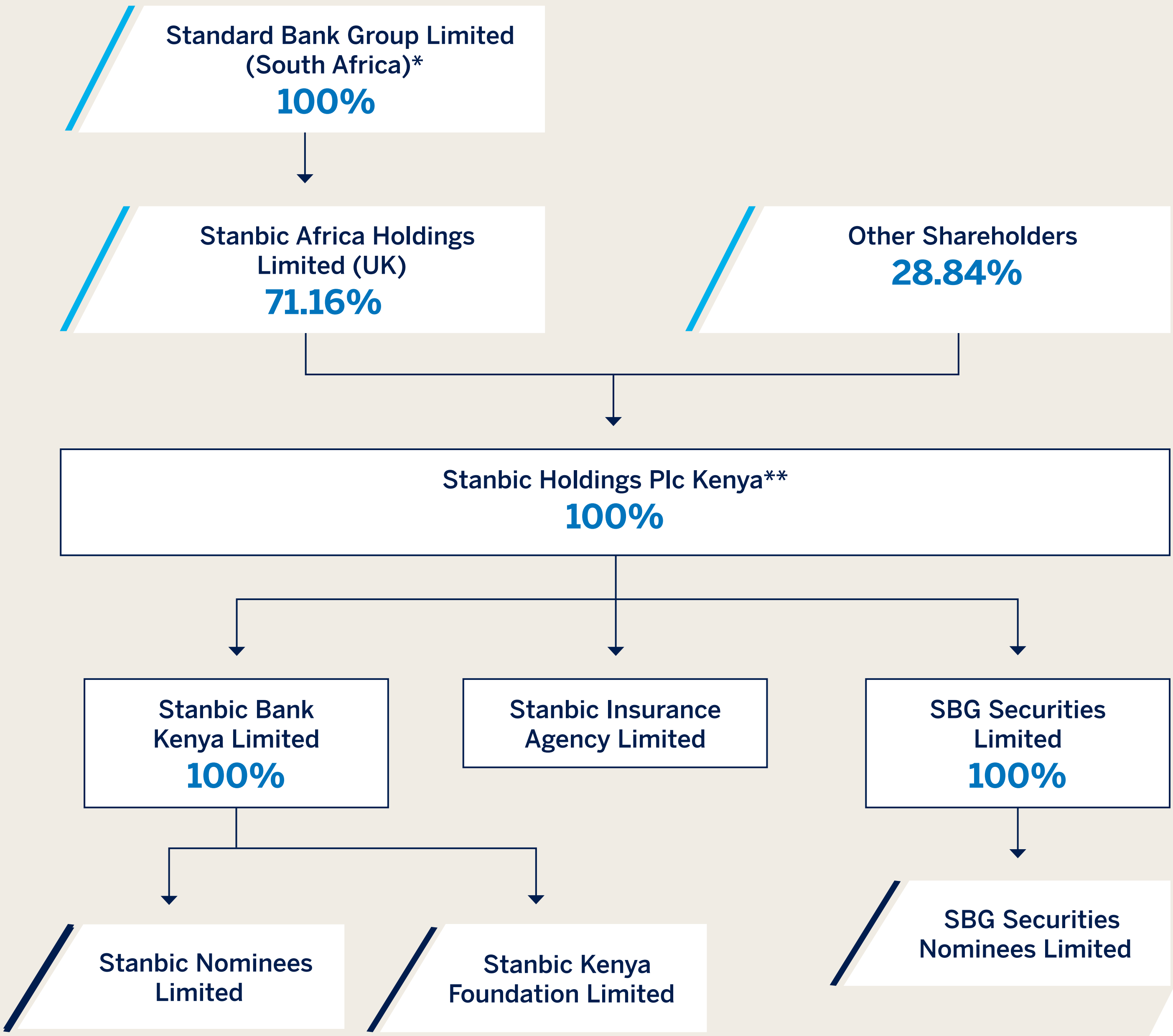
Our Code of Ethics guides us in being responsible and respectful in our dealings with all our stakeholders, as we work to become East Africa's leading financial services organisation. It outlines acceptable business conduct and is an important reference point for employees acting on behalf of the Bank.

These clearly defined parameters empower us to make faster, more confident decisions that have the interests of our clients, and the people of the region, at heart. We are committed to focusing on the following critical principles (5Cs) and modes of behaviour (iDEWS) that is shifting our culture and make the most difference in supporting our strategic journey:

Five critical principles (5Cs)
- **Care** for colleagues
- Always putting the **client** first
- **Collaboration**
- **Continuous** innovation and entrepreneurship
- **Courage**

Modes of behaviour (iDEWS)
- **I**nnovate
- **D**ecide
- **E**xecute with speed
- **W**ork in teams
- **S**hare

Our Business Structure



* Listed on the Johannesburg Stock Exchange.
** Listed on the Nairobi Securities Exchange.

Our Business Units

Bank

PERSONAL AND BUSINESS BANKING

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

KShs 8 958 million
Total revenue
2019: KShs 9 181 million

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

CORPORATE AND INVESTMENT BANKING

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

KShs 13 798 million
Total revenue
2019: KShs 14 897 million

What we offer
- Global markets
- Investment banking
- Transactional products and services

2020 Financial Highlights

16% ▼
KShs 5 224 million
Profit after tax
2019: KShs 6 222 million

5% ▼
KShs 22 750 million
Total revenue
2019: KShs 24 021 million

24% ▼
13%
Return on equity
2019: 17%

8% ▼
51.2%
Cost to income
2019: 55.8%

46% ▼
8.21
Dividend per share
2019: 15.24

4% ▲
KShs 158 181 million
Customer loans
2019: KShs 152 817 million

12% ▲
KShs 217 911 million
Customer deposits
2019: KShs 195 435 million

16% ▼
30.63
Earnings per share
2019: 36.48

Our performance reflects resilience in a challenging operating environment characterised by COVID-19 induced restrictions, subdued interest rates, weakening of the local currency and increased regulations.

Our strategic approach to creating value forms part of our intellectual, human, and social and relationship capital.

Our Approach to Creating Value

Our Strategic Approach

Our strategic approach to **creating value** forms part of our **intellectual, human, and social and relationship capital** and is underpinned by our **governance framework** that promotes strategic decision-making to achieve the **best possible financial and non-financial outcomes** for **our stakeholders.** Fundamental to this is our **emphasis on the centrality of our clients** in everything we do.

Comprising	Relating to	Impacting	Addressing
Our capitals INTELLECTUAL CAPITAL HUMAN CAPITAL SOCIAL AND RELATIONSHIP CAPITAL	**Our strategic value drivers** CLIENT FOCUS EMPLOYEE ENGAGEMENT RISK AND CONDUCT FINANCIAL OUTCOME SEE IMPACT	**Our stakeholders** EMPLOYEES AND THEIR REPRESENTATIVES REGULATORS AND GOVERNMENTS OUR CLIENTS SHAREHOLDERS AND INVESTMENT ANALYSTS COMMUNITIES AND CIVIL SOCIETY	**Our SDGs** 8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 10 REDUCED INEQUALITIES 11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION

Three aspects of our business that support our strategic approach to creating value:

Our people, shareholders and other stakeholders

Stakeholder inclusivity, responsiveness and understanding the outcomes our stakeholders expect, enable us to identify the opportunities and challenges which inform our strategic decision-making.

For more on our stakeholders, see page 15.

Bank strategy

Our Bank strategy maps our commitment to the shared future we intend to create for our clients, our people and our stakeholders, and defines the basis for measuring the value we create. Our strategic value drivers and focus areas align our allocation of resources to our strategy. They define and provide the basis for measuring the value we create.

For more on our strategy, see page 16.

Our risk appetite

Our risk appetite defines the parameters of our strategy. We align our risk appetite to changes in our operating context, instil a risk-aware culture throughout the Bank and continually enhance our risk management capabilities.

For more on our operating environment and risk management, see pages 28 and 86 respectively.

Our Material Issues

Our **stakeholders** are the **providers of the financial and non-financial capital** we need to create value. We strive to **achieve inclusivity and to be responsive** to the needs and requirements expressed by our stakeholders, **delivering the outcomes they expect.** This approach enables us to secure and maintain their inputs, allowing us to **identify opportunities and challenges** which inform our strategic decision-making.

Stakeholder priorities and related enterprise risks	2020 material issues
Stanbic executives: Economic impact of COVID-19; appropriate responses to client needs; ability to transform our business in current economic environment; behavioural and cultural shift required to transform our business. **Clients:** Impact of COVID-19 on finances; increased reliance on digital channels; information and cybersecurity; value for money; personalised solutions and service. **Investors:** Competitiveness in crowded market; speed and efficiency of digitisation journey. **Regulators:** Fair treatment of clients; affordability of and access to services; measures to relieve financial distress arising from COVID-19; efficiency of relief measures and management of client complaints. **Enterprise risk:** Slow pace of implementation.	CLIENT FOCUS **Focusing on our clients** • Deliver client value through competitive digital solutions. • Ensure fair outcomes for clients. • Support clients in navigating the demands and requirements arising from the impact of COVID-19. Read more on page 54 – Client Focus.

Stakeholder priorities and related enterprise risks	2020 material issues
Stanbic executives: Employee safety and wellness; need for more flexible ways of working while retaining organisational identity and productivity. **Employees:** Safety, wellness, resilience; juggling multiple responsibilities while working from home; need for ongoing skills development and gender equity in senior and top management. **Regulators:** Business continuity and safety of employees; reskilling for digital age and gender equity. **Investors:** Sustainability performance in relation to diversity of Board and management; diversity and anti-discrimination policies; access to appropriate skills and talent; availability of specialised knowledge and skills.	EMPLOYEE ENGAGEMENT **Employee engagement** • Deepen diversity and inclusion within the Bank. • Build the skills and workforce for an evolving world. • Support employees in coping with and working within the constraints of COVID-19. • Ensure that employees feel connected to and motivated by our purpose. Read more on page 62 – Employee Engagement.

Stakeholder priorities and related enterprise risks	2020 material issues
Stanbic executives: Cybersecurity; risk of breach at third-party impacting the Bank; information risk in the context of people working remotely. **Clients:** Disruption caused by system outages. **Investors:** Governance; ethics; market conduct; internal controls. **Regulators:** Fraud and cybercrime; third-party risk. **Industry associations:** Cybersecurity; financial crime; regulatory developments impacting cross-border banks; digital finance; sustainable finance; climate risk; evolving human capital governance; stakeholder capitalism. **Enterprise risk:** Ransomware attack, third-party non-performance.	RISK AND CONDUCT **Managing our risk and conduct** • Protect and maintain the integrity of our data and information assets. • Ensure the stability, security and speed of our IT systems. • Manage third-party risk as we accelerate our strategy. • Manage risk across geographies with different regulatory frameworks. • Provide the tools and infrastructure to ensure effective business continuity in the face of emerging risks, particularly those arising from COVID-19. Read more on page 66 – Risk and Conduct.

Our Strategy

Our strategy forms a fundamental part of our intellectual capital and is designed to **realise the opportunities for our business** that Kenya presents.

Our strategy remains unchanged, but we are accelerating its execution

Technology has changed the way we live and work, and financial services are no less affected. The expectations our stakeholders have of us are changing radically and quickly, and we understand that our strategy needs to respond to these expectations.

We are strengthening our digital capabilities and integrating our business to transform client experiences and to drive operational efficiency for a fundamentally different world.

Our purpose

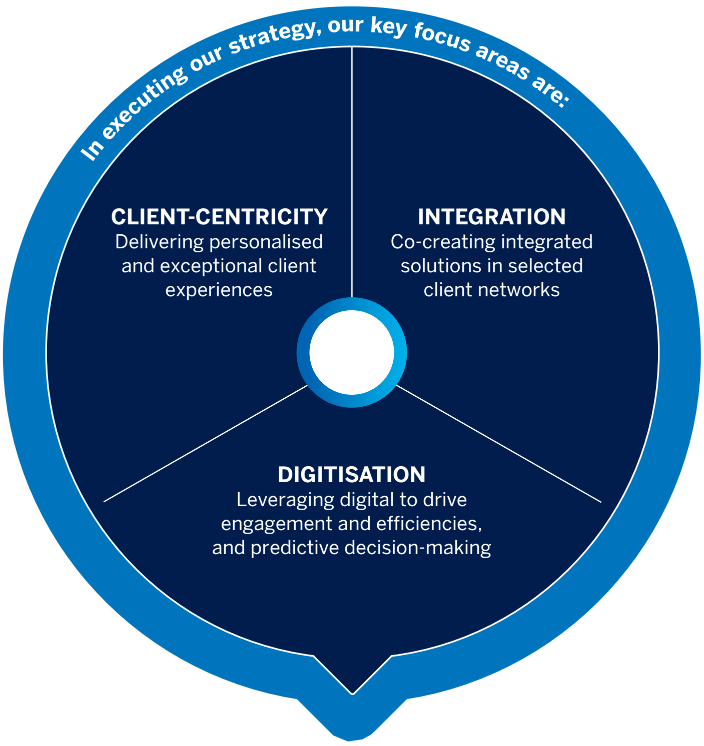
The reason we exist:

Kenya/South Sudan is our home, we drive her growth.

Our vision

What we aspire to be:

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



Our focus areas are under review to align them to our accelerated strategy

OUR STRATEGIC VALUE DRIVERS

Now deeply embedded within the Bank, track our performance in delivering value to all our stakeholders.

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

CLIENT FOCUS: We will provide consistently exceptional client experiences.

EMPLOYEE ENGAGEMENT: We will ensure our people feel deeply connected with our purpose and are empowered and recognised.

RISK AND CONDUCT: We will do the right business, the right way by adhering to our risk appetite metrics.

FINANCIAL OUTCOME: We will deliver superior value to shareholders.

SEE IMPACT: We will drive Kenya's growth by delivering sustainable shared value.

The aspirations and objectives associated with the accelerated execution of our strategy, and the expected timeframes are reflected below.

Horizon 1 > The short term

1 RESPONDING

Evolve our response to the prevailing threats associated with COVID-19

- Implement rapid response strategies that have positive societal impacts

2 RESTORING

Facilitate a return to growth as we emerge from the crisis

- Continue to support our clients and economies to recover from the effects of the pandemic

3 REBOUNDING

Anticipate and adapt to operating conditions and trends with focus and urgency

- Accelerate digital adoption, keeping our clients at the centre of what we do
- Reshape our operations, infrastructure and resources to become more human and more digital

Horizon 3 > The long term

Kenya's leading digital financial services business

FEATURES OF THE FUTURE STANBIC

- We will combine financial products and services and ancillary services into complete solutions for our clients
- We will be closer to our clients than ever before, understanding them in all their complex humanity through rich data and insights
- We will engage and serve our clients digitally
- We will grow and scale the client networks that centre on the complete fulfilment of each client's needs
- We will innovate and collaborate with partners to focus on the needs we can best fulfil
- We will earn higher revenues and margin premiums, underpinned by integrated and predictive risk management and resource allocation that drives value for all our stakeholders
- We will be deliberate in driving the sustainable development aspirations of the countries in which we operate, in those areas most crucial to their people for an inclusive, prosperous and sustainable region

Horizon 2 > The medium term

A truly human, truly digital Bank, providing a comprehensive range of services

TRANSFORM CLIENT EXPERIENCE

/ Aspirations

- Deliver exceptional client experiences
- Meet clients' needs with optimal solutions

/ Objectives

- Reinvent our client value proposition using a data-powered understanding of clients' needs, in order to provide them with personalised and complete solutions
- Scale and grow carefully chosen client networks by integrating our value proposition with those of our partners
- Serve clients by providing a wider range of services and solutions to meet their needs
- Equip our people for a new world of work with advanced capabilities, supported by a streamlined organisational structure and reimagined culture

TRANSFORM OPERATIONAL EFFICIENCY

/ Aspirations

- Efficient, stable, robust secure technology processing, mostly in the cloud
- Modular, agile, reusable optimised capabilities and services
- Strong data analysis and data monetisation capabilities

/ Objectives

- Build a simple and accessible data environment supported by fit-for-purpose data governance, providing a consolidated client view to enhance client-centric and value-driven decision-making
- Deliver our medium-term ambitions through new growth vectors, and optimised planning, resource allocation and cost management

IN TRANSFORMING THE BANK, WE WILL BECOME:

TRULY HUMAN

/ Aspirations

- Providing services, solutions and opportunities that our clients and employees need to achieve growth, prosperity and fulfilment

TRULY DIGITAL

/ Objectives

- Providing services, solutions and opportunities that our clients and employees need to achieve growth, prosperity and fulfilment


Our Doctor's
Private Banking
Solution
The prescription for a healthier business
Enjoy personalized business training & advisory services, investment advice, insurance, loans as well as payment & collection services tailored to suit your exact needs.

Our Delivery Model

CLIENT FOCUS

Inputs
- Modern banking platform supporting digitally enabled client solutions and higher operational efficiency
- Strong strategic partnerships
- Dedicated innovation capability

Key constraints
- Macroeconomic and socio-economic hardship impacting our clients' aspirations and growth prospects
- Intensity of investment and change needed to remain relevant
- Maintaining our competitive advantages and remaining stable, secure and reliable
- Increased regulation

EMPLOYEE ENGAGEMENT

Inputs
- Knowledge, capacity and energy of 979 employees
- Supported our people through COVID-19
- Strong executive and leadership teams
- Engaged and proficient employees
- High-performance, ethical culture deeply connected to our purpose
- A leadership identity that defines behaviours we need to shift our culture
- A compelling people promise, aligned to our promise to our clients
- KShs 37.6 million invested in training our people in 2020

Key constraints
- Continuing impact of COVID-19 on the emotional wellbeing of our people and increased online fatigue as people miss the in-person, collaborative work environment
- Availability of the right skills to support the Bank's transformation
- Managing change fatigue and inculcating resilience to support focused and urgent delivery
- Managing the human, socio-economic and reputational impact of skills redundancy and increasing digitisation

RISK AND CONDUCT

Inputs
- Forward-looking, integrated and digital approach to managing non-financial risks, and leveraging digital solutions to be a more responsive partner to business
- Reputable and ethical brand underpinned by values-driven culture and governance framework, including progressive ethics policies
- Well-developed financial risk and capital management framework
- Responsiveness to ongoing measurement of conduct-related indicators
- Strong relationships with regulators and the government
- Sophisticated credit models and scenario planning supporting capital allocation and the potential cost of COVID-19

Key constraints
- Balancing stakeholder expectations and interests in pursuit of higher growth within risk appetite
- Managing risk and compliance in non-traditional services and business models
- Managing conduct risk across a large and complex Bank
- Understanding the risks associated with dependency on third-parties, including monitoring and management of contracts
- Ability to leverage technology and AI to manage non-financial risks effectively

FINANCIAL OUTCOME

Inputs
- Net asset value per share: KShs 130.9 (2019: KShs 124.0)
- Customer deposits: KShs 217.4 billion (2019: KShs 194.2 billion)
- Customer loans: KShs 217.9 million (2019: KShs 195.4 million)

Key constraints
- Managing the investment needed for our strategy versus the necessity to change with urgency
- Scarcity of resources requiring focused and balanced allocation of capital to growth, change and efficiency
- Managing regulatory capital while increasing investment
- Retaining the support of our providers of capital by balancing short-term returns against retention of capital for longer-term growth

SEE IMPACT

Inputs
- Investment in SEE impact areas
- SEE embedded as a commercial strategy in our business
- Working with clients to manage sustainability risk
- Principles for responsible banking

Key constraints
- Implementing measurement and reporting systems to assess and mitigate the financial impact of complex and interconnected sustainability risks
- Mitigating the direct environmental impact of IT and data assets

Our outputs

How we organise ourselves

Implementing our strategy
Our capacity model defines how we execute our strategy

For more on our strategy, see page 16.

Managing our risks and opportunities
We proactively manage risk in relation to our environment

For more on risk management and our operating context, see pages 28 and 86 respectively.

Embedding good governance
Our approach supports the achievement of good governance outcomes

For more on our governance, see page 94.

To achieve our strategy, we are changing our operating model to deliver relevant and complete solutions to our clients:

Banking

Spend, transfer and borrow

Insurance

Protect and safeguard

Investment

Earn and grow

Beyond financial services

Ancillary services provided by the Bank for our partners

Our Delivery Model **continued**

Our business activities
How we make money
What this means for the Bank

INFLOWS

BUSINESS ACTIVITIES	FINANCIAL IMPACT AND ASSOCIATED RISK	
Lend money to our clients	Net interest income Interest income and credit impairments	Interest earned on loans granted to clients less loans not repaid
Source funding from client deposits and other funders	Interest expense	Costs incurred on funds raised from depositors and other funders, used to lend to clients who need finance
Provide transactional banking facilities and knowledge-based services to clients	Net fee and commission revenue	Fee and commission revenue earned for services provided
Provide market access and risk mitigation solutions to businesses	Trading revenue	Fees earned from clients who use our platforms to access and trade foreign exchange, commodity, credit, interest rate and equity instruments
Revenue from other sources linked to core businesses and strategic investments	Other revenue	Revenue earned from other sources
Provide long and short-term insurance, investment products and advisory services on investments	Income from investment management and life insurance activities	Brokerage fees and underwriting profits generated from wealth offerings provided to clients and commission earned on SIAL and investment products held by clients

OUTFLOWS

BUSINESS ACTIVITIES	FINANCIAL IMPACT AND ASSOCIATED RISK	
Invest in our people	Staff costs	Cost of the people we rely on to consistently deliver exceptional client experiences, and the cost of reskilling and upskilling our people to deal with a changing world of work
Invest in our operations	Other operating expenses	Cost of our day-to-day operations, both internal and partnerships in our supply chain
Direct and indirect taxes to governments and regulators	Direct and indirect taxes	Cost of operating in the various jurisdictions in which we do business
Returns to shareholders	Dividends	Payments to shareholders for their investment in the Bank

REINVEST

BUSINESS ACTIVITIES	FINANCIAL IMPACT AND ASSOCIATED RISK	
Reinvested to sustain and grow our business	Retained equity	Capital reinvested to support out strategy and business growth

Associated risks:
Credit risk — Interest rate risk — Insurance risk — Business and reputational risk — Liquidity risk — Market risk — Operational risk, including compliance, environmental and social risk

Shared value outcomes
How we create value
What this means for stakeholders

FINANCIAL VALUE CREATED

Clients
Value of COVID-19 support measures provided temporary relief

7 203
clients received payment holidays and moratoriums

KShs 665 million
Interest saved by clients

KShs 40 billion
Restructured loans

KShs 157 million
waiver of charges on digital channels

KShs 844 million
In support of DADAs

KShs 685 million
Digital instant cash advance disbursements

SOCIO-ECONOMIC VALUE CREATED

Individuals and business clients can borrow money to fulfil their current needs and future ambitions, supporting employment and inclusive economic growth in the markets in which we operate.

Depositors earn a return on the funds they place with the Bank, a safe haven for their money with a stable and reputable institution.

Transactional banking facilitates the movement of money, providing clients with convenient access to their funds. Our knowledge-based services allow our clients to benefit from our experience and track record, and enable us to connect them to global pools of capital.

Market access enables businesses to grow, providing a conduit for investment into Kenya, helping monetise resources and diversify. Risk mitigation products enable financial protection and diversification through risk transfer.

Strategic investments support inclusive economic activity and enable wealth creation, while also contributing to investments that drive Kenya's socio-economic development.

Insurance, investment and advisory services enable clients to build, diversify and protect their wealth and offer protection from loss of income due to illness, retirement or death.

How we create value
What this means for stakeholders

Employees
KShs 5.8 billion
2019: KShs 6.4 billion

Employees derive value from new, more appropriate reward structures, our enabling innovation mindset, and training that equips them with relevant skills for the future world of work within or outside of the Bank.

Suppliers and third parties
KShs 4.6 billion
2019: KShs 5.9 billion

Through our local procurement activities, we sustain businesses and job retention and growth in local economies.

Governments
KShs 1.0 billion
2019: KShs 1.2 billion

Various forms of taxation enable governments to earn revenues in our countries of operation.

Shareholders
KShs 1.4 billion
2019: KShs 2.6 billion

Shareholders earn a return on their investment in the form of dividends and capital appreciation.

Reinvest in the business
KShs 3.8 billion
2019: KShs 3.6 billion

Capital retained to deliver the Bank's strategic transformation and long-term sustainable shared value.

Our Value Added Statement

Our Value Added Statement relates to our strategic value driver of financial outcome, and **depicts the value that has been created by the Bank** through the **effective acquisition, deployment and management** of our financial, human, intellectual, social and relationship, manufactured and natural capitals. It reflects the resultant **distribution of value to our stakeholders**, and this statement outlines our commitment to creating stakeholder value through our **business model and sound business practices.**

Value addition	**2020 KShs 000'**	2019 KShs 000'	2018 KShs 000'	2017 KShs 000'	2016 KShs 000'
Interest income, fees, commission and other income	**30 862 000**	32 274 022	29 065 377	25 053 475	26 656 408
Interest paid to depositors and other costs	**(17 062 318)**	(16 507 196)	(13 898 765)	(12 985 540)	(14 219 712)
Interest paid on borrowings	**(546 695)**	(848 549)	(93 579)	(521 104)	(685 049)
Wealth created	**13 252 987**	14 918 277	15 073 033	11 546 831	11 751 647
Employee benefits	**(5 757 000)**	(6 435 192)	(5 651 978)	(5 569 321)	(5 238 431)
Government – tax	**(1 012 000)**	(1 244 356)	(2 609 146)	(1 073 814)	(1 610 705)
Shareholder's dividends	**(1 400 000)**	(2 600 000)	(2 200 000)	(2 100 000)	(2 100 000)
Retention to support future business growth					
Retained earnings	**(3 824 000)**	(3 622 143)	(3 976 072)	(2 239 136)	(2 325 402)
Depreciation and amortisation	**(1 210 000)**	(1 003 689)	(607 217)	(557 245)	(467 748)
Social capital CSI	**(49 987)**	(12 897)	(28 620)	(7 315)	(9 361)
Distribution of wealth	**(13 252 987)**	(14 918 277)	(15 073 033)	(11 757 527)	(11 751 647)

Our Strategic Outcomes

Our strategic value drivers measure our strategic progress and allow us to focus on the value we aspire to create for all our stakeholders. They inform our allocation of resources and guide our trade-off decisions.

We have made further progress in aligning our governance, planning and reporting processes to our strategic value drivers, and will continue to refine the underlying metrics to ensure that we are measuring what matters most in delivering our strategy.

CLIENT FOCUS

Client focus

We provide consistently exceptional client experiences.

		Actual			
Measure	Metric	2020	2019	2018	Benchmarks and targets
Client experience	PBB NPS	31	35	33	Continually improve
	CIB NPS	8.2	8.1	8.1	Continually improve

For more on client experience see page 54.

EMPLOYEE ENGAGEMENT

Employee engagement

We ensure our people feel deeply connected with our purpose and are empowered and recognised.

		Actual			
Measure	Metric	2020	2019	2018	Benchmarks and targets
Employee engagement	eNPS Kenya	+41	+7	+32	Continually improve
	eNPS South Sudan	+37	+29	+45	Continually improve
Employee retention	Overall turnover	4.9%	16.4%	9.2%	10%
	Voluntary regrettable turnover	1.6%	2.1%	2.3%	<3%
Employee diversity and inclusion	Gender equity Representation of women	47%	48%	48%	50%

For more on our people see page 62.

RISK AND CONDUCT

Risk and conduct

We ensure that we do the right business the right way by adhering to our risk appetite metrics.

		Actual			
Measure	Metric	2020	2019	2018	Benchmarks and targets
Responsible risk-taking	Core capital ratio	16.0%	15.2%	14.6%	Above minimum statutory ratio of 10.5%
	Total capital adequacy ratio	18.1%	18.3%	17.4%	Above minimum statutory ratio of 14.5%
	Liquidity ratio	56.4%	58.4%	57.9%	Above minimum statutory ratio of 20%
	Credit Loss ratio (CLR)	3.0%	1.9%	1.4%	<2.5%
	LCY NSFR – Net Stable Funding Ratio	131%	167%	169%	102.5%
	FCY NSFR – Net Stable Funding Ratio	154%	145%	185%	102.5%
Conduct index	Compliance training completion rate	97%	98.7%	n/a	>98%

For more on risk management see page 66.

Financial outcome

FINANCIAL OUTCOME

We aim to deliver superior value to shareholders.

Measure	Metric	Actual 2020	2019	2018
Shareholder value	Return On Equity	13%	17%	18%
	Dividend per share	KShs 8.21	KShs 15.24	KShs 12.90
	Profit after tax	KShs 5.2bn	KShs 6.2bn	KShs 6.2bn
	Cost-to-income ratio	51.2%	55.8%	49.5%

For more on our financial performance see page 68.

SEE impact

SEE IMPACT

We drive Kenya's growth by delivering sustainable shared value.

Our SEE management approach is guided by our purpose, our core business and the needs of our society. We continue to work on identifying metrics to measure our direct contribution to society.

FINANCIAL INCLUSION / JOB CREATION AND ENTERPRISE GROWTH / INFRASTRUCTURE / TRADE AND INVESTMENT / CLIMATE CHANGE AND SUSTAINABLE FINANCE / EDUCATION / HEALTH

Relevant SDGs

For more on our SEE impact see page 72.

Macro-economic Environment in 2020

The year 2020 was undoubtedly the year of the COVID-19 pandemic, and it impacted on our operating environment through its effect on broad swathes of economic and social life globally, regionally and domestically.

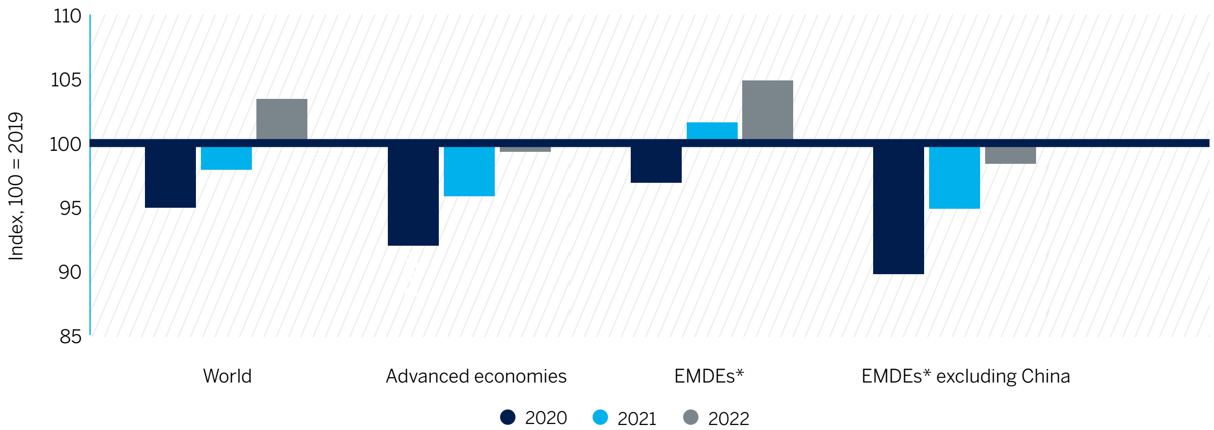
Governments around the world enforced public health restrictions to curb the spread of the disease. However, the public health restrictions, while aimed at protecting lives, resulted in a slowdown in economic activity the likes of which had not been seen since the Second World War.

Global environment

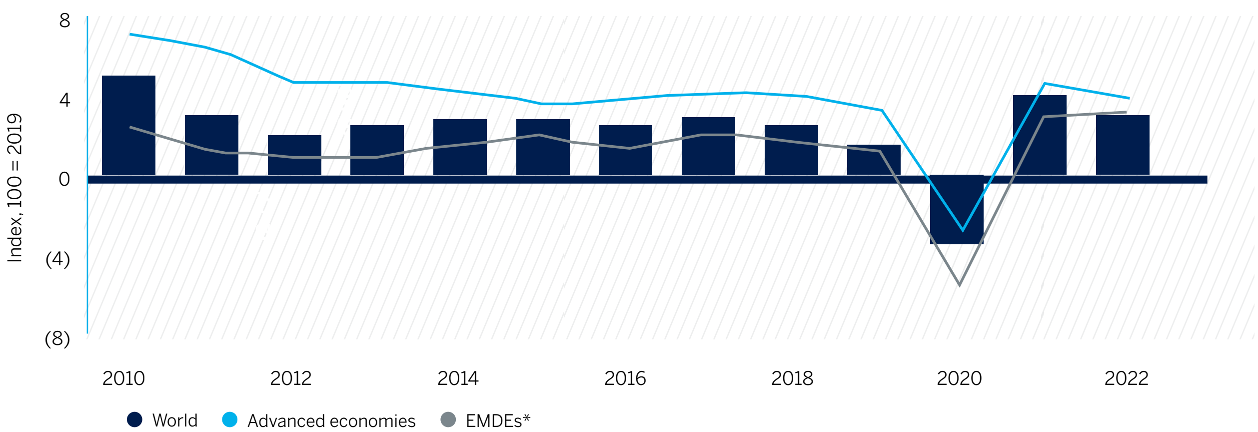
There has been a universal drop in tax collections, and governments everywhere have increased spending around healthcare and on stimulus packages to support their economies. As a result, central banks in Europe and the US have cut rates to historical levels. Investors from those countries with lower funding costs are seeking investment opportunities in emerging markets where yields are more attractive.

Important geopolitical factors during the year were the culmination of Brexit, the ongoing US-China trade wars, and the Democratic Party victory in the US elections in November has set the scene for another stimulus round. Also, towards the end of 2020, vaccines for COVID-19 were developed, a development which points towards a recovery in the world economy in 2021.

Global investment levels 2020 – 2022



Global growth 2010 – 2022



** EMDEs - Emerging markets and developing economies*

Domestic environment

The first case of COVID-19 was detected on 12 March 2020 in Kenya, and by the end of the year the number of COVID-19 cases in the country had reached 100 733 with 1 763 deaths.

Shortly after the first case was recorded, the government imposed public health restrictions with the direct result that Kenya's GDP contracted by 5.5% and 1.1% in Q2:20 and Q3:20 from the 5.2% growth reported in Q1:20, before the pandemic.

Amongst the most negatively impacted sectors were education, hospitality, manufacturing and trade. Agriculture, however, supported by good rainfall during the year, remained resilient.

Also in response to the pandemic, the Central Bank cut its interest rate, lowered the cash reserve ratio, suspended listing of defaulters and waived some transaction charges related to mobile money. Treasury announced a KShs 58 billion stimulus package to support the economy.

Inflation meanwhile remained subdued, averaging 5.4% for the year, due to the good rainfall and lower international oil prices. Our Stanbic PMI indicated that business activity improved significantly as public health restrictions were eased. The Stanbic PMI improved by 10 points in June after the start of curfew was shifted from 7pm to 9pm, to reach an all-time high of 59.1 in October after the start of curfew was shifted to 11pm, with some students returning to school and the lifting of the ban of the sale of alcohol at eateries.

Despite improvements in economic activity, loans issued by the banking sector are still seeing some weakness due to the lag effects of the pandemic. Some important indicators include the following:

- The total amount of restructured loans of KShs 1.63 trillion represents roughly 54.2% of the total banking sector loan book.
- The industry non-performing loans ratio reached 14.1% in December 2020 from 13.6% in October.
- Private sector credit growth reached 8.4% year on year in December, which while an improvement from 2019 still remains below the 20% levels last witnessed in 2015.

The recovery in the banking sector is likely to follow the recovery in the economy in 2021, with:

- GDP growth expected to pick up, underpinned by recovery in agriculture, better business sentiment, a relatively diversified economy, strong remittance inflows and a government-led infrastructure development initiative (the "Big Four" Agenda)
- Recovery in private sector credit growth, management of public debt and expenditure and global oil prices further shaping Kenya's growth in the medium term
- Kenya having the potential to be one of Africa's success stories, with its growing youthful population, a dynamic private sector, skilled workforce, improved infrastructure, and its pivotal role as a regional hub in East Africa

South Sudan

South Sudan, like Kenya, was negatively impacted by the pandemic. At year-end, a total of 3 511 cases and 63 COVID-19 deaths were reported. To help mitigate the impact of the pandemic, authorities allocated USD 8 million for the purchase of medical equipment, the repatriation of South Sudanese students from abroad and the provision of food support to the most vulnerable in the population.

Politically, there was relative peace in the country in 2020, with the few skirmishes remaining localised. Despite this, economic activity slowed and is expected to contract by 3.6% in 2020.

Lower global oil prices resulted in slower economic output, lower government revenues and a worsening in foreign currency liquidity in the country. Due to foreign currency liquidity issues, the indicative SSP rates and parallel market SSP rates diverged quite considerably.

The weaker currency, coupled with border controls instituted in response to the pandemic, resulted in inflation rising to a high of 78% year on year in November 2020, before falling to 58% year on year in December.

In November, South Sudan secured a USD 52.3 million disbursement from the IMF under the Rapid Credit Facility (RCF) which will cover about 19% of the estimated BOP gap and close around 30 % of the estimated fiscal financing gap. While this is likely to be positive for the country in the near term, the government continues to pursue political, economic and institutional reforms that are likely to ensure the long-term sustainability of the recovery.

The year 2020 was unique as it presented once-in-a-lifetime challenges for the financial services industry, our society and our country. The world at large was faced with a pandemic that wrought swift and radical changes upon us.

Delivering Our Strategy

Message From the Chairman

I am proud to say that as an organisation we succeeded in confronting the challenges caused by the pandemic. We were able, given the difficulties of the banking and financial landscape as a result of the pandemic, to return a strong performance.

Initially, as COVID-19 took hold and the lockdown permitted only essential services, there was a necessity to provide channels for people to access their finances and make transactions.

With Kenya's GDP contracting by 5.5% and 1.1% in Q2 and Q3 respectively, from the 5.2% growth reported in Q1 before the advent of the pandemic, it was very heartening to see the effectiveness of our business continuity plans, which allowed the Bank to operate almost seamlessly given the headwinds that we faced.

In South Sudan, the operating environment remained challenging. However, despite the risks involved, we have a robust risk framework that enables us to continue to support our clients in their growth journeys as we grow the business.

Innovation and readiness

Initially, as COVID-19 took hold and the lockdown permitted only essential services, there was a necessity to provide channels for people to access their finances and make transactions. The fact that the Bank was able to do this with most of its employees working from home or at alternative sites remotely was a testament to our readiness and adaptability.

We were able to put in place the IT infrastructure not only to permit this, but to provide capabilities in instances where our people did not have sufficient capacity at their homes. Another important achievement was our success in establishing distinct teams which enabled us to prevent any large-scale infection rate impacting any particular department of the organisation. Our crisis management plans operated in an extraordinarily efficient manner and ensured that our clients were able to operate seamlessly despite the lockdown.

For more on our operating context and IT, see page 28 and 64 respectively.

Our approach

One of the things that the Board undertook strategically in conjunction with management was to be very conservative in our risk outlook and in our provisioning. Our provisions have thus increased as a result of our belief that it was prudent to be cautious in the complex economic environment that prevailed during the year.

The Board

The pandemic also had the potential for disrupting the ability of the Board to function. It was therefore extremely reassuring that the Bank was able to ensure that the Board was digitally enabled, allowing fruitful and productive meetings to be held that could not otherwise have been held in person. All members were provided with the facilities to move to online meetings and communication, and we were able to operate effectively digitally.

Related to this, was our significant achievement in holding a virtual Annual General Meeting (AGM). As is the case in normal AGMs, resolutions were passed, questions were prepared, submitted and answered and the event was held successfully.

For more on IT and digitisation, see page 60.

KITILI MBATHI – BANK CHAIRMAN

Dividend per share
8.21
KShs

Earnings per share
30.63
KShs

Delegations and communications

In order to facilitate timely communication with management, various social media channels were established for the Board. This enabled management to update the Board on the infection rate as the virus affected the organisation, the mitigating measures that were put in place where required, as well as on the corporate social initiatives that were in progress as the Bank strove to provide assistance to communities.

In an important gesture of solidarity, Board members also made a meaningful contribution by foregoing the increased Board fee that resulted from a reduction in the tax on salary allowances, by placing the funds they were due to receive into the pool and with the Bank's contribution, to buy additional hand washing stations for Small and Medium Enterprises (SMEs).

Stakeholders

During the year, as an organisation, we were able to maintain and indeed strengthen our relationships with our various stakeholders. Client-centricity is a central pillar of our strategy, and our ability to provide our clients with instant access to their money enabled us to continue to deliver on this strategic imperative.

Our staff showed a high degree of resilience and skill in their ability and adaptiveness to very different working conditions, while still providing the high level of service. While there were many changes from their perspective, from a client perspective the changes were virtually seamless. The fact that we were able to increase our deposits is a sign of clients' confidence in the Bank. With our increased provision of digital channels, a significantly high percentage of the Bank's interactions were done digitally.

Our clients are of course the foundation on which our business rests, and the digital messages sent out to them fitted well with our strategic intent to migrate as many as we could onto a digital platform.

Throughout the year we were in close contact with the regulator. The Central Bank had indicated that the banking sector would be required to play its part in ensuring that the impact of the pandemic on the economy was moderated as much as possible. In this regard, Stanbic was one of the first banks to offer an interest moratorium on loans to clients.

While interaction with the regulator was undertaken mainly through management, as the Board Chairman, I had occasion to meet with the Governor and Deputy-Governor. This was in order to reinforce the Bank's commitment to support regulatory initiatives to cushion, as far as possible, the impact of the pandemic on the economy.

Message From the Chairman continued

Our clients are of course the foundation on which our business rests, and the digital messages sent out to them fitted well with our strategic intent to migrate as many as we could onto a digital platform. As we had already accomplished much of the work that needed to be done in preparation for this, when the exigencies of the pandemic became apparent we were prepared.

Another group of important stakeholders comprises the communities in which we operate, and to this end, in collaboration with various partners, the Bank donated 192 ventilators and provided personal protective equipment for use by the health services, as well as handwashing stations for SMEs. This proved the depth of our commitment to being a responsible corporate citizen.

For more on stakeholder management, see page 15.

Board committees

Our decision in 2019 to increase the scope of the Board Risk and Technology Committee was operationalised during the year under review with the establishment of the Board Technology and Information Committee. This ensured that sufficient focus was given to Information Technology which is the backbone of our digital strategy while at the same time ensuring that our risk universe continues to be overseen by the newly named Board Risk Committee. In this regard, it was heartening to see the robustness and degree of engagement in the deliberations of the new Board Technology and Information Committee.

Risk

In banking, the management of risk is one of our core competencies. The rapid implementation of digital channels for banking, communication and remote working required an elevated awareness of risk, particularly in the cyber sphere. We were however comfortable that our Board Risk Committee and our newly formed Board Technology and Information Committee provided the necessary risk oversight.

Feedback from management on risk was however more frequent during the year under review than the usual quarterly reports. Management utilised our WhatsApp group or emails to alert the Board to emerging risks and the impacts of macroeconomic shocks to the economy.

For more on risk, see page 86.

Special measures

The interest rate holiday granted by the Bank was a measure that was put in place after consultations between the Banking Association and the Central Bank with the specific intention of helping shield our clients from the negative economic impact of the COVID-19 pandemic. Another

measure which we put in place was the cancellation of fees for transfers between the Bank and mobile wallets. This had a negative impact on our revenues, however, as a responsible, client-centric organisation, we were satisfied that by foregoing the fees we were assisting our clients to cope with the pandemic. We believe that providing ongoing support for people to transact easily, digitally and without added cost pressures was especially important for people making payments during this difficult time.

Looking ahead

The measures that we took in 2019 with our voluntary retirement programme ensured that we were in a better position with regard to our cost base when it came to dealing with the consequences of the pandemic. One important strategic and human outcome in the short term was that we did not have to let go of any employees or reduce their remuneration.

Our strategic focus on our digital delivery channels continues to provide benefits, as most of our transactions moved to the digital realm. Thus, as we look to the future, with green shoots already evident in the economic forecast for growth, we believe that our prudent approach in conserving capital, has prepared us well to achieve our long-term objectives. We believe that with our strategy in place, as the economy picks up, we are well positioned to tap into more opportunities and enhance our digital engagements.

Acknowledgements

The Board could not have functioned as well as it did in these challenging times without the resolute support and commitment of all my fellow Board members. I would like to thank them for their dedication under trying circumstances to ensuring that our high standards of transparent, efficient and diligent governance were maintained.

I also want to thank the management team whose efforts and abilities in ensuring that our new modes of working were implemented effectively without unduly increasing the risk to the Bank. In addition, I would like to thank our clients for their steadfast support as we implemented our processes and technology in transitioning them to more digital and electronic platforms.

Finally, I would like to thank the Bank's employees for their resilience and dedication during this difficult year. It was their willingness and skills that ensured that the Bank was able to conduct its operations smoothly. They were able to adapt to new ways of working, while still maintaining their commitment to being client centric and providing outstanding levels of service. Without their dedication, the seamless provision of our services could not have been realised.

Kitili Mbathi

Kitili Mbathi
Chairman

Message From the Chief Executive, Stanbic Bank

2020 was a challenging year not only for Kenya but the entire world. Our performance reflects the strength of our business, and the determination, discipline and strength of our people.

We emerged from the pandemic strong, well capitalised and continue to maintain healthy liquidity levels.

Climate change

2020 was a difficult year worldwide as businesses and households grappled with the pandemic. In Kenya, the operating environment was also impacted by **floods** and **locust infestations.**

Global health emergency (COVID-19)

However, **COVID-19** was by far the most pervasive of the events we faced. Its influence has not waned since it first broke out, and it speedily created three levels of crisis:

- **Impact on health** – This caused us to implement self-preservation and wealth crisis measures that were aimed at protecting and supporting our staff, our clients and stakeholders.
- **Impact on society** – About 1.7 million people countrywide lost their jobs through retrenchments as companies scaled down their operations.
- **Impact on the economy** – The impact of the pandemic was felt across several sectors with a slowdown in economic activity across the board. Globally, the disruption in supply chains was a critical development. Travel bans and restrictions created a disruption in the free movement of people, which meant that businesses undertaking projects with international input were held up as consultants could not be present as planned.

CHARLES MUDIWA – CE STANBIC BANK KENYA

About
1.7 million
people countrywide lost their jobs

Stanbic together with partners procured
192
ventilators

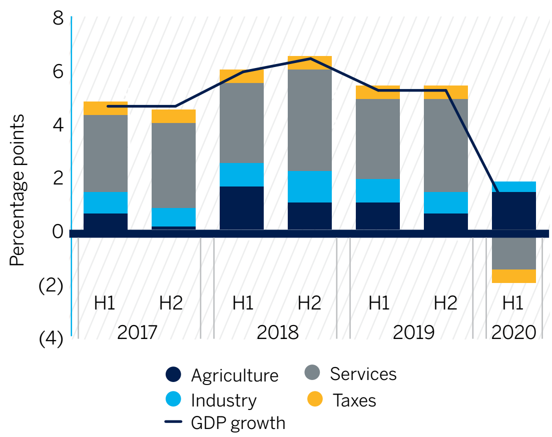
In Kenya certain industries were severely affected – in particular real estate and tourism. The hospitality industry was heavily impacted, with hotel occupancy at 29% at one point; and while flower exports took a significant dip, they did begin picking up in July.

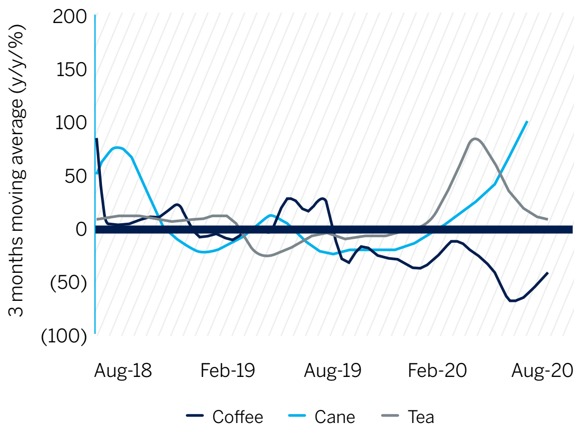
There were some winners, however. Agriculture, although affected by the locust infestation, showed great resilience. Tea production had a good year, and the feared necessity of importing maize did not materialise. Pharmaceuticals, with increased demand, also showed good returns. Both the retail and digital industries saw a good recovery, although because of the fee moratoriums the increased volumes did not reflect in revenue growth.

For more on our operating environment, see page 28.

While all these issues had an impact on our business, it is extremely gratifying to note that we did issue a profit warning for the year – a fact that underlines the resilience of our performance overall.

Contribution to GDP growth





Message From the Chief Executive, Stanbic Bank continued

Our response

Our first response to the pandemic was to ensure the safety and well being of our employees. We provided our people with tools to work from home. For our frontline employees working on our different points of representation, we provided protective gear and special transport. We also held several awareness sessions to sensitise our people on COVID-19 matters. The Bank catered for the cost of treating COVID-19 cases and paid for the quarantine costs where employees were taken on mandatory quarantine.

It was also necessary to define specific response actions for the benefit of our clients, to take account of their welfare and needs, and ensure that we remain close to them. Aside from continuing to meet their banking and financial requirements, we waived fees on digital channels, lowered interest rate in line with regulations, restructured loans, issued moratoriums and repayment holidays. We also undertook training programmes and boot camps for SMEs.

> We continued to drive our digital agenda and chief among our projects was the relaunch of our DaDa women's value proposition.

We enhanced our value proposition and teamed up with the Stanbic Foundation to include a wellness aspect. In addition, the rescheduling of loans became a part of the offering we made to these women-owned businesses.

We also revamped our mobile app, with new functionality, and enhanced our digital platforms, both for internal communication, and for communication with our clients, allowing not only the exchange of information, but the continued uninterrupted provision of services.

For the community and included, in the SEE section of this report, Stanbic together with partners procured 192 ventilators and personal protective equipment to support the country's healthcare system. We also carried out cancer screenings in five counties free of charge.

From a risk perspective, the management of possible infection, cyberthreats and fraud required compiling assessments and establishing mitigants to ensure that the business could continue running. Financial impact was reviewed by examining good and bad costs and streamlining our revenue lines.

Restore

As it became clear that the pandemic was still very much with us, we increased our efforts to help our employees care for their physical, emotional and mental wellbeing. We conducted training sessions and took into account the psychological and physical stress that home-working can induce. We provided counselling and support services and online webinars on personal resilience, remote working and mental wellbeing.

For an organisational standpoint, we considered the best means of supporting our business given the responses we had undertaken and institutionalising the running of the business in a COVID-19 environment. This involved monitoring the functioning and integration of the processes we had put in place; and included monitoring the performance of clients with regard to rescheduling their loans and ensuring that we provide them with continued support and opportunities as they took decisions on resetting their businesses.

Restore, in essence, involved normalising deviation so that clients and employees were able to function and fulfil business imperatives in the normal way.

Rebound

The question in this phase concerned the best means of growth in the prevailing environment. With the locust and flood threat having waned by this stage, two of our trilemma components were no longer present, and there was an opportunity for the economy to rebound – something we began to see in the last quarter. We undertook a scenario-planning exercise for the post-pandemic world appreciating the fact that there were still a lot of uncertainties for the future. We examined ways in which the Bank could be taken into the future given the circumstances imposed during the year.

Our performance

We demonstrated a fair amount of resilience in the balance sheet and within the Bank during the year under review. We achieved a significant improvement in our core balance sheet drivers, such as customer loans and advances and customer liabilities, in all of which areas we saw growth. We also had an improvement in our cost to income ratio. This did not translate into a similar growth in profits, however, where the biggest driver was the provision that we had to carry as we rescheduled loans to support our clients.

For more on our financial performance, see page 68.

Stakeholders

Engagement with our stakeholders continued to be strong during the year under review, with new relationships being generated, and others strengthened. The work we accomplished with Rotary in providing water tanks created a whole new partnership as well as the establishment of a Stanbic Rotary Club to facilitate what was being done on the ground.

The work we did with the Ministry of Health was also a notably new feature of our outreach. Partnership with our corporates – particularly the five with whom we worked together with to provide the ventilators, created a new set of relationships.

Partnerships that we built with our clients as we navigated the pandemic together were also solidified.

Care for and among our employees became a dominant feature of our operations during the year, and this mutual concern was extremely gratifying to see. I am proud to say that our ability to help carry each other through a very difficult time was soundly demonstrated, with our values as an organisation strengthened and underlined.

For more on our stakeholders, see page 15.

Sadly, we lost one member of staff – not to COVID-19 – and our condolences and sympathies go out to those bereaved relatives and friends.

Looking ahead

The critical factor as we look forward into the short to medium term will continue to be the digitisation of our products and services.

The impact of the pandemic will unfortunately also involve the collapse of some businesses, with the result that as business returns to normal, we will need to see which clients require additional focus. Indeed, the very way in which we see our clients, and the ways in which we interact with them, have shifted irrevocably. Attributes and words such as "empathy", "resilience" and "relationships" have taken on a new significance, and we will no longer be able to operate on a transactional basis. Our approach will be far more accented towards relationships.

In the medium to long term, partnerships will be strengthened as we navigate the new landscape together with our clients and suppliers. We will have to nurture each other as we go forward in our economic recovery from COVID-19, notwithstanding that in the short term, the consequences of the pandemic will still very much be felt.

Acknowledgements

I would like to thank the Board for their wise and considered leadership. Their support and guidance is much appreciated and was a major factor in the resilience we displayed during the year. I would like to thank our clients too, for their willingness to take up the new platforms and channels that became so necessary, and for partnering with us in negotiating a path through the pandemic together.

My sincere appreciation goes out to our employees. Every person working in the Bank was called upon during the year to make exceptional efforts in the face of very trying circumstances. The word "safety" took on a whole new range of meanings for us in this period, with implications for physical, mental and emotional wellbeing. Empathy and relationships have become paramount, and I would like to thank all our people for the outstanding commitment and mutual support that was so evident during what was a most difficult time, and that enabled us to come through the challenges with flying colours.

Charles Mudiwa
CE, Stanbic Bank Kenya

Bank Financial Review

Our financial performance represents a significant part of our financial and intellectual capital. It reflects our ability to create value for our shareholders and stakeholders, and to our ability to continue to grow as a future-ready organisation that continue to deliver against its strategy.

The performance of the Bank during the year under review reflects resilience in the midst of a complex and challenging socio-economic environment, in which the Covid-19 pandemic played a central and dominant role.

The year under review saw a reduction in business activity across the country and globally with reduced interest rates, a weakening currency and tighter regulatory restrictions through the year.

Non-interest revenues decreased as a result of the lull in economic activity, which was characterised by a lowered appetite on the part of customers for working capital requirements. This in turn dampened the volume of cash and trade management activities during the year. The government of Kenya's intervention to keep people transacting by waiving mobile-based transaction fees also depressed our non-funded income, particularly in the PBB space. The regulatory environment saw other developments that included:

- New tax measures
- The extension of the maximum tenor of repurchase agreements (REPOs) from 28 to 91 days
- A reduction in the cash reserve ratio (CRR) from 5.25% to 4.25%
- Cuts in the Central Bank rate

We also saw a significant increase in loan loss provisions, which had an impact on our year-on-year performance. Nonetheless, our trading revenue, which comprises foreign exchange earnings, performed well because of increased client flows, and we also benefited from the volatility of the Kenya shilling against major currencies, which resulted in double-digit growth.

We are confident that the fundamentals of our business continue to show good growth – a confidence that is borne out by customer deposits having grown by double digits, and the resilience of our loan book.

The year under review saw benefits deriving from the previous year's voluntary retirement programme, which resulted in reduced staff complement costs in 2020. The increased pace of digitisation of our operations also resulted in lowered costs year on year, and reduced operations-related costs significantly.

Focus on purpose

Our purpose, expressed as the reason for our existence, "Kenya/South Sudan is our home, we drive her growth", provided our fundamental strategic thrust during the year under review. We remained conscious of the need to support our clients through the economic, social and health-related constraints imposed by the COVID-19 pandemic. This support was evident in loan moratoriums based on individual circumstances to the extent of about 25% of our book.

In addition, we passed on to our clients the benefits of the interest rate reductions, placing about KShs 665 million in clients' pockets. Similarly, and together with improvements in our digital services, the benefit of government guidelines for zero mobile banking charges was passed on, resulting in a benefit to our clients of about KShs 157 million, with digital disbursements amounting to about KShs 685 million during the year.

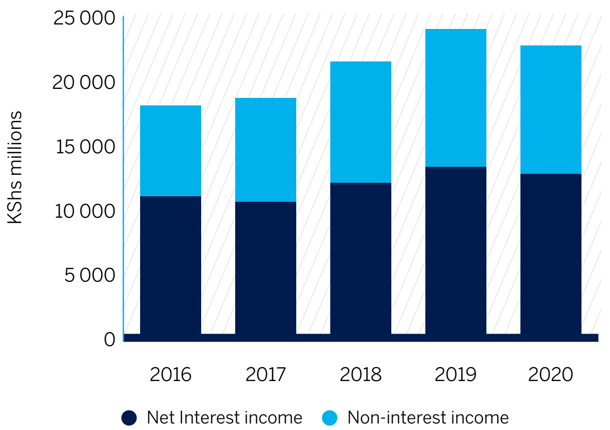
For more on our client-centric strategic approach, see page 54.

ABRAHAM ONGENGE – CFO

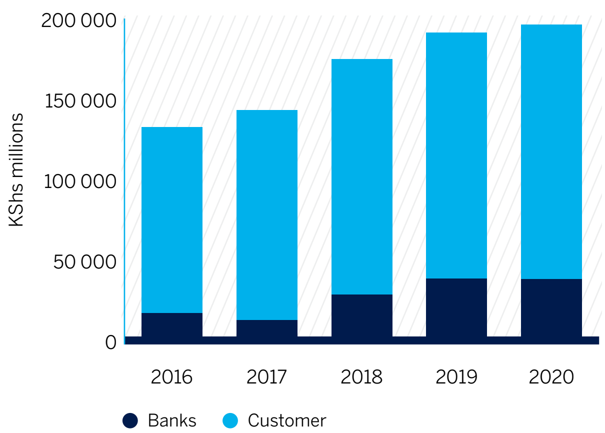
4%
growth in
customer loans

12%
growth in
customer deposits

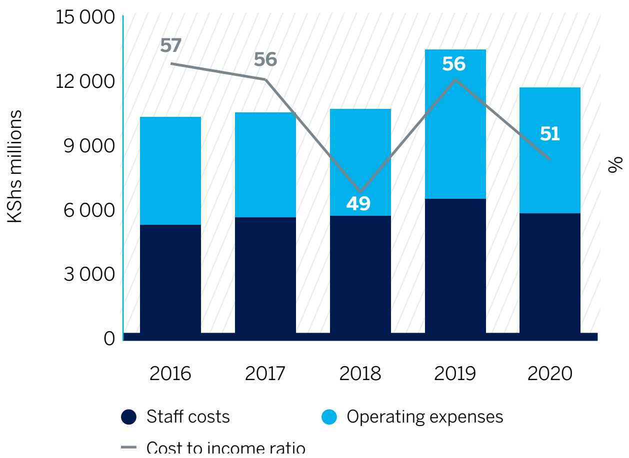
Revenue

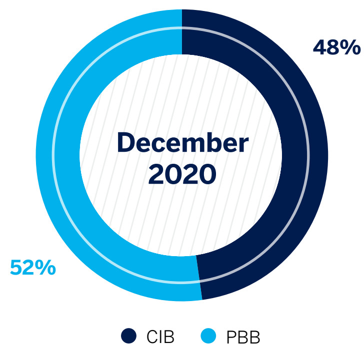


Customer loans and advances



Staff costs and operating expenses





Bank Financial Review continued

In partnership with Facebook and Google, we assisted our clients to weather the COVID-19 storm by providing access to skills required for the digital financial space.

For more on IT, see page 60.

Our strategic focus, governed by the threefold strategic imperative of Respond, Restore and Rebound, was thus concentrated on ways of supporting our clients and communities during what was, and continues in many respects still to be, an extremely challenging and complex operating environment.

For more on strategy, see page 16.

Our approach to risk

The movement of most of our transactions into the digital realm heightened the issue of cybersecurity during the year under review and working to protect information in our interactions with our clients was of paramount concern.

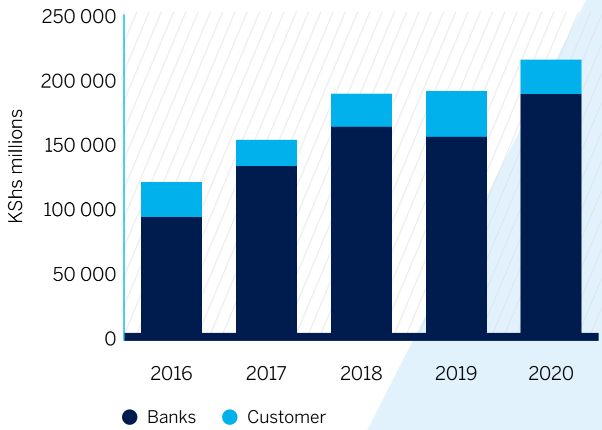
We partnered with third parties to deliver value to clients, and in the extending of our digital platforms, third-party risk becomes critical in our ability to execute on our strategy. It became necessary therefore to understand our suppliers' plans and activities in order to ensure that they continue to securely and reliably provide their services or their contractual obligations.

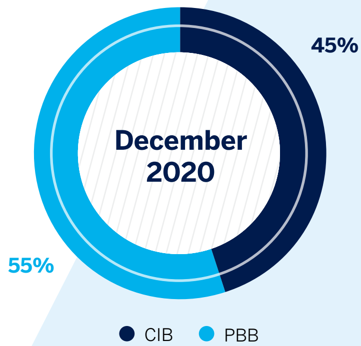
For more on risk management, see page 86.

The key accounting consideration during the year under review was the financial impact of COVID-19 on the credit losses that we needed to book, as well as the additional and unusual losses that had to be incurred because of the pandemic environment. Some of these related to costs involved in enabling our staff to work in different stations, requiring investment in facilitating work-from-home arrangements. Costs were also incurred in providing increased hygiene procedures within our branches and back offices to enable high-level protection of the health and safety of our clients, staff and communities.

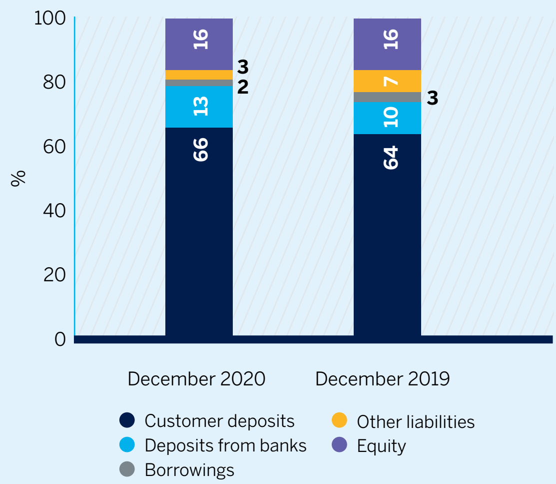
From a credit methodology perspective, this required specific consideration of a forward-looking approach and that we properly consider government and regulatory guidance in our approach to restructures resulting from the pandemic, and when looking at credit impairments during the year.

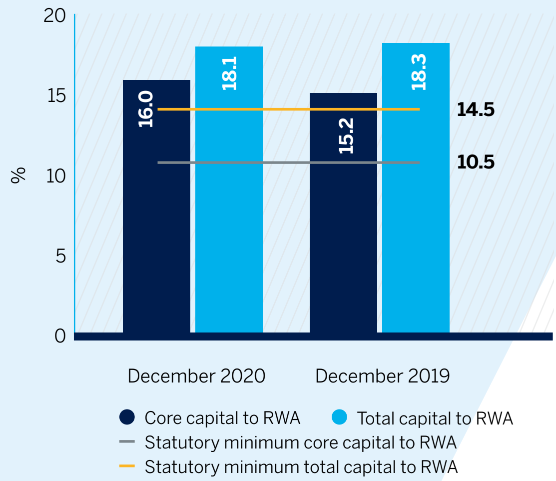
Customer deposits



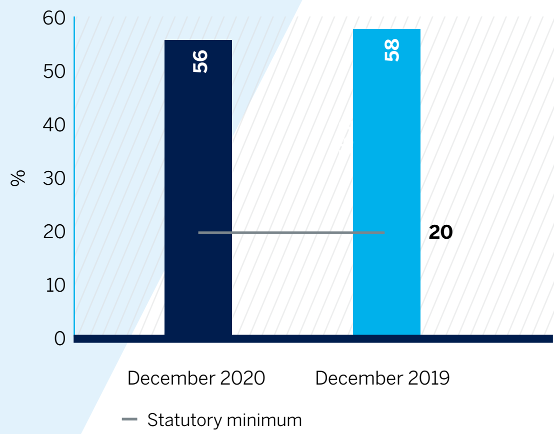


Funding, liquidity and capital





Liquidity ratio



Bank Financial Review continued

Five-year trend

	2020 KShs million	2019 KShs million	2018 KShs million	2017 KShs million	2016 KShs million	CAGR %
Income statement						
Profit before tax	**6 236**	7 466	8 785	5 413	6 036	1
Profit after tax	**5 224**	6 222	6 176	4 339	4 425	4
Statement of financial position						
Shareholders' equity	**41 856**	38 940	34 591	33 051	30 237	8
Total assets	**318 982**	292 731	280 953	239 408	204 895	12
Loans and advances to customers	**158 181**	152 817	146 604	130 536	115 588	8
Property and equipment	**3 035**	3 209	3 267	3 386	3 081	–
Customer deposits	**217 911**	195 435	192 258	155 406	119 904	16

	2020 %	2019 %	2018 %	2017 %	2016 %
Return and ratios					
Return on average equity	**12.9**	16.9	18.3	13.7	15.1
Return on total assets	**1.7**	2.2	2.2	2.0	2.19
Costs to income	**51.2**	55.8	49.5	56.2	56.9

	2020 %	2019 %	2018 %	2017 %	2016 %
Capital adequacy					
Tier 1 capital ratio (regulatory minimum- 10.5%)	**16.0**	15.2	14.6	15.4	15.9
Total capital ratio (Tier + Tier 2)	**18.1**	18.3	17.4	16.9	18.1

Looking ahead

We are cognisant of the fact that local and global economies are not likely to recover fully in the short term from the upheaval induced by the pandemic. We therefore understand that we will need to continue supporting our clients, communities and employees in the positive and strategically linked ways we have initiated during the year under review. Nonetheless, we are cautiously optimistic that widespread and effective vaccine distribution will help return the economic and social environment to some sense of normalcy, albeit in a phased process.

Also in the short term, our objective is to continue to reinforce our cost strengths for the client segments that we serve, while building the necessary capabilities to move us into a future-ready organisation as a platform-based business.

We are well positioned to continue to grow during this period, and we have prepared our structures to continue transforming the Bank into a future-ready organisation in the medium term.

While we seek to transform the Bank into a truly digital organisation, we remain committed to its being truly human in the way it responds to client needs. We will be able to continue to drive efficiencies in the ways in which we deliver services to our clients by significantly reducing our cost to serve.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Corporate and Investment Banking (CIB)

CIB represents an integral part of our financial, intellectual, social and relationship capital. The business line is proud of its expertise in arranging sophisticated financial instruments that continue to create value for our clients and society.

Despite the severe impact of COVID-19 that presented an intensely challenging and unprecedented operating environment, we produced a resilient performance.

Comprising	Relating to	Impacting	Addressing
Our capitals INTELLECTUAL CAPITAL HUMAN CAPITAL SOCIAL AND RELATIONSHIP CAPITAL	**Our strategic value drivers** FINANCIAL OUTCOME SEE IMPACT	**Our stakeholders** SHAREHOLDERS AND INVESTMENT ANALYSTS COMMUNITIES AND CIVIL SOCIETY OUR CLIENTS	**Our SDGs** 8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 10 REDUCED INEQUALITIES 11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION

CORPORATE AND INVESTMENT BANKING

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

KShs 13 798 million
Total revenue
2019: KShs 14 897 million

What we offer
- Global markets
- Investment banking
- Transactional products and services

ANTON MARAIS – HEAD OF CIB

Loans grew by
8%

Deposits grew by
5%

Introduction

This performance reflects our strong relationships and consistent engagements with clients. Our immediate response to the pandemic was to support our clients, keep our employees safe while also ensuring that our systems remained stable and capable of supporting client engagements.

Respond

During the pandemic, our client engagement teams stayed close to our clients and supported them with loan restructures and modifications. We enabled our employees to work from home and provided emotional and physiological support. We continue to be client centric by offering sustainable solutions that meet our clients' needs and help their businesses grow.

Restore

We adjusted our risk appetite to reflect changes in clients' operating environments, including the impact of COVID-19, and were selective in exposures to avoid concentration in certain sectors. We provided short-term liquidity to support businesses and continued to restructure loans.

Our clients in sectors such as financial institutions, consumer goods, telecommunications and media were more resilient. Our clients in the manufacturing, hospitality, tourism, education, real estate and mining sectors were most negatively impacted by operational shutdowns and production interruptions during lockdown periods. The agriculture and oil and gas sectors continue to offer opportunities

Performance summary

The year under review was characterised by a significant amount of loans provisions and the impact of COVID-19 on our margins and volumes, however, we still managed to produce reasonable results.

Our client-focused strategy enabled us to achieve growth in balance sheet; our loans grew by 8% and deposits by 6%.

Decline in revenue was a result of margin squeeze, lower fees from reduced transaction volumes and delay/postponement of investment banking deals. This was partly offset by strong performance from trading revenue due to increased client flows and trading activity supported by foreign exchange volatility and managing associated risk.

We managed to contain costs with a 15% decline year on year.

Corporate and Investment Banking (CIB) continued

CLIENT FOCUS

CLIENT-CENTRICITY

Performance
- Onboarded 10 new clients in 2020
- 80% of client-facing team time was spent with our clients
- Held client engagement webinars, Mombasa economic briefing and Investment webinar

CLIENT EXPERIENCE

Performance
- Client's perception of Stanbic as a leading bank strengthened, with our "quality of engagement" highlighted as a key differentiator as per the CSI score of 8.2 (2019:8.1)
- Monthly client experience forums to discuss client issues
- Best Investment Bank in Kenya – Euromoney Awards of Excellence 2020

DIGITISATION

Performance
- Digital channel utilisation uptake of 95%
- 20 client experience and growth technology projects delivered

Rebound

As we accelerate our strategy, we will continue to leverage our human and digital capabilities to:
- Deliver tailored solutions in partnership with our clients to meet their current needs and future growth ambitions.
- Provide a frictionless client experience, supported by the Bank's adoption of a digital client engagement platform that will enable our employees to deliver more precisely to clients by using data insights shared across the Bank.
- Capitalise on growth opportunities remaining alert to the uncertainty of COVID-19.
- Identify and develop further opportunities to expand our products and services and provide complete solutions to our clients and their value chain partners in our targeted sectors.
- Continue to apply sound credit management and cost control across our franchise.
- Support our employees as they deal with the impacts of the pandemic.

Looking ahead – 2021

In the short to medium term we will be seeking to continue to reshape our client base by:
- Increasing cross-selling of products and services to our acquired clients to increase our share of wallet, and onboard our newly identified list of acquired clients
- Reducing our cost to serve by optimising our client base with a focus on future winners as well as moving all our clients to digital platforms
- Focusing on improving our client experience and overall risk and conduct
- Continuing to enhance client engagements through spending 80% of our time with our clients, continuing to improve our client survey score, focusing on simple and profitable products, and prioritising KYC and anti-money laundering
- Focusing on our people by creating a work environment that enhances innovation, maintaining a team that is fully engaged and continuing to create opportunities for growth

Personal and Business Banking (PBB)

PBB represents an integral part of our **financial, intellectual and social and relationship capital.** As a business line that deals with our clients on a day-to-day basis, **PBB is in the vanguard of the client-centric** and innovative thrust of the Bank towards digitisation and fostering meaningful client relationships.

Comprising	Relating to	Impacting	Addressing
Our capitals	**Our strategic value drivers**	**Our stakeholders**	**Our SDGs**
INTELLECTUAL CAPITAL HUMAN CAPITAL SOCIAL AND RELATIONSHIP CAPITAL	FINANCIAL OUTCOME SEE IMPACT	OUR CLIENTS SHAREHOLDERS AND INVESTMENT ANALYSTS COMMUNITIES AND CIVIL SOCIETY	8, 9, 10, 13

PERSONAL AND BUSINESS BANKING

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

KShs 8 958 million
Total revenue
2019: KShs 9 181 million

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

Introduction

The year under review was an extremely challenging one, with the advent of the COVID-19 pandemic, and the other less pervasive issues like the locust infestation and the floods that affected wide areas of the economy. Nonetheless, the business remained resilient and we were able to meet our clients' needs and maintain our service standards despite significant disruption.

Respond

Much of our activity was focused on helping shepherd our clients through the crisis, with initiatives such as moratoriums and loan repayment rescheduling, with which we were the first bank to go to market, especially for our SME clients.

We also undertook some cashless initiatives such as self PIN reset to create convenience and save our clients the time it takes them to come to the banking hall. For our employees, we set up a number of sessions with experts to raise awareness of COVID-19 and also facilitated special transport when lockdown was first introduced, We enabled our people to work from home with the necessary collaboration tools, while all the time ensuring that we did not see a drop in productivity.

We also focused on collections in order to drive liquidity for the Bank and saw a consequent growth in deposits, particularly in the face of elevated impairments that occurred during the year. Costs were well controlled, with a year-on-year reduction.

Restore

We were able to provide much-needed support to our clients. Measures were successfully introduced to enable out staff to keep our branches functioning smoothly.

From around October to November 2020, this became even more difficult as we faced a number of infections among staff, with the knock-on effect of people who had been in close contact with positive cases also having to self-isolate. Nonetheless, no branch was ever closed, a tribute to our staff, and it was our structures and the systems and measures put in place that secured this outcome.

Personal and Business Banking (PBB) continued

We introduced several solutions, many of which were founded on digital platforms:

- Supply chain finance to help clients to access funding
- Digital lending to allow our clients to access funds digitally
- Loan repayment holiday automation
- Pre-approved credit cards
- Digital deposit services
- Improved and expanded DADA solutions

We lowered interest rates in line with regulation, saving our clients interest on their loans. Based on the varying circumstances of our clients, we restructured loans worth KShs 20 billion of which KShs 3.1 billion related to SMEs. This enabled them to keep their businesses afloat and reduced financial constraints.

Through our DADA women's value proposition, we extended KShs 844 million in loans to help cushion against the impact of COVID-19. We waived fees on certain digital transactions and provided flexibility and convenience of reach through digital channels and physical branches. We rolled out digital onboarding to allow clients to open accounts and transact in the convenience of their homes, and also made cash/salary advances available digitally.

In addition, we helped our clients weather the storm by providing much-needed training through business survival bootcamps and held various training sessions on how to manage the crisis.

Our performance

Our performance reflects resilience amidst challenges in the operating environment. We achieved balance-sheet growth, evidenced by the increase in our customer deposits. Despite the negative impact COVID-19 had on our revenue, our PBB franchise remained profitable.

We experienced pressures on margins following the reduction of the Central Bank rate by around 200 basis points since the lifting of the interest rate cap. As a result of the fee waivers extended to support our clients and general slowdown in economic and client activity, we saw a reduction in fees.

Although our credit impairments increased, we had successes on the cost side. We repurposed our spend and achieved significant savings.

Rebound

During the year under review, our approach was tempered in the COVID-19 environment. However, we continued to:

- Lead with business banking with specific focus on sectors in which we saw growth
- Acquire through ecosystems enabling us to focus on end-to-end relationships
- Solve client pain through client journeys
- Invest in digital solutions
- Maintain a particular focus on the enterprise banking sections in Africa and China to enable our clients to access the pandemic-disrupted China corridor supply lines

Looking ahead

As we strive to remain relevant to our clients, we will leverage our digital and human capabilities to:

- Deliver enhanced client segment and sector value propositions
- Improve our clients' experience with personalised solutions delivered through the channels they choose, based on a deep understanding of their current needs and future ambitions
- Increase operational efficiency by ensuring that our technology is efficient, stable, robust and secure and that our processes are automated and based in the cloud
- Further grow and scale our digital services and solutions
- Empower our people to partner with our clients in making their dreams possible

Wealth

Wealth forms part of our financial, intellectual and social and relationship capital. As a business line we build trusting relationships between our clients and integrated client teams by providing holistic, goal-based advice.

By combining a human touch with digital enablement, our client teams offer both a personalised service and improved efficiencies.

Comprising	Relating to	Impacting	Addressing
Our capitals INTELLECTUAL CAPITAL HUMAN CAPITAL SOCIAL AND RELATIONSHIP CAPITAL	**Our strategic value drivers** FINANCIAL OUTCOME SEE IMPACT	**Our stakeholders** OUR CLIENTS SHAREHOLDERS AND INVESTMENT ANALYSTS COMMUNITIES AND CIVIL SOCIETY	**Our SDGs** 8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

WEALTH →

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

ANJALI HARKOO – HEAD OF WEALTH

Good balance sheet growth driven by the acquisition of new clients

Continued good management of the credit loss ratio

Introduction

In a year in which COVID-19 dominated the social and economic context in which we operated, our aim was to continue to seamlessly provide our clients with outstanding service by responding as effectively and efficiently as possible to the challenges posed by the pandemic. As conditions eased, our aim was to restore confidence and the continued growth of our clients' wealth.

Respond

High net worth

While we typically maintain a very high-touch relationship with our high net worth clients, our ability to do this was greatly diminished by the constraints of the pandemic. We continued to partner with PBB and CIB to provide solutions for our clients' needs.

In addition to our financial fitness academy work, we launched a digital financial fitness academy for young children through the high net worth business.

For more on financial inclusion, see page 68.

Insurance

In insurance, we embedded several solutions including our short-term trader loan and our salary advance product. We also created a bundled solution for our vehicle asset finance clients.

Investments

We rolled out digital financial fitness academies and were able to train well over a thousand individuals on how to manage their finances during these challenging times. This is a programme we are proud of and is delivered for free to add value to our clients, and tailored to executive, middle management and general staff levels.

Restore

We signed a strategic partnership agreement with an international broker to cater for our specialised insurance requirements across our Africa regions, and we rolled out our digital funeral expense product. Importantly, with many Kenyans having been made redundant as a result of the pandemic, we were proud to settle a number of major claims for our clients.

Wealth performance summary

Our performance reflects:

- Good balance sheet growth driven by the acquisition of new clients
- Flat net interest income despite balance sheet growth as a result of reduced margins
- A decline in non-interest revenue, mainly driven by slow uptake of stand-alone insurance products and the impact of increased retrenchment claims
- Continued good management of the credit loss ratio as a result of the high quality of our net worth client book

Rebound

We expect COVID-19 to remain a feature in 2021. As we continue to manage the impact of the pandemic on our client base and employees, we are accelerating the implementation of our strategy to position the Bank in an evolving wealth industry and a fast-changing world by leveraging our core strengths.

Looking ahead

In the short term, we believe that the first half of 2021 will continue in tough economic conditions as a result of the pandemic, and we will need to ensure that we are supporting our clients especially those who are affected.

In the insurance business, we will continue to drive digitisation to offer dynamic solutions to our clients as they deal with the ramifications of the pandemic.

We continue to maintain very positive aspirations for our businesses within wealth, and in the long term we see them contributing significantly to the bottom line of the Bank and diversifying its income streams.

CLIENT FOCUS

Client Focus

Our clients are at the centre of everything we do. We strive to understand their unique needs and aspirations, and to partner with them in making their dreams possible.

Comprising	Relating to	Impacting	Addressing
Our capitals INTELLECTUAL CAPITAL HUMAN CAPITAL SOCIAL AND RELATIONSHIP CAPITAL MANUFACTURED CAPITAL	**Our strategic value drivers** CLIENT FOCUS EMPLOYEE ENGAGEMENT SEE IMPACT	**Our stakeholders** OUR CLIENTS EMPLOYEES AND THEIR REPRESENTATIVES	**Our SDGs** 3 GOOD HEALTH AND WELL-BEING 10 REDUCED INEQUALITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Measuring our strategic progress

What success looks like

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

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

We earn and keep our clients' trust.

How we measure progress

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

KEY METRICS

Net promoter score (NPS)

NPS indicates the likelihood of a client recommending Stanbic to their friends, family and others. It is calculated by subtracting "detractors" from "promoters". This value can range from -100 (if every client is a detractor) to +100 (if every client is a promoter). Any score above zero means there are more promoters than detractors. At Stanbic, this survey is undertaken for our Personal, Business Banking (PBB) and Wealth clients.

During the year under review, the NPS category of ratings was changed to reflect the new reality imposed by the advent of the coronavirus pandemic, as follows:

NPS category rating changes 2019 – 2020

Rating	2020	2019
0 – 20	**Target not met**	Good
20 – 50	**Target met**	Favourable
50 – 70	**Target met and exceeded**	Excellent
70 – 100	**World-class**	World-class

Client satisfaction index (CSI)

CSI is an analytical tool that measures client satisfaction (how happy/satisfied clients are) with a company's products, services and capabilities. This survey is undertaken for our Corporate and Investment Banking (CIB) clients and considers the number of happy clients out of the total number of clients surveyed. Clients rate their satisfaction on a score of one to 10, with 10 being an excellent score.

We are embarking on a journey on which we will continue on the NPS path by building the capability of our programme to understand what drives our clients to become promoters and detractors. This will require a cohesive connection between NPS and other elements of experience data drawn from client interactions and journeys. This insight will be tailored to drive real-time adjustments of operations processes and will be a part of strategic decision-making.

2020 KEY PRIORITIES →

Inputs

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

KEY TRADE-OFFS

- "Always on and always secure" services require greater investment in infrastructure, which leads to higher running costs.
- Innovative and secure digital development is critical in responding to changing client needs and demand for instant fulfilment, leading to reduced branch visits, reduction in traditional revenue streams and active prioritisation of IT spend.
- The fundamental review and development of new capabilities and skill sets, to deepen our understanding of our clients and serve their needs better, temporarily impacts the working environment and may affect client experience as the required changes are made.
- Introducing innovative products in response to client demand and competitor activity leads to improved client retention, albeit at the cost of traditionally higher yielding revenue streams.

▲ **+31**
PBB NPS
2019: +35

▲ **8.2**
CIB CSI
2019: 8.1

Enhancing capacity and service

A key initiative was onboarding, primarily for retail clients, with the advantage of reduced paperwork and turnaround time. There was a higher tolerance for, and adoption of, client-company ways of working. The concepts of minimum viable product (MVP) and failing fast were central to this approach.

From a CIB and PBB client perspective, improvements included increasing integrations as we provided our business clients with efficient ways of handling payments, with statement enhancements and mobile banking capabilities also playing a role.

With COVID-19 still a major factor on the economic landscape, budget will continue to be a central issue. In the short to medium term, there will be an ongoing imperative to do more with less, and to provide creative solutions.

There will also be a need to show the direct relationship between technology and business, as through the transformation to digitalisation, IT de facto becomes the business. This will be reflected in such processes as onboarding and will require the creative use of funds, with productivity being an important aspect of our activities.

While it is still too early to predict which of rapidly-developed COVID-19 response solutions will become a permanent feature of our work and services, it is however certain that cyber security will always be a priority, as will heightened collaboration, and the search for efficiency in working and productivity.

How we performed

We enhanced our customer care services by:

- Increasing accessibility for clients across our various touch points
- Actively engaging our clients through various channels including social media
- Remodelling our activities to ensure that we offered a personalised service.
- Empowering our frontline agents to ensure first-call resolution of client requirements, thereby improving on our turnaround times for a positive impact on our clients
- Launching the Digital Client assistant – an intelligent bot that provides added convenience for our clients and increased accessibility. This was well received in the market with over 32,025 queries having been addressed directly by the bot in the seven months since inception

We created efficiencies by:

- Instituting process improvements for efficiency and faster turnaround times for our payments and settlement processes, query management and complaints management. Part of this impetus is to continuously digitise the majority of our manual processes, while at the same time ensuring transparency and improving client engagement.
- Developing and launching the Stanbic Experience Identity that seeks to standardise our clients' experience across all our branches and points of representation. In pursuit of this we developed a service identity that ensures that our clients receive a consistent experience across all our touchpoints. We initiated training for all staff in the Stanbic Way of Service across our touchpoints and it is expected that this service will be institutionalised in 2021 and for which the outcome will be a high net promotor score (NPS) across all our channels.

Client value

We introduced several solutions, many of which were founded on digital platforms:

- Supply-chain finance to help clients to access funding
- Loan-repayment holiday automation
- Pre-approved credit cards
- Digital deposit services
- Improved and expanded DADA solution

Deepening our brand

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

We maintained our ISO 9001 certification

This certification serves to assure our clients about the quality of service offered to them, with the focus being improved service delivery and reduced operating costs. It is the Bank's intention that this certification will be maintained as we undertake a full recertification exercise to ensure that we continue to operate under the guidelines prescribed by the standard.

Protecting our clients' information

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

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


flOlite

Client Focus continued

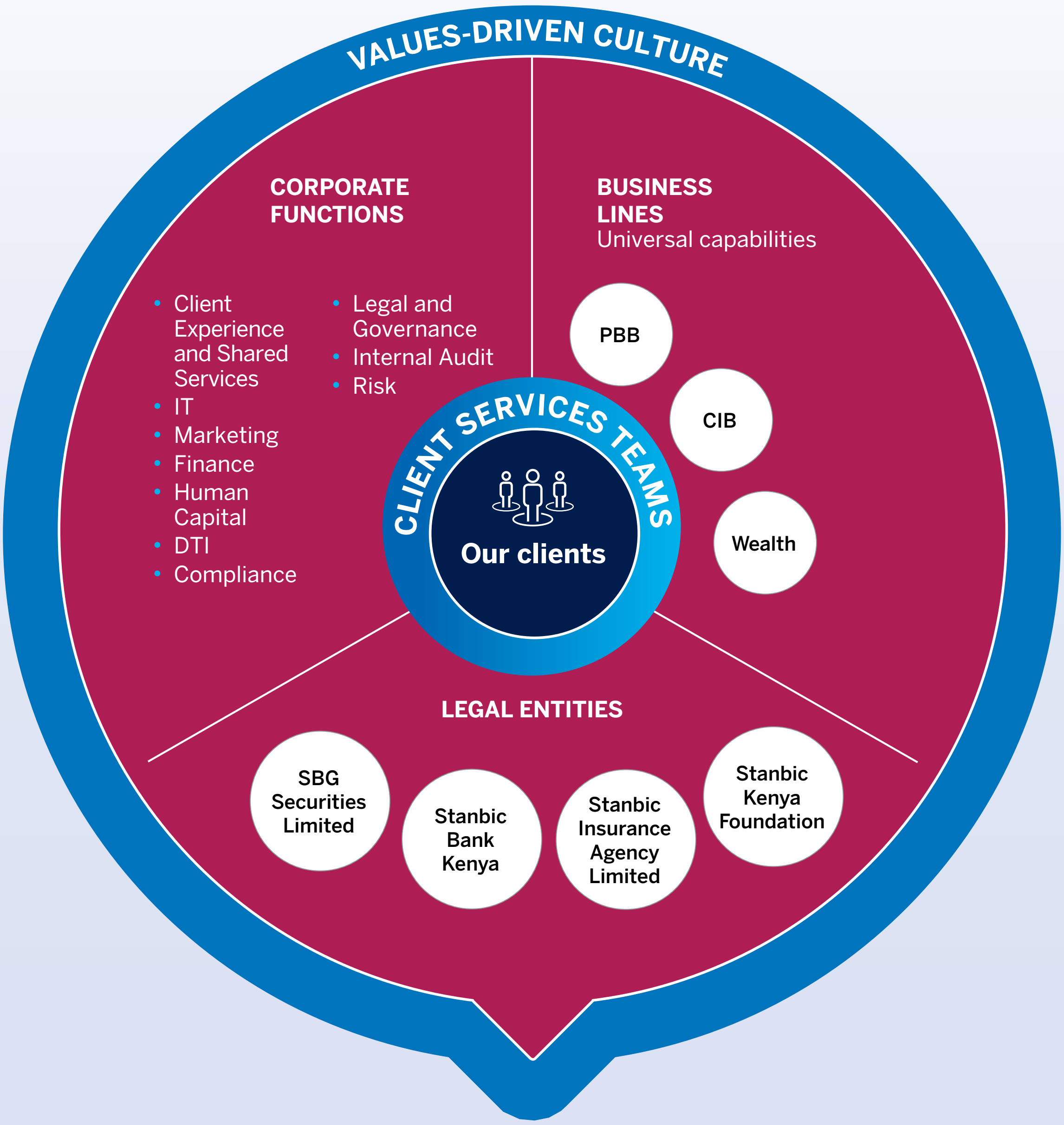
How we organise ourselves

The acceleration of our strategy has required a change in how we organise the Bank.

From 1 January 2021, three core client segments, supported by dedicated Bank capabilities and functions, began focusing on the design and delivery of relevant, innovative and efficient digital solutions to replace our traditional structure.

Our new capability model will improve coordination and enable us to accelerate the execution of our strategy. While our performance reporting for 2020 is still by business line (CIB, PBB and Wealth), forward-looking discussions and disclosures already relate to the new Bank structure.

Our traditional structure up to 31 December 2020



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

CAPABILITY MODEL
from 1 January 2020

Consumer and high net worth clients | Business and commercial clients | Wholesale clients

Client solutions
Banking | Insurance | Investment

Client segment

As the Bank is client led, our primary axis of organisation will be client segments. The client segments will be responsible for designing and executing the client value proposition strategy (CVP). Client segments will own the client relationship and create multi-product client experiences to address life events, distributed through our client engagement platforms.

Client solutions

Our client solutions teams will support the client segments and the Bank as a whole. The client solutions teams will work in partnership with the client segments in pursuit of the CVP strategy. Client solutions teams will provide products and services for banking (spend, transfer and borrow), insurance (protect and safeguard) and investment (earn and grow) solutions.

Looking ahead

We understand the extent to which the economy has suffered in the shadow of COVID-19, with many people having lost their jobs. We will remain committed to continue executing the key elements of our client experience strategy and to strengthen its foundation. In the short to medium term, we will thus be focusing on enhancing our client engagement in order to ensure that we remain an empathetic bank which listens to and delights clients. In this regard, we will introduce more frequent client-experience surveys in 2021, aimed at near real-time client feedback.

The 2021 financial year will also see us introducing more automation around transaction processing, especially in the areas of client onboarding, payments, trade, and lending operations as well as facilitating a more efficient cross-border payments process. Our objective is to enable clients to execute their transactions in a simpler and more efficient mode as we move towards transforming our approach to service from one that is transactional to one that is experiential, transparent, and that fosters trustworthiness in building a meaningful journey for our clients.

Client Focus **continued**

Using technology to better serve our clients

Our use of technology **enables us to respond agilely to market and business imperatives,** while remaining **sensitive to risk factors** and responsive to **our clients' needs.**

These imperatives were particularly evident during the year under review when the advent of the COVID-19 pandemic required a rapid and focused response to the sudden constraints imposed by lockdowns.

There were five broad focus areas that we identified for the year, all in line with the broader strategic value drivers of the Bank:

- **Client-centricity** – This remained our first concern, and involved the question of facilitating payments in a demanding environment and enabling clients to transact digitally. The emphasis was on providing what we defined as low-touch solutions, whereby direct interaction with platforms would minimise the need for person-to-person engagement.
- **Always on** – This imperative means ensuring that our systems are always available and functioning, and boosting our capacity on various fronts.
- **Skill sets** – This involved a focus on retooling, accomplished by using the additional time people saved by not commuting, and getting them certified in the utilisation of new technology.
- **Always secure** – This required a heightened focus on security in the context of work being done from home, and associated governance issues.
- **Digitisation** – This required an increased urgency in simplification of access and functionality relating to products and servers for clients, and communication and work platforms for staff.

Our approach

The strategic approach for IT during the year under review was one of ruthless prioritisation, with our efforts having both inward and outward aspects.

Inward: involving a high adoption of automation and robotics to handle manual and mundane activities like reconciliations, as well as forms of automation like regulatory reporting and process engineering where the aim was to minimise manual processing in a season of low touch. The adoption of digital signing and cloud functionalities was fast-tracked, with a focus on migrating the bulk of our loads to cloud providers.

Outward: Embracing onboarding and increased integrations

Our IT strategic pillars

QUALITY OF SERVICE THROUGH BRILLIANT BASICS

Achieving continuous improvements in the quality of service to clients in terms of availability, reliability and security

RESPONSIVENESS TO MARKET

Leveraging innovative technology and new ways of working to achieve higher levels of agility, flexibility and responsiveness

AFFORDABILITY

Managing costs by driving a lean IT operation and by embedding commercial pragmatism

SUSTAINABILITY AS THE FOUNDATION OF CLIENT EXCELLENCE

Making Bank IT an aspirational destination for IT professionals and embracing our diversity and social and ethical responsibility

Changed architecture

During the year under review, we reorganised the architecture of the IT function to enable us to handle the many decisive changes, in as short a time as possible, in the provision of end-to-end solutions. In this respect, it was also necessary to augment the capability we already had with our full-time employees by engaging the skills that were available in the marketplace as a result of the retrenchments that had taken place as a result of COVID-19. This enabled us to create value for the business through the design and implementation of various services whose necessity was only amplified by the advent of the pandemic.

Cost increases

The constraints of the pandemic compelled us to rethink a number of processes, and from a logistics point of view involved the significant procurement and provision of laptops, collaboration tools and expanded and effective connectivity and additional licences, all of which carried cost implications for the business.

For more on finance, see page 68.

EMPLOYEE ENGAGEMENT

Employee Engagement

Our people are fundamental to our ability to deliver stakeholder value and the realisation of our strategy. They form the central component of our human and intellectual capitals, and it is through their efforts that our results are attained, our relationships built, and our reputation maintained.

Comprising	Relating to	Impacting	Addressing
Our capitals	**Our strategic value drivers**	**Our stakeholders**	**Our SDGs**
INTELLECTUAL CAPITAL, HUMAN CAPITAL	EMPLOYEE ENGAGEMENT, RISK AND CONDUCT, FINANCIAL OUTCOME	OUR CLIENTS, EMPLOYEES AND THEIR REPRESENTATIVES, COMMUNITIES AND CIVIL SOCIETY	3 GOOD HEALTH AND WELL-BEING, 4 QUALITY EDUCATION, 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 15 LIFE ON LAND

Employee engagement is a critical driver of long-term sustainable value. Our people's thoughts and feelings about their work correlates with how satisfied our clients are and indicates how successful we are likely to be in accelerating our strategy to achieve higher growth and efficiency, while retaining the trust our stakeholders have in the Bank.

Measuring our strategic progress

How we measure progress

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

Employee net promoter score (eNPS)
Calculated by subtracting the percentage of survey detractors from the percentage of promoters. This value can range from -100 (if every employee is a detractor) to +100 (if every employee is a promoter). Although the eNPS score measures the distribution of promotors, insights gained from the responses of detractors and passives and employees who are satisfied but not necessarily enthusiastic, are also assessed for further action.

Employee turnover
Employee turnover measures the percentage of employees who left our employ during the year.

Diversity and inclusion
Measures the representation of people from underrepresented Banks and also assesses their qualitative experience of the work environment through an in-depth analysis of the employee survey results.

Gender equity
Measures the representation of women in senior management and executive positions across the Bank.

What success looks like

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

- Are empowered to and recognised for delivering against our strategic priorities, and being client-centric in everything they do
- Make the most of every opportunity to embrace new ways of working and learn new skills to remain relevant in a changing world of work and achieve their full potential
- Are encouraged to speak up and feel heard when they voice their views

How we performed

▲ **934**
Total employee complement
2019: 946

▼ **47% (454)**
Permanent employees: female
2019: 48% 454

▲ **53% (492)**
Permanent employees: male
2019: 52% 492

Age breakdown

9%
Below 30 years
2019: 12%

63%
30 – 40 years
2019: 63%

28%
Above 40 years
2019: 25%

25
Contract employees
2019: 25

52
Commission-earner employees
2019: 83

31 female
Gender parity in senior management
2019: 30 female

48 male
Gender parity in senior management
2019: 41 male

4
Females on the Board
2019: 4 Females

5
Males on the Board
2019: 6 Males

3
Employees living with disability
2019: 3

39% (367)
Management
2019: 35% (329)

61% (567)
Non-management
2019: 65% (617)

78
New hires
2019: 29

41
Exits
2019: 155

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

Employee Engagement continued

Safeguarding our employees

Our priority at the onset of the COVID-19 pandemic was to ensure the health, safety and wellbeing of our employees, and by extension, their loved ones and our clients. Our ongoing investment in technology and digitisation enabled us to equip more than 60% of our people across the Bank to work from home or remotely.

For those who needed to work in the office, we commissioned and provided alternative workstations to enable social distancing. For the frontline employees providing essential services in key office locations and branches, our focus remained on keeping them safe and healthy in line with changing health-risk dynamics.

Multi-disciplinary teams came together to solve different challenges, developing a range of critical protocols to provide clarity and guide action in navigating complex scenarios. To keep our essential service workers safe, extensive personal protective equipment (PPE) and special transport were provided. We spent over KShs 7.8 million on protective gear and catered for the cost of testing and treating COVID-19 cases for our people and their dependants. Where employees were sent into mandatory quarantine, the Bank met the cost of quarantining.

Managing the impact of the prolonged pandemic on our people

As it became clear that the pandemic and its associated risks were to be part of our societal fabric for the foreseeable future, we redoubled our efforts to help our people care for their physical, emotional and mental wellbeing.

For many of our people, feeling isolated, missing the human connection with colleagues, long hours spent working remotely and the blurring of boundaries between work and home have proven challenging – especially over a prolonged period. In response, we launched an extensive range of wellbeing interventions, including counselling and support services, online webinars and useful guidance on personal resilience, remote working, the leading of remote teams and mental wellbeing.

Our culture

Our people went the extra mile for our clients, placing themselves at risk by serving on the frontline. They worked tirelessly to ensure that our actions remained authentic and efficient as we served and supported our clients. Our actions were guided by our purpose, our values and our culture principles, the 5Cs:

- **Client first** – the fundamental approach of the Bank to its activities
- **Collaboration** – the pursuit of synergies both internally and externally in an interconnected world
- **Courage** – being bold in decision-making, and willing to do things differently
- **Continuous innovation and entrepreneurship** – growing learning and improving while demonstrating key business skills
- **Care for colleagues** – creating a workplace where people are valued and treated with respect

The ramifications of the pandemic had immediate and widespread consequences across our workforce as people moved to working from home, and where they found themselves having to deal with this momentous change while remaining productive, with significant implications for both their physical and mental wellbeing.

We therefore focused on employee wellness. We launched employee counselling services and put in place monthly town hall meetings and other weekly forums to ensure that regular communication was maintained. This helped to secure our capacity to maintain efficient and effective business imperatives as well as allowing us to monitor their health and ability to cope.

A new talent philosophy

Our old talent philosophy, utilised over a period of many years, was based on a grid of ability, aspiration and attitude, the assessment of which determined which people were identified as talent for future leadership. This was replaced during the year under review with a new philosophy whose principle is that everyone is considered talent – a development that speaks to SDGs relating to reduced equalities and gender equality. Effort was put into the first steps into launching this new approach, which we call Talent Rewired, as well as communicating it to people and familiarising them with it.

Succession planning

Succession planning is critical to the organisation's sustainability in the medium and long term, and we undertook an initiative for middle management and executive roles, with about 142 roles identified during the year.

Targets

Several targets were set for the year, as shown in the table below:

Target	Score
100% of employees having goals for employees in their respective areas	97%
Employee engagement Employee Net Promoter Score (eNPS)	+41 (2019: +7)
Employee turnover	4.9% overall 1.6% regrettable

Risks and challenges

Our biggest challenge during the year under review was, and remains, COVID-19 and its impact across the organisation and the country. While thankfully there were no deaths recorded in the organisation, six of our people were hospitalised. Our challenge was to ensure that there was no panic, and that we were efficiently and effectively able to take care of the welfare of our employees, while at the same time safeguarding productivity. It was necessary to monitor the effectiveness and availability of the right tools and infrastructure for tracking this.

Productivity also formed a part of the issue of staff cohesion. Team building and team dynamics had to be accommodated within the difficult constraints of people working in widely disparate locations, where regular communication and motivation had a central role to play.

Secondment to regional operations

During the year under review eight employees were the beneficiaries of long-term outbound assignments.

Departments	Number of employees
CIB	4
Risk	2
Client Experience and Shared Services	1
Internal Audit	1

Learning and development (L&D)

In line with the Bank's strategic value driver of employee engagement, and SDG 4 relating to quality education, our L&D department implemented several programmes during the year under review. This is in keeping with our commitment to assisting our employees to attain the skills they need to realise their own potential and grow their careers.

We continue to provide our people with targeted, role-based learning and mandatory, role-specific training. This is complemented with formal training and on-the-job skills development driven by the needs of our strategy.

For more on our strategy and operating context, see pages 16 and 28 respectively.

L&D – Key numbers FY2020

Amount invested	KShs 37.6 million
Number of hours training	Classroom: 1 804 Coaching: 192 Online: 169 574 Total: 171 570
Employees trained	Instructor-led – 161 (January – March) Online: 1 002

Looking ahead

In the short term, we will continue with initiatives to ensure that our employees are safe and maintain their productivity, despite the challenges presented by the extended impact of COVID-19. We will continue to reskill and equip our people with relevant future-ready skills.

In the medium term, we will develop a new way of looking at succession planning, involving a digital approach. In addition, we will be considering the introduction of graduate training so that a talent pool pipeline can be established, and not necessarily solely within the Bank.

In the longer term, digitisation will continue to play an increasingly important role, with the possibility of new ways of working outside of the office. In such a scenario, new policies will have to be introduced to cater for flexi-hours and working from home.

L&D courses – FY 2020

E-learning

Classroom

RISK AND CONDUCT

Risk and Conduct

Our reputation as a trusted partner is built on the strong foundation of risk management processes and ethical personal, market and societal conduct. This protects the value we create for all our stakeholders.

Comprising	Relating to	Impacting
Our capitals	**Our strategic value drivers**	**Our stakeholders**
INTELLECTUAL CAPITAL; HUMAN CAPITAL	RISK AND CONDUCT; FINANCIAL OUTCOME; SEE IMPACT	OUR CLIENTS; REGULATORS AND GOVERNMENTS; SHAREHOLDERS AND INVESTMENT ANALYSTS; COMMUNITIES AND CIVIL SOCIETY

Measuring our progress

What success looks like

- We do the right business the right way, without exception, rooted in a culture of conscious risk-taking.
- We contribute to safe and efficient financial systems in and across the markets in which we operate.
- We comply with all applicable laws and regulations and meet the highest standards of ethical business conduct.
- We safeguard our reputation and protect it from harm, in everything we do

2020 key priorities

We continuously adjusted our 2020 objectives in view of the COVID-19 pandemic and made good progress in achieving them. These included;

- Taking preventive measures to safeguard staff and other stakeholders' health, while minimising client service disruptions
- Continuously reviewing our risk appetite, and carefully striking a balance between supporting our clients and safeguarding shareholder value
- Expanding the traditional operational risk universe to manage a wider scope of non-financial risks, aligned to the Bank enterprise risk taxonomy
- Aligning our risk and compliance functions to changes in Bank architecture and transformation to a truly digital organisation.
- Delivering value-based risk management services with a clear link to financial outcomes
- Actively monitoring stressed client portfolios
- Enhancing our scenario analysis and stress testing our strategic objectives and expectations against key risk scenarios
- Leveraging data as an asset and developing digitised risk management through technology

Trade-offs

In achieving our risk and conduct priorities, we considered and managed the following trade-offs:

- We reallocated resources in response to COVID-19 to safeguard the health and safety of our staff and clients, investing in personal protective equipment (PPE) and implementing necessary protocols in the workplace. We enabled staff to continue securely and reliably serve our clients while working from home by availing data and necessary technology platforms.
- In managing our exposures responsibly in line with macroeconomic and socio-political realities, we continuously reviewed and adjusted our risk appetite in lending to vulnerable sectors and clients. While this reduces the potential for losses, it may inhibit client growth and revenue generation.
- We managed the natural tension between client convenience and the speed at which we can fulfil their needs, and the parameters of our mature and continually evolving regulatory, supervisory and control environments
- The evolving expectation of ensuring compliance is a necessary condition to maintain our reputation as a trusted partner, which is a strategic asset and a source of competitive advantage, especially as an incumbent financial services organisation
- We balance mitigation of potential disruption to client experience while we accelerate the transformation initiatives of the Bank.

How we performed

▲ **16%**
Core capital adequacy ratio
2019: 15.2%
2018: 14.6%

▼ **18.1%**
Total capital adequacy ratio
2019: 18.3%
2018: 17.4%

▼ **56.4%**
Liquidity ratio
2019: 58.4%
2018: 57.9%

▲ **3.0%**
CLR
2019: 1.9%
2018: 1.4%

▼ **131%**
LCY NSFR
2019: 167%
2018: 169%

▲ **154%**
FCY NSFR
2019: 145%
2018: 185%

Risk
How we manage

Our risk-management system is governed by mandated board and management committees with appropriate expertise. We take measured risks within the risk appetite set at Bank level by the Board, and risk limits that are set and reviewed regularly by the relevant management committees at legal entity and other appropriate levels of the Bank.

Our risk measurements are designed to balance regulatory capital requirements and shareholder expectations for risk-adjusted returns. They allow us to carefully manage our capital, liquidity and funding allocations to transform and grow the business, while maintaining depositor and creditor confidence. We continuously improve the management of complex non-financial risks in order to mitigate their impact as we pursue growth opportunities that create value for all our stakeholders.

How we performed

The proactive management of unprecedented pressure in our risk environment proved effective, with no material breaches of board-approved risk appetite and no regulatory fines that affect our license to operate. The Bank remains well capitalised despite the impact of COVID-19.

Managing the impacts of COVID-19

The Bank operated in a highly complex and uncertain external environment in 2020. The public health, financial and humanitarian threats associated with COVID-19 compounded the socio-economic pressures that existed in many of our markets prior to the onset of the pandemic.

COVID-19 did not slow the momentum of change in our competitive landscape; rather, it amplified the direct threat to our client franchise and, more generally, the threat to the relevance of traditional financial services offerings, posed by Big Tech companies and niche fintech offerings. This made it imperative to accelerate the transformation of our business in line with our medium-term strategy, while at the same time dealing with the immediate impacts of the pandemic.

More specifically, pandemic-related restrictions on workplaces and the desire for contactless services created the need to advance our digitisation strategy significantly and urgently, with heightened attention given to the associated risks.

Respond

Risk management is a cornerstone of our response to the COVID-19 crisis, enabling fast, targeted and responsible support of our clients, while preserving the Bank's financial position. Measures include:

- Balancing extensive loan restructures with careful monitoring and management of our capital, liquidity and credit loss risk measurements
- Focusing on protecting the health of our employees by providing appropriate PPE and leveraging our investment in technology and digital innovation to equip the majority of our employees to work from home
- Collaborating with all internal assurance functions to identify new or heightened risks in the new environment and compliance requirements from new regulations and advising on appropriate controls.
- Engaging with banking regulators on financial risks and exceptions to liquidity and capital requirements, non-financial risks and highlighting systemic risks that may adversely impact the country's banking system.
- Maintaining the Banks operational resilience through robust business continuity and crisis management response plans that included a change in working locations. These changes also necessitated a review of certain operating procedures to minimise client service disruptions under the new operating models.
- Making COVID-19 training compulsory for all employees, and providing emotional support and wellbeing services to our people to support them in dealing with social, financial and to work from home demands

We helped ease the liquidity crisis facing many clients, particularly corporate clients, while maintaining the effectiveness of debt collection activities. We continue to manage credit portfolio concentrations, including concentrations in specific client sectors, such as real estate and hospitality.

Restore

Uncertainty remains a feature of our risk landscape as the COVID-19 pandemic evolves and recovery is set to be uneven across the various countries in which we operate. This requires close monitoring of financial risks, which are well understood and well-managed. The impact of COVID-19 on the interrelated non-financial risks continues to unfold and our risk management processes are designed to proactively identify and analyse this new information as well as establish their potential impact on our financial recovery plans.

The Bank's digitisation strategy is key to our recovery. It enhances client experience by reducing banking costs, improving payment mechanisms and providing better debt management support. However, digitisation, combined with our transformation into a more digitally-focused solutions provider, has increased the susceptibility to cyber, information, fraud, and third-party risks. These non-financial risks were exacerbated in 2020 by the shift to a work-from-anywhere approach. Additional employee conduct and information security controls were therefore instituted to minimise the impact on client-facing services.

Rebound

We will continue to leverage our risk management capabilities in support of the Bank's transformation strategy. We expect uncertainty and rapid change to remain features of our operating environment in 2021 and we are alert to the ongoing impacts of COVID-19 on the Bank, our employees, our clients and communities we serve.

Conduct

How we manage it

We manage conduct risk in accordance with our conduct risk-management framework, which defines the Bank's conduct risk appetite and informs the approach to managing and mitigating instances of misconduct.

Quarterly conduct governance dashboards are submitted to the leadership council, providing a view on the ethical climate within the Bank. Conduct is evaluated, managed and monitored by the appropriate governance and management committees, using conduct risk indicators. Where deficiencies are identified, immediate remedial action is taken. We continue to identify metrics and mitigation measures to improve the responsiveness and effectiveness of conduct risk controls.

FINANCIAL OUTCOME

Financial Outcome

Delivering sustainable returns to our shareholders depends on the extent to which we have made strategic progress in achieving client focus, employee engagement and risk and conduct.

Comprising	Relating to	Impacting	Addressing
Our capitals	**Our strategic value drivers**	**Our stakeholders**	**Our SDGs**
INTELLECTUAL CAPITAL HUMAN CAPITAL FINANCIAL CAPITAL	CLIENT FOCUS RISK AND CONDUCT FINANCIAL OUTCOME	EMPLOYEES AND THEIR REPRESENTATIVES REGULATORS AND GOVERNMENTS OUR CLIENTS SHAREHOLDERS AND INVESTMENT ANALYSTS COMMUNITIES AND CIVIL SOCIETY	8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Measuring our strategic progress

WHAT SUCCESS LOOKS LIKE

Measures our efficiency in generating revenues relative to the costs we have incurred. Containing our costs is key to growing profit and improving return on equity.

Measuring our progress

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

COST-TO-INCOME RATIO (CTI)

Measures our efficiency in generating revenues relative to the costs we have incurred. We aim to reduce our CTI, making sure that the growth in our costs does not exceed the rate at which we grow our revenues.

RETURN ON EQUITY (ROE)

Shows how much profit we generate with the money shareholders have invested in us. ROE is the result of all the growth and resilience measures and, therefore, the ultimate measure of our effectiveness in executing our strategy.

CREDIT LOSS RATIO (CLR)

Measures our impairment charges as a percentage of average loans and advances. We aim to maintain our CLR at an acceptable level in line with our risk appetite.

RETURN ON ASSETS (ROA)

Measures our profitability in relation to our total assets. We seek to improve our profit each year by continuing to grow our revenue while managing our costs and risks.

RESILIENCE

Our resilience is measured by Liquidity Coverage Ratio and NSFR.

For more on Risk and Conduct, see page 66.

Our 2020 priorities

- Continue to understand our clients better to deliver value
- Accelerate digitisation to meet client needs and enhance competitiveness and efficiency
- Grow our client base
- Continue to focus on cost discipline
- Continue to do business the right way through responsible lending
- Continue to be adequately capitalised and above regulatory requirements
- Proactively manage risk in our business
- Strive to deliver sustainable earnings amidst the COVID-19 pandemic

Our key trade-offs

- To ensure that we can continue to attract the capital we need to fund the growth in our assets, we must provide an appropriate rate of return to our equity shareholders and debt funders, including depositors. This requires that we balance our ability to generate revenue with the costs incurred in doing so.
- We need to balance the need to provide sustainable returns to shareholders while creating value for other stakeholders, as a responsible corporate citizen.

How we performed

▼ KShs 5.2 billion
Profit after tax (PAT)
2019: KShs 6.2 billion
2018: KShs 6.2 billion

▼ 13%
ROE
2019: 17%
2018: 18%

▼ 1.7%
ROA
2019: 2.2%
2018: 2.2%

▼ 51.2%
CTI
2019: 55.8%
2018: 49.5%

▲ 3.0%
CLR
2019: 2.1%
2018: 1.4%

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

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

Entrenching Value Sustainably

SEE IMPACT

SEE Impact

We are committed to driving sustainable and inclusive economic growth. To achieve this, we must ensure that the clients we bank, and the projects, partnerships and infrastructural developments we finance, create net positive social, economic and environmental (SEE) impacts. These considerations are central to our business decisions.

Comprising	Relating to	Impacting	Addressing
Our capitals INTELLECTUAL CAPITAL HUMAN CAPITAL	**Our strategic value drivers** SEE IMPACT	**Our stakeholders** COMMUNITIES AND CIVIL SOCIETY	**Our SDGs** 3 GOOD HEALTH AND WELL-BEING 4 QUALITY EDUCATION 8 DECENT WORK AND ECONOMIC GROWTH 17 PARTNERSHIPS FOR THE GOALS

SEE shared value

Our SEE management approach is guided by our purpose, our core business and the needs of our society. It requires us to take a long-term view and to assess the positive and negative impacts of our business decisions, not just for the Bank, but for the communities in which we operate.

SEE impact management is central to the commercial strategies of our business lines and legal entities. It shapes how we do business, how we generate our income, and the products and services we offer our clients. It also provides the opportunity to grow our business by providing innovative solutions that address societal, economic and environmental challenges in our markets.

We therefore understand that shared value means that in order for us to continue as a successful and sustainable business, we must measure value beyond financial outcomes.

Our SEE framework

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

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

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

Understanding our SEE impact

We understand that our success is intrinsically linked to the societies in which we operate. It is a crucial component of our business strategy. We play an important role in society and SEE is about how we best understand and strategically maximise our value-creation impact in the region.

As financial intermediaries, it is our purpose to drive sustainable growth and empower our stakeholders by acting as a catalyst for economic change. SEE helps us understand if we are achieving our purpose and building trust among our clients and other stakeholders.

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

What success looks like

We view success as the measure of our ability to generate economic value in a way that produces value for society.

As a result, it is our understanding of our direct and indirect impacts on the societies, economies and environments in which we operate that enables us to make more informed, responsible decisions.

FINANCIAL INCLUSION

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

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

JOB CREATION AND ENTERPRISE GROWTH

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

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

INFRASTRUCTURE

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

Key focus
Working with the government and development institutions to structure appropriate funding for crucial developmental infrastructure:
- Roads
- Energy

TRADE AND INVESTMENT

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

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

EDUCATION

Support access to inclusive, quality education and lifelong learning opportunities

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

HEALTH

Partnering with NGOs to provide affordable access for individuals and communities to healthcare equipment and diagnosis

Testing, diagnosis, protection
- Facilitating cancer screenings
- Providing PPE for communities and staff
- Supplying and distributing hand washing stations

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

SEE Impact continued

TRADE-OFFS

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

Progress made

FINANCIAL INCLUSION

Our impact

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

Challenges addressed

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

What we are doing

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

Alignment to SDGs

8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES

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

2020 achievements

- We partnered with Kenya Mortgage Refinance Company (KMRC) to support the government agenda of affordable housing. We have allocated KShs 300 million to support affordable housing.
- We assisted clients to purchase 2 346 homes.

JOB CREATION AND ENTERPRISE GROWTH

Our impact

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

What we are doing

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

Alignment to SDGs

8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

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

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

Challenges addressed

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

INFRASTRUCTURE

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

What we are doing
- Working with the government, development finance institutions and other commercial banks to mobilise funding and structure appropriate infrastructure funding instruments.
- Increasing focus on renewable energy projects.

Alignment to SDGs

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

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

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

2020 Achievements
- We continue to support various infrastructural and energy development projects in Kenya.

TRADE AND INVESTMENT

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

What we are doing
- Facilitating trade and investment, particularly in the Africa-China corridor, working with our strategic partner, ICBC.
- Improving access to trade finance.

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

Alignment to SDGs

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

2020 Achievements
- We accelerated access to trade finance solutions as evidenced by the growth in contingents.

2020 achievements
- We partnered with Facebook, which was involved in SME training on how to create a digital presence as part its COVID-19 response. We exceeded our target of 350 SMEs for digital training, ultimately reaching 588.
- We successfully completed financial fitness academies for nine corporates training 681 individuals.

EDUCATION

Our impact

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

What we are doing

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

Alignment to SDGs

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

Challenges addressed

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

2020 achievements

- KShs 3 million was invested in education in 2020 through Palmhouse Foundation and SOS Children's Village.
- We have 36 beneficiaries of secondary education under our partnership with Palmhouse Foundation.
- Sponsorship of 20 children in the SOS Children's Village.

HEALTH

Our impact

We contribute to better health outcomes by financing healthcare providers, infrastructure and equipment; providing business development support to healthcare practitioners; and investing in the health, safety and wellbeing of our people and communities.

What we are doing

- Partnering with NGOs to provide cancer screening and diagnosis to people with limited access to affordable healthcare.
- Partnering to provide PPE and ventilators to help meet the healthcare demands created by COVID-19.
- Supplying and distributing handwashing stations to help provide COVID-19 prevention measures.

Alignment to SDGs

Challenges addressed

- Lack of access to affordable healthcare.
- Lack of awareness of cancer testing and diagnosis options.

2020 achievements

- Stanbic and partners collaboratively spent over KShs 147 million.
- Donated 192 Oxygen Therapy Units in partnership with various partners.
- Donated 1 000 handwashing stations across Kenya.
- Facilitated cancer screening for over 3 000 people in 5 counties free of charge.

SEE Impact continued

SEE initiatives – case studies

PARTNERING WITH KENYA HEALTH FEDERATION (KHF)

As part of its COVID-19 response towards the end of 2020, Stanbic partnered with KHF through various intervention areas to supplement the government's efforts in fighting the COVID-19 pandemic.

KHF aims to tap into its experience in working with the private health sector to support health providers, effectively collaborating with the government in the management of COVID-19. Interventions include:

- Enhancing access to personal protective supplies with a focus on both surgical and N95 masks
- Dissemination of information to the public
- Training and equipping health workers
- Assessing the capacity of private sector health facilities to handle the pandemic
- Assessing supply chain requirements to meet the needs of the health system

The private sector plays a key role in the growth and development of the country, and Stanbic recognises the need to be part of the solution. Equipped with the capacity to support the social pillars of the country by providing resources, capital and knowledge, Stanbic stepped in to finance this COVID-19 response.

As the country continues to fight the virus, the donations will go a long way in strengthening the public health system in the long run. This partnership aims to improve access to COVID-19 supplies at facility level for healthcare providers and to improve health provider willingness and confidence in attending to patients safely.

DISTRIBUTION OF HANDWASHING STATIONS

When the Ministry of Health announced the first case of the coronavirus in March 2020, a number of organisations from the private and public sectors came together to help combat the outbreak.

Stanbic Bank Kenya was at the forefront in helping support the country in ensuring that citizens had access to sanitation stations to wash their hands as regularly as possible to curb the spread of the virus. Through the Bank's women-led DADA proposition, Stanbic partnered with the Rotary Club to donate 1 000 sanitation stations, an investment worth approximately KShs 3million. The handwashing stations were distributed across various counties including Kiambu, Kisumu, Nairobi, Naivasha, Nakuru, Mombasa and Meru.

Speaking during the official launch, the Head: Business Banking at Stanbic Bank Kenya noted that the Bank was proud of its renewed DADA proposition and the value it brings to society.

He said the integration of DADA into the Bank's SEE investments is the perfect amalgamation facilitating impactful change, with the hope that the sanitation stations will play a significant role in stopping the spread of the dangerous virus.

It is estimated that there will be at least 1 000 washes a day at each handwashing station, and it is the Bank's hope that the sanitation stations will play a significant role in preventing the rate of infections and stopping the spread of COVID-19, while in the long term, instilling behavioural change and promoting an increase in levels of hygiene and sanitation.

TUNZA CLINIC CANCER SCREENING

During Breast Cancer awareness month in October 2020, Stanbic partnered with the Population Services Kenya to help create awareness about early detection of breast and cervical cancers in order to reduce the number of deaths. The initiative was rolled out across various Tunza Health Clinics in the country, reaching over 2 500 women from low-income areas in Nairobi, Kisumu, Mombasa, Nakuru and Kiambu where residents do not have access to affordable healthcare and where they tend to stay away from hospitals due to the high cost of healthcare.

In 2018, there were an estimated 18.1 million new cases of cancer in Kenya and 9.6 million deaths globally. In Kenya, cancer is the third leading cause of death after infectious and cardiovascular diseases.

Early detection of cancer presents a higher chance of survival, and the initiative thus also sought to educate and empower women to carry out regular breast self-examinations. In addition to the benefit of early detection, diagnosed patients are referred to leading hospitals for better treatment.

Overall, breast cancer accounts for 12.5% of all new cancer cases, and has accounted for 9.2% of all cancer deaths, making it the third leading cause of all cancer deaths in Kenya. Available data shows that the majority of breast cancer patients present in late stage, contributing to higher mortality and low overall survival.

Stanbic is committed to addressing this gap in the healthcare system, and is gratified that it can be a part of this project as a funding partner, as the cancer burden continues to affect all Kenyans, exerting significant strain on populations and health systems at all income levels. Early screening and detection can save more lives and that is the aim of this partnership.


Stanbic Foundation
PARTNERING
FOR GROWTH
Stanbic Bank IT CAN BE™
A member of Standard Bank Group
Stanbic Bank Kenya Limited is licensed and regulated by the Central Bank of Kenya

Stanbic Foundation

The Stanbic Foundation was **constituted in 2020 in order to provide a formal, relevant and effective framework** for the Bank's **Corporate Social Investment (CSI) initiatives** to enable us to live our purpose. It forms an important part of our human and social relationship capital and relates to **our strategic value** driver of **SEE impact.**

The Foundation is funded by Stanbic and contributions from other development partners. Its strategy is underpinned by pillars comprising:
- Job creation and enterprise development
- Education
- Health
- Financial inclusion
- Environment

Our aim is that in time we will be in a position to amplify Stanbic's SEE areas.

During the year under review the Foundation devised a strategy and an operational plan aligned to:
- The Bank's overall strategy
- Kenya's National Development Plan
- The government's Big 4 agenda

Foundation performance – FY2020

We trained a number of SMEs through the SME bootcamp framework. In amplifying SDG 17, we approached bilateral strategic partners and government entities, and were fortunate to have the US Africa Development Foundation (USADF) as our first partner with a commitment to contribute funds that will go towards supporting SMEs through job creation and enterprise development.

Our second partner is Microsoft, with whom we signed a partnership to educate the community on digital skills, which will be a core focus of our work in 2021. This will yield over 200 courses, starting with entrepreneurship and soft skills.

We also partnered with Facebook, which was involved in SME training on how to create a digital presence as part its COVID-19 response. We exceeded our target of 350 SMEs for digital training, ultimately reaching 588.

We closed the year very strongly, with the strategy soundly supporting our operationalisation. We continue to work closely with colleagues in the Bank, something that has enabled the creation of effective synergies.

In addition, we have recorded several other achievements in the year under review:
- In partnership with four corporates, in the spirit of partnering for growth, we donated 192 ventilators in support of the COVID-19 response.
- We donated 1 000 handwashing stations, and we will continue delivering to schools, hospitals and police stations as well as to selected government and government offices.
- Our Board and Bank Exco donated food hampers to the needy, to the value of KShs 2 million. Other departments also participated, with the Foundation matching their contributions.
- We reached five of Kenya's 47 counties with our cancer screening project, with over 3 000 people screened. This exercise will be repeated in 2021.
- We donated PPEs with the intention of attaining a target of 50 000 to be sent to rural and mission hospitals, which are our areas of focus.

Stakeholders

Our development of meaningful partnerships – established between July and September 2020, with Facebook, Microsoft, USADF, United Nations Development Programme, the Ministry of Industrialisation Trade and Enterprise Development – was a notable success in our first year of operation.

This success will form a sound basis for the work of the Foundation going forward. We will continue to carefully nurture these relationships as they continue to facilitate our work in the implementation of our projects and initiatives. Another five partners have been identified for our work in job creation and market linkages, with agreements due to be signed in FY2021.

With the use of our Partnering for Growth methodology to devise solutions, an intense level of engagement with public sector government ministries and agencies is required. We believe that the Foundation will amplify the Bank's SEE impact areas and truly live up to the promise expressed in our purpose: Kenya/South Sudan is our home we drive her growth.

Looking ahead

In the short to medium term, we plan to roll out the partnership with the Ministry of Industrialisation, Trade and Enterprise Development.

In addition, we will support our education strategic pillar by focusing on our digital academies with projected roll-out in all 47 counties. To this end, discussions with universities and government agencies have been held, with a target of reaching up to one million youth in the country, presenting to them the concept of digital as the future through a bank that cares. This will be the largest programme that we will run and will therefore constitute a major differentiator for the Foundation.

In another message of hope in the short to medium term, we have a budget of USD 1 million to support work with SMEs, and we will be looking at businesses that need support to enable them to access commercial funding.

CSI Activities

Palmhouse Foundation sponsorship and mentorship

It has been 10 years since we partnered with Palmhouse Foundation to sponsor bright and needy students through their four years of secondary school education. The annual scholarships are valued at KShs 1.28 million.

SOS Children's Village

The SOS Village in Buruburu, Nairobi continued to benefit from Stanbic Bank through the renewal of our sponsorship of two houses for another year. The sponsorship caters for the education and upkeep of 20 children of different ages throughout the year with KShs 1.8 million invested.

Bank CSI activities

CE&SS CSI

In line with the Bank's strategic commitment to making a SEE impact, CE&SS undertook a CSI initiative during the year under review.

This involved support for The Ntimi Home of Hope in Kenya (Ntimi). The objective was to create a positive impact on social and economic growth while promoting environmental awareness.

Ntimi is a non-profit organisation located in Embakasi West, Tena Estate, Nairobi. The home takes care of children who are abandoned, orphaned or neglected.

Ntimi cares for 100 children, providing them with boarding facilities, food, parental care and guidance, quality education, primary healthcare, rehabilitation and reintegration into the community.

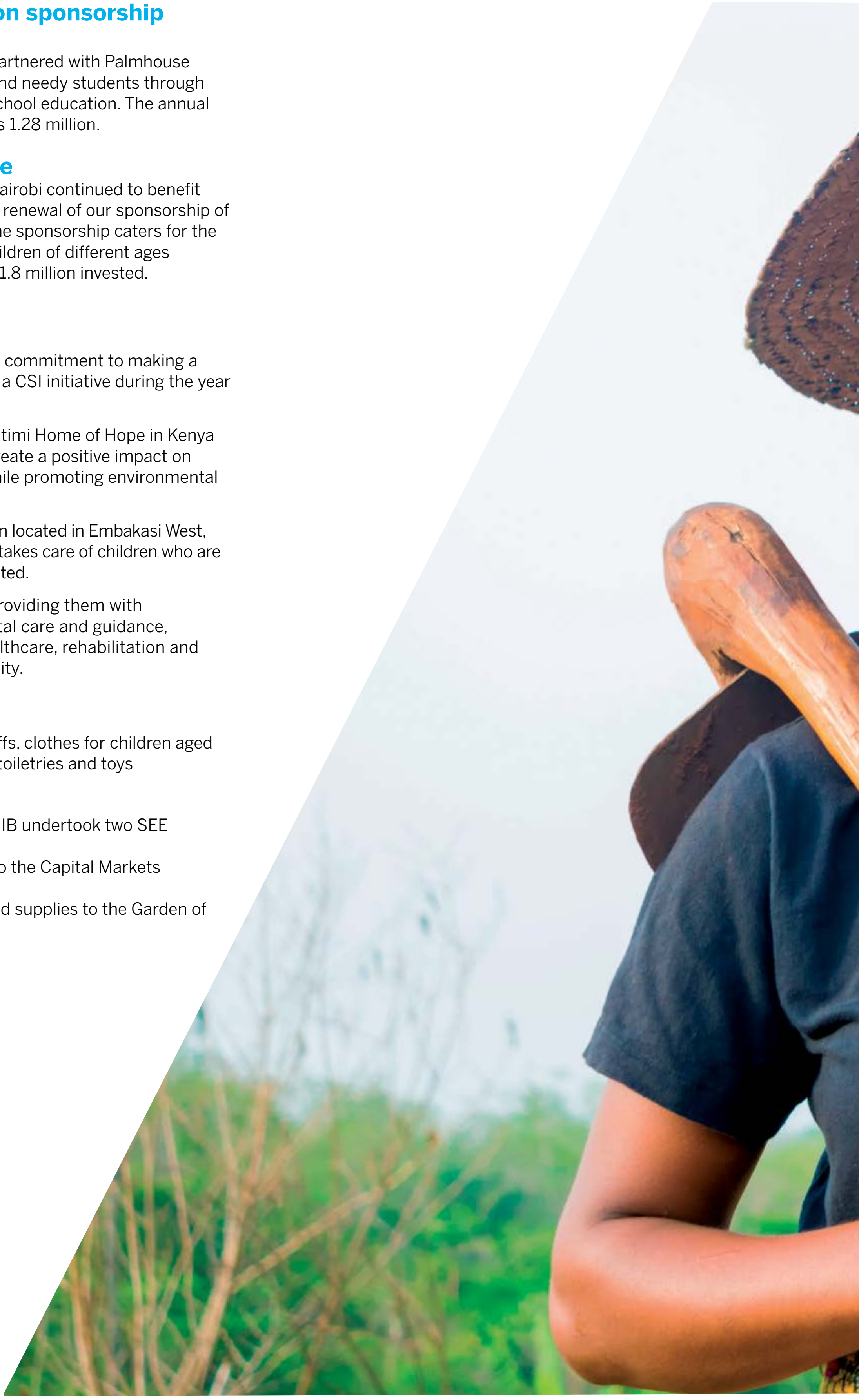
Our support included:

- Monetary contribution
- Contributions of dry foodstuffs, clothes for children aged three to 15 as well as books, toiletries and toys

CIB CSI

During the year under review, CIB undertook two SEE initiatives by:

- Contributing KShs 1 million to the Capital Markets Authority COVID-19 Fund
- Providing computers and food supplies to the Garden of Hope Children's Home



The management of risk forms a central part of our intellectual and human capital and relates to the Company's strategic value drivers of risk and conduct, financial outcome and SEE impact.

Safeguarding Value

Managing Risk

It is a **critical component in enabling us to execute our strategy effectively** within a **dynamic environment** that is continually affected by domestic and global economic, technological, social and regulatory forces.

Our governance structures are informed by Kenyan and South African regulatory requirements as well as the Standard Bank Group risk framework and architecture, which support our enterprise-wide risk management (ERM). With our Board ultimately responsible for the level of risk we are willing to take, our ERM approach is based on set governance standards and processes. It relies on both individual responsibility and collective oversight, supported by comprehensive reporting.

Identifying risks

In our process of identifying the risks that could have an impact on our ability to create and deliver value, we rely on:

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

Our ERM Framework

Our classification of risks ensures that at a minimum we meet the provisions of, among other Kenyan Laws and Regulations, the Central Bank Risk Management Guidelines. Our overarching ERM framework seeks to manage our enterprise risk by first breaking it down into three broad areas:

Strategic risk →

- Strategy position risk
- Execution risk
- Reputational risks

Financial risk →

- Credit risk
- Market risk
- Funding and liquidity risk
- Equity and country risks

Non-financial risk →

- Business disruption risk
- Conduct risk
- Regulatory compliance risk
- Cyber risk
- Environmental, social and governance risks
- Financial accounting and tax risks
- Information and technology risks
- Financial crime risks
- Legal risks
- Model risks
- People risks
- Physical assets, safety and security risks
- Third party risks
- Transaction processing risks

Our approach to managing risk is set out in a risk governance framework that has two components:

- Governance committees at Board and management levels
- Governance documents such as standards, frameworks and policies

Risk management roles

THE BOARD

The Board has ultimate responsibility for risk management, and its mandate includes evaluating key risk areas and ensuring that risk management processes and internal control systems are implemented.

BOARD CREDIT COMMITTEE (BCC)

The BCC ensures that effective credit governance is in place to provide for the adequate management, measurement, monitoring and control of credit risk, including country risk.

BOARD RISK COMMITTEE (BRC)

The BRC provides independent oversight of enterprise-wide risk, compliance and capital management, by:

- Determining risk appetite
- Monitoring the current and future risk profile
- Evaluating stress-test results
- Overseeing the risk governance framework
- Approving governance standards, frameworks and policies
- Promoting a risk awareness culture
- Recommending necessary actions or improvements

BOARD TECHNOLOGY AND INFORMATION COMMITTEE (BTIC)

This committee:

- Reviews IT governance framework implementation reports
- Evaluates and approves IT outsourcing
- Oversees the governance of technology and information in a way that supports the organisation in setting and achieving its strategic objectives
- Recommending necessary actions or improvements

BOARD AUDIT COMMITTEE (BAC)

In relation to risk and capital management, the BAC plays a role in assessing the adequacy and operating effectiveness of the internal financial controls.

INTERNAL AUDIT (IA)

This function provides independent and objective assurance and advisory services designed to add value and improve Bank operations, by:

- Discharging governance responsibilities
- Protecting our assets, reputation and sustainability
- Establishing and maintaining robust governance and risk management processes and a sound internal control environment

Managing Risk continued

MANAGEMENT COMMITTEES → The Risk and Conduct Committee (RCC) and Credit Risk Management Committee (CRMC) are responsible for all material risk types that have been delegated by either Board Risk Committee (BRC), Board Technology and Information Committee (BTIC) or Board Credit Committee (BCC) to assist the Board subcommittees fulfill their mandates, with the Risk appetite and stress testing committee. This committee is the primary entity overseeing risk appetite and stress testing, ensuring that these are fit for both business and regulatory purposes at legal entity and business line levels.

BUSINESS UNITS → Business units constitute the first line of defence and as such own and manage the risks pertaining to their businesses.

GOVERNANCE DOCUMENTS → These documents set out the requirements for identification, assessment, measurement, monitoring, management and reporting of risk.

Our risk-management approach

In managing risk, we utilise a three-lines-of-defence model. Through its clear identification and segregation of roles, this model promotes:

- Transparency
- Accountability
- Consistency

FIRST LINE OF DEFENCE → This line comprises business line management, and is responsible for measuring, assessing and controlling risks through the day-to-day activities of the business within the governance framework.

SECOND LINE OF DEFENCE → This line provides independent oversight and comprises the finance, risk management, compliance, legal and governance and assurance functions, excluding internal audit. These units implement governance standards, frameworks and policies for each material risk type and report to management and Board governance committees. Compliance with the standards and frameworks is ensured through annual self-assessments and reviews by Internal Audit (IA).

THIRD LINE OF DEFENCE → The third line of defence comprises Internal Audit (IA) and operates under a mandate from the BAC, to which it reports. IA's mandate is to provide independent and objective assurance of the first and second lines of defence, and it has the authority to independently determine the scope and extent of work to be performed.

Our approach to risk appetite

Our risk appetite governance framework guides and defines our:

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

There are three levels of risk which are taken into account in our determination of risk appetite:

- Level 1 – Capital, earnings and liquidity
- Level 2 – Risk types
- Level 3 – Operational issues governing the management of risk through the application of risk metrics

Executive management is responsible for recommending the Risk Appetite Statement (RAS), which is ultimately approved by the Board. The RAS serves as a guide for embedding the risk appetite policy across the organisation and to support strategic and operational decision-making.

Risk appetite – key components

RISK APPETITE

This is an expression of the amount or type of risk that the Bank is 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.

RISK TOLERANCE

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

RISK CAPACITY

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

RISK PROFILE

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

Stress-testing

We undertake regular stress tests to facilitate a forward-looking view in the management of risk and business performance. Through this process we identify possible events and scenarios or changes in economic conditions that may have an adverse impact on the Banks risk profile.

Executive management considers the outcomes of stress testing on earnings and capital adequacy to determine an appropriate risk appetite, and to ensure that these remain above the Bank'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. Such mitigating actions may include reviewing and tightening risk limits, limiting exposures, and hedging exposure to some areas of risk.

Material issues – FY2020

The year under review was a challenging one with regard to the management of risks – a consequence of many global and local developments and disruptions. This impact was evidenced across our credit and operational risk management, in particular. Despite this, the Bank continued to manage these risks effectively, whilst at the same time investing in resources for managing compliance risk, cyber information risk and strategic risks. Through our robust ERM framework, we have ensured that we have operated well within regulatory thresholds.

The issue that had the greatest bearing on our risk determinations and assessment during the year under review was undoubtedly the advent of COVID-19. Every aspect of the Bank's operations and functions was affected either directly or indirectly.

Other risks were themselves impacted by the pandemic. These included credit risk, resulting from client financial insecurity and stress; market risk resulting from the ensuing volatility and cyber risk; resulting from the need to reduce face-to-face interactions, both within the Bank and between the Bank and its clients.

Linked to these were:

- People risk, necessitating a review of processes and procedures
- Conduct risk, requiring close examination of reputation management and effective communication with stakeholders
- Operational resilience risk in an environment where critical and essential services could be accommodated without inconvenience to clients or regulatory non-compliance
- Third- and fourth-party risks, where vendors' practices and procedures required careful evaluation of capacity, supply and security

Managing Risk continued

Other important risks became apparent during the year, such as those relating to national politics through the mooted referendum proposed for 2021, or macro economic risks exacerbated by global uncertainty, and new costs such as the distribution of sanitisers, the upskilling of staff for remote interactions, and the efficient provision of equipment and channels for these new ways of interacting.

While our traditional areas and types of risks did not change, we were compelled to recognise a new significance to many of them. The result was an accumulation of knowledge, insight and understanding as the year progressed.

From a regulatory perspective, we noted and acted on a number of guidelines released by the Central Bank pertaining to:

- Clients in financial distress, with lending facilities being made available as well as debt restructuring, and ensuring liquidity
- Our move to digital channels and the waiver of fees relating to these, as part of the banking industry's obligation to provide continued and consistent essential services
- Reduced cash reserve requirements for enhanced liquidity
- Effective governance and anti-money-laundering with associated enhanced levels of enforcement and oversight

For more on our operating context, see page 28.

SPECIAL TIMES, SPECIAL MEASURES

In the demanding circumstances directly triggered by the pandemic, and with client journeys already identified, there was an urgent need to implement solutions as quickly as possible. As output became the imperative, issues such as working from home required a focus on cybersecurity, and the implications of staff retaining their own devices for work purposes.

In order to govern this, weekly meetings were held and there was ongoing close collaboration with the risk management team. Third- and fourth-party risk became apparent and needed to be addressed where suppliers who deliver outsourced services to the Bank themselves depend on outsourced resources.

An important IT-related initiative was the automation of loan collections, which addressed the proactive management of arrears and non-performing loans. In implementing this, we installed a 'sniffer' facility which can detect funds owing and enable collection. This resulted in significant credit savings, from a process that had previously been done manually.

Our top 10 risks in 2020

With the Bank implementing artificial intelligence and machine learning as part of our strategic value driver of digitalisation, cyber-related risks emanating from the proliferation and access to data, albeit remaining on our list, continue to take on a new significance.

New non-financial risk entrants this year are non-traditional models and climate change risks, which have become topical with industry bodies, international bodies and amongst shareholders.

Conduct risk has grown in prominence, with new regulations coming into effect.

The inclusion of credit and equity concentration, market, business and interest rate in the banking book risks is representative of threats from large corporate failures, exposures to volatile markets and interest rates due to global uncertainty, and unprecedented change to business models.

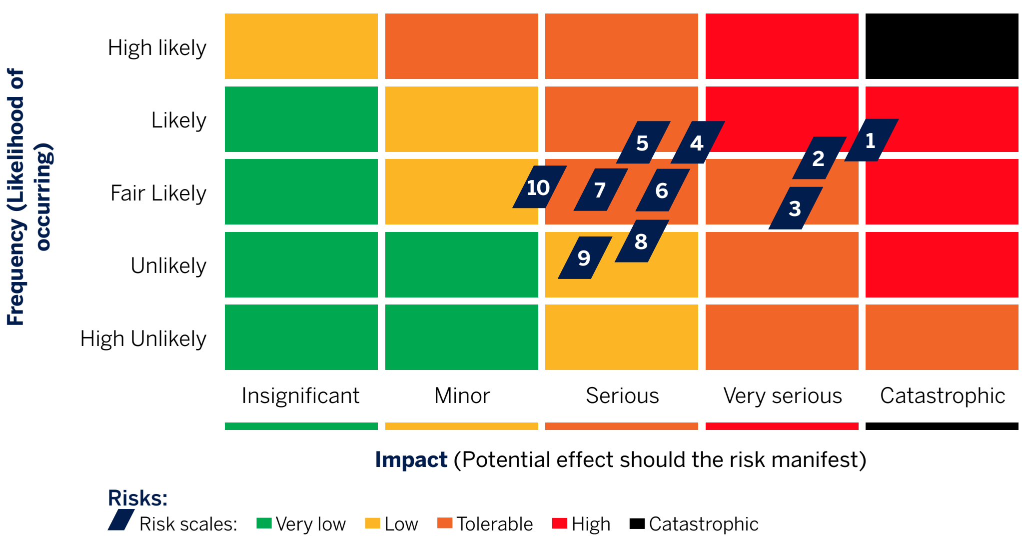
Issues on the horizon are analysed as emerging threats and opportunities while those closer to materialising are considered current risk focus areas.

Rank	2019/2020	Description	Trend	2018/2019	Relevant mitigants
1	**Cyber risk**	The risk of financial loss, disruption or reputational damage resulting from security breaches or attacks on transaction sites, systems or networks	↔	Cyber risk	• Awareness and training programmes • Intelligence-led cybersecurity strategy • Governance • Simulations to improve detection and remediation • Development of threat intelligence capabilities
2	**Technology risk**	The risk associated with the use, ownership, operation, involvement, influence and adoption of technology within the bank that could potentially impact business, including technology changes, updates or alterations	↔	Technology risk	• Key focus on systems platform • Health improvements • Roll-out of IT governance comprising Board education sessions, establishment of IT governing bodies, ongoing adoption of the IT governance standards • Independent internet solutions • MTN links to provide alternate routing
3	**Conduct risk**	The risk that detriment is caused to the Bank's clients, the market or the Bank itself because of inappropriate execution of business activities	↑	Regulatory impact risk	• Reporting and management of financial and non-financial conduct risk in line with the conduct risk framework • Continuous investments in culture initiatives • Employee training to ensure good conduct is embedded at all levels
4	**Information risk**	The risk of accidental or intentional unauthorised use, access to or modification, disclosure or destruction of information resources that would compromise the confidentiality, integrity and availability of information and thereby harm the business.	↑	Fraud risk	• Information risk manager to drive implementation of information risk management (IRM) initiatives • Formal accountability of the enterprise data office as the first line of defence for information risk • Adoption of information risk governance documents • IRM strategy, including partnering with in-country stakeholders
5	**Regulatory impact risk**	The risk of reputational and financial losses due the inability of the bank to keep abreast of regulatory developments, and to comply with regulatory requirements	↓	Information risk	• Development of policies, guidelines and standards for regulatory foresight and advocacy • Recruitment of skilled resources to manage complex regulatory environments • Monitoring and oversight as an integral part of managing compliance risk
6	**Business disruption risk**	The risk of reputational damage and financial loss arising from disrupted business services	↔	Business disruption risk	• Threat-specific response plans regularly updated and tested • Review of IT infrastructure design • DR testing approach in line with service continuity • Capability exercises integrated with recovery and resolution planning for adequate response to potential systemic impacts • General staff awareness through BCM week and e-learning modules

Managing Risk continued

Rank	2019/2020	Description	Trend	2018/2019	Relevant mitigants
7	**Third-party risk**	Regulatory, reputational and business continuity risk due to ineffective management of third-party relationships and engagements	↔	Third-party risk	• Implementation of the third-party risk management framework to assist in managing risk, compliance and performance • Background and due diligence checks conducted on third parties • Needs and risk assessments conducted on a defined scope of work to determine materiality • Risk, compliance and performance requirements at onboarding and reporting stages
8	**Climate-change risk**	The risk of financial loss, loss of shareholder value, investor pressure/action, reputation and regulatory sanctions	↑	Conduct risk	• Adoption of strategy for climate risk and opportunity embedded in all business aspects • Environmental and social training and awareness framework rolled out to increase staff awareness • Environmental and social coordinators to provide guidance and direction
9	**Non-traditional models risk**	The risk of loss resulting from using insufficiently accurate models to make decisions, traditionally in pricing and capital exposure Model risk can lead to financial loss, poor business and strategic decision-making, or damage to the Bank's reputation	↑	People risk	• Work conducted to make risk assessments, scenario analysis, risk appetite levels, and capital calculations fit for purpose • Approved models based on an assessment of the materiality of each model • Enhancements to the bank model risk governance framework with more thorough and up-to-date model validation procedures
10	**Fraud risk**	The risk of loss, regulatory sanction or risk to reputation due to fraud, violent crime and misconduct internally from staff and externally from syndicates	↓	Execution risk	• An independent whistle-blowing capability in place for anonymous reporting • System-based detection capabilities • Fraud prevention awareness programmes • Investment in real-time fraud prevention technology for quick and accurate identification and response to fraud attempts

Our risk heat map




DADA
Stanbic Bank
Rotary
DISTRICT 9212
EMERGENCY
RESPONSE
COVID -19
8:00 pm

Our Governance

Our leadership

Our Board

1 **Kitili Mbathi**
Chairman

2 **Patrick M Mweheire**
Non executive Director

3 **Gregroy R Brackenridge**
Non-executive Director

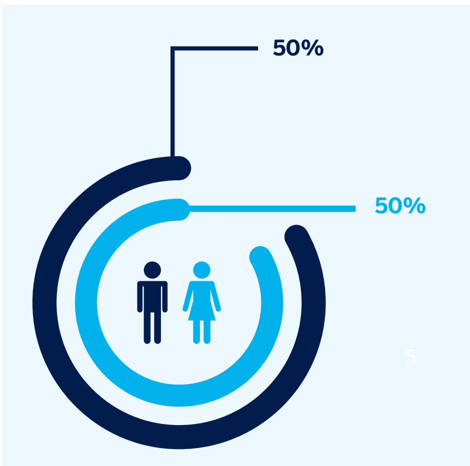
7 **Ruth T Ngobi**
Non-executive Director

8 **Peter Nderitu Gethi**
Non-executive Director

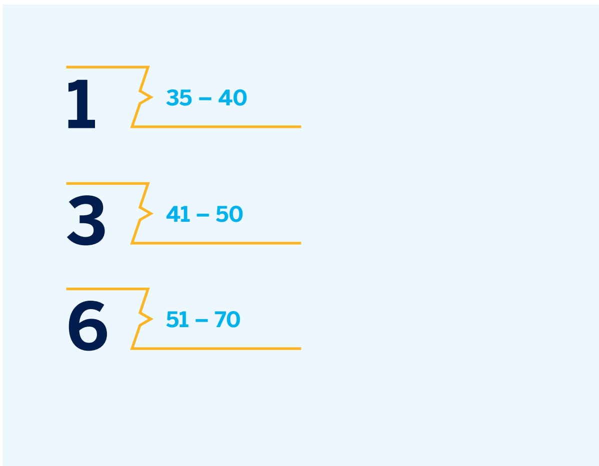
9 **Rose Bosibori Osoro**
Non-executive Director

* *Mr Gregroy R Brackenridge – Retired from the Board of Stanbic Bank on 26 June 2020 but remains as Non-executive Director in the Stanbic Kenya Foundation Board.*

Gender



Age



4 **Charles Mwanyara Mudiwa**
Chief Executive

5 **Christopher J. Blandford – Newson**
Non-executive Director

6 **Rose W Kimotho**
Non-executive Director

10 **Dorcas Florence Kombo**
Non-executive Director

11 **Samuel Nderitu Gikandi**
Non-executive Director

12 **Ory Ateka Okolloh**
Non-executive Director

*** Ms Ory Okolloh – Resigned from the Board of Stanbic Bank on 9th December 2020.*
**** Mr Christopher Newson – Resigned from the Board of Stanbic Bank on 4th March 2020.*

13 **Lillian Mbindyo**
Company Secretary

Directorate

Committee

- **Board Audit Committee**
- **Board Nominations Committee**
- **Board Credit Committee**
- **Board Risk Committee**
- **Chairman of the committee**
- **Board Technology and Information Committee**

Our Governance continued

Our leadership continued
Our Board continued

1 Kitili Mbathi, 62
– Chairman

Qualifications: BA (Economics and Political Science) (University of Michigan); Masters in Banking and Finance for Development from Instituto Fin Africa in Milan, Italy.

Appointed: 27 October 2007

Mr Mbathi is a Non-executive Director and was appointed as Chairman on the Board of Stanbic Bank Kenya Limited on 9 May 2019. 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 Chairman and Non-Executive Director on the Board of Stanbic Holdings Plc and served as Chairman on the Boards of SBG Securities Limited and Stanbic Insurance Agency Limited. Mr Mbathi served as Director-General of the Kenya Wildlife Service from February 2016 to July 2017. He holds a Bachelor of Arts Degree (Economics and Political Science) from the University of Michigan, Ann Arbor, Michigan, USA, and a Masters of Banking and Finance for Development from Instituto Finafrica in Milan, Italy. He has vast experience in banking which was acquired when serving in various banking institutions. He has also served as Investment Secretary in the Ministry of Finance & Planning – Government of Kenya.

2 Mr Patrick M Mweheire, 50
– Chief Executive, Stanbic Holdings Plc

Qualifications: BSc (Daemen College); MBA (Harvard University Graduate School of Business Administration)

Appointed: 3 March 2020

Mr Patrick M Mweheire was appointed as the Chief Executive of Stanbic Holdings Plc and Non-executive Director of Stanbic Bank Kenya Limited on 3 March 2020. Mr Mweheire previously served as the Chief Executive of Stanbic Bank Uganda Limited from December 2014 until his appointment. Mr Mweheire is a professional banker with a career spanning over 20 years. He is currently the Regional Chief Executive, East Africa, for the Standard Bank Group, responsible for operations in Kenya, Ethiopia, South Sudan, Tanzania and Uganda. He also serves on the board of the Uganda Chamber of Mines & Petroleum and as an Advisor of the Presidential Investors Roundtable. He holds a Bachelor of Science Degree from Daemen College and a Master in Business Administration from Harvard University Graduate School of Business Administration.

3 Mr Gregroy R Brackenridge, 63
– Non-executive Director

Qualifications: Associate Institute of Bankers

Appointed: 9 April 2010

Mr Greg Brackenridge was appointed as the Chief Executive of the Bank on 29 March 2010 until 2 March 2015 and thereafter served as a Non-executive Director of the Company. Mr Brackenridge previously served as the Chief Executive of Stanbic Holdings Plc (the Company) from 28 July 2016 until 3 March 2020 and thereafter remained on the Board of the Company as a Non-executive Director.

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

Mr Brackenridge retired from the Board on 26 June 2020.

4 Charles Mwanyara Mudiwa, 59
– Chief Executive, Stanbic Bank Kenya

Qualifications: BSc Economics (University of Zimbabwe); Banking Certificate (Institute of Bankers of Zimbabwe); Postgraduate Diploma in Leadership and Change (Leeds Metropolitan University).

Appointed: 6 December 2017

Mr Charles Mudiwa was appointed as the Chief Executive Officer of Stanbic Bank Kenya Limited on 6 December 2017. Prior to his appointment, Mr Mudiwa served as the Chief Executive of Stanbic Bank, Zambia. He has worked in different markets on the African continent and has over 20 years banking experience. Mr Mudiwa holds a Bachelor of Science Degree in Economics from the University of Zimbabwe, a Post Graduate Diploma in Leadership and Change from Leeds Metropolitan University in the United Kingdom and an Advanced Management Program (AMP) from Columbia Business School.

5 Christopher J Blandford – Newson, 56

– Non-executive Director

Qualifications: Bachelor of Commerce (University of Cape Town); Certificate in Theory of Accounting (University of Cape Town); Chartered Accountant of South Africa.

Appointed: 26 June 2014

Mr Christopher Newson was appointed to the Board of Stanbic Bank Kenya Limited on 26 June 2014 as a Non-executive Director. He also served as a Non-executive Director on the Board of Stanbic Holdings Plc. Mr Newson is a Chartered Accountant and was the Chief Executive of Standard Bank Africa until September, 2015. He has over 23 years of experience in Investment and Commercial Banking, and has particular expertise gained in relation to Sub-Saharan Africa, with the last nine years being at the chief executive level. Mr Newson also joined the Board of Bayport Management Limited in 2019.

Mr Newson resigned from the Board on 4 March 2020.

6 Rose W Kimotho, 65

– Non-executive Director

Qualifications: Diploma in Journalism (University of Nairobi); Management Diploma (Columbia University Graduate School); Marketing Certificate (Marketing Society of Kenya)

Appointed: 21 June 2010

Ms Rose W Kimotho was appointed as a Non-executive Director of Stanbic Bank Kenya Limited on 21 June 2010. 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 Bank Kenya Limited, she serves on the boards of Stanbic Holdings Plc, Stanbic Insurance Agency Limited, Population Services International, Rhino Ark and Three Stones Limited. Ms Kimotho holds a diploma in journalism from University of Nairobi, a Management Diploma from Columbia University Graduate School and a Marketing Certificate from the Marketing Society of Kenya.

7 Ruth T Ngobi, 60

– Non-executive Director

Qualifications: LLB (University of Kent); LLM (University of Cambridge)

Appointed: 1 February 2011

Ms Ruth T Ngobi has been a Non-executive Director of the Board of Stanbic Bank Kenya Limited since 1 February 2011. She is a lawyer of over twenty-nine years standing, having been admitted as an advocate of the High Court of Kenya in 1985. She holds a Bachelor of Laws Degree from University of Kent in Canterbury and a Master of Laws Degree from University of Cambridge, both in the United Kingdom. Ms Ngobi worked with Unilever Kenya Limited for 15 years as Legal Counsel and Company Secretary, before joining British American Tobacco Kenya Limited in 2002 as Area Legal Counsel until 2010 when she founded Cosec Solutions Limited, a company that provides company secretarial services and corporate governance solutions. Ms Ngobi is also a Non-executive Director on the Board of Stanbic Holdings Plc and SBG Securities Limited.

8 Peter Nderitu Gethi, 55

– Non-executive Director

Qualifications: BSc in Agricultural Economics (University of London)

Appointed: 18 January 2013

Mr Peter Gethi was appointed to the Board of Stanbic Bank Kenya Limited 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 achieve its strategic goals. He holds a Bachelor of Science degree in Agricultural Economics from the University of London. Mr Gethi is a Board member of Liberty Life Assurance Limited and Heritage Insurance (K) Limited since 2009 and is currently serving as the Chairman of both companies since 2011. He is also a Non-executive Director on the Boards of Stanbic Holdings Plc and SBG Securities Limited. Mr Gethi holds several other directorships including on the board of Nebange Ltd.

Our Governance continued

9 Rose Bosibori Osoro, 49
– Non-executive Director

Qualifications: Fellow Certified Public Accountant (FCPA); Certified Secretary (CS); MBA (University of Nairobi)

Appointed: 26 September 2017

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

10 Dorcas Florence Kombo, 67
– Non-executive Director

Qualifications: Certified Public Account (CPA)

Appointed: 12 January 2018

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

11 Samuel Nderitu Gikandi, 38
– Non-executive Director

Qualifications: BSc (MIT); MEng (Electrical Engineering and Computer Science with Minor in Economics) (MIT)

Appointed: 29 June 2020

Samuel N Gikandi was appointed a Non-executive Director of Stanbic Bank Kenya Limited on 29 June 2020. Mr Gikandi is currently the Chief Executive Officer of Africa's Talking Limited, a technology startup providing communication and payment services across Africa. He holds a Bachelor of Science and Master of Engineering in Electrical Engineering and Computer Science with a Minor in Economics, both from the Massachusetts Institute of Technology. He has broad experience in Information Technology, having held various positions in his career spanning over 14 years. He currently serves on the boards of Stanbic Holdings Plc and the group of companies within Africa's Talking across Africa.

12 Ory Ateka Okolloh*, 44
– Non-executive Director

Qualifications: BA Political Science (University of Pittsburgh); Juris Doctor (J. D.) (Harvard Law School)

Appointed: 3 March 2020

Ory A Okolloh was appointed a Non-executive Director of Stanbic Bank Kenya Limited on 3 March 2020. Ms Okolloh is a seasoned professional with strong technological and legal exposure. She holds a Bachelor of Arts and Political Science degree from the University of Pittsburgh and a Juris Doctor (J. D.) from Harvard Law School. She sits on the boards of Stanbic Kenya Foundation Limited, Thomson Reuters Founders Share Trust and is an Advisor of Global Witness.

** Resigned from the Board of Stanbic Bank on 9 December 2020.*

13 Lillian Mbindyo
– Company Secretary

Qualifications: Bachelor of Laws (LLB); Master of Laws (LLM) from University of Warwick; Master of Business Administration (MBA) from Warwick Business School

Appointed: 1 November 2011

Ms Lillian 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 15 years' work experience and also serves as the Company Secretary of Stanbic Holdings Plc, SBG Securities Limited, Stanbic Insurance Agency Limited, Stanbic Nominees Limited and SBG Securities Nominees Limited.

Our Governance continued

Our Leadership Council

Charles Mudiwa
Chief Executive Stanbic Bank

Diana Oyosi-Ehete
Head, Client Experience and Shared Services (Incoming Head of Business Transformation)

Catherine Muraga
CIO

Ken Kanyarati
Head, Compliance

Stanley Kathurima
Head, Internal Audit

Anton Marais
Head, CIB (Incoming Head of Wholesale)

Janet Kabiru
Head, Legal and Governance

Anjali Harkoo
Head, Wealth (Incoming Head of Client Solutions)

Abraham Ongenge
CFO

Neema Onsongo
Head, Human Capital

Prishy Padayachee
Head, Risk

Lilian Onyach
Head, Marketing and Communications

Julius Mungai
Head, Digital Transformation and Innovation

Maryanne Michuki
Head, Innovation

Our Governance **continued**

Stanbic Bank: An overview

Stanbic Bank Kenya Limited (the Bank) **understands that good corporate governance** is fundamental to **earning the trust of our stakeholders**, which is critical to **sustaining the organisation's success and in preserving shareholder value**. In line with this philosophy, the Board is **committed towards adopting and implementing** sound **governance practices.**

The governance framework enables the Board to fulfil its role of providing oversight and strategic counsel. It also ensures conformity with regulatory requirements and acceptable risk tolerance requirements. In this pursuit, the Bank, as a member of Standard Bank Group (SBG) is guided by SBG's principles in its governance framework, adjusted for local requirements.

Codes and regulations

As a licensed commercial bank, the Bank operates in a highly regulated industry and is committed to complying with legislation, regulations and codes of best practice and seeks to maintain the highest standards of governance, including transparency and accountability. Whilst the Bank continues to nurture a strong culture of governance and responsible risk management guided by SBG's risk appetite and governance framework, it is constantly monitoring its practices to ensure that they are the best fit for it and serve to enhance business and community objectives. The Bank complies with applicable legislation, regulations, standards and codes, with the Board continually monitoring regulatory compliance.

Shareholders' responsibilities

The Shareholders' role is to appoint the Bank'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 Bank is headed by a highly competent and diverse Board, which has ultimate responsibility for the management and strategic guidance of the Bank and assumes the primary responsibility of fostering the sustainability of the Bank's business. The Board is responsible for the overall corporate governance of the Bank, ensuring that appropriate controls, systems and practices are in place.

Skills and experience 2020

The Board members' collective experience and expertise provide a balanced mix of attributes for it to fulfil its duties and responsibilities.

Board Composition

As at the end of the year 2020, there were nine Directors on the Board, one being an Executive and eight being Non-Executive. The Bank's Board of Directors remains steadfast in implementing governance practices where substance prevails over form. 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.

Strategy

The Board is fully aware of its obligations to shareholders and other stakeholders for forging the strategic direction that the Bank will follow and accordingly meets with the Executive Committee on an annual basis to review and approve the Bank's strategy for the year ahead. The Board ensures that strategy is aligned with the Bank's values and monitors strategy implementation and performance targets in relation to the Bank's risk profile.

Through Management's quarterly reporting, the Board monitors performance against financial and corporate governance objectives throughout the year. It is collectively responsible for the long-term success of the Bank and is accountable to the Bank's Shareholder for financial and operational performance.

For more on strategy, see page 16.

No	Competencies	Chairman	Patrick Mweheire	Ruth Ngobi	Rose Kimotho	Peter Gethi	Rose Osoro	Dorcas Kombo	Ory Okolloh	Samuel Gikandi	Charles Mudiwa
1	Financial services/ insurance/asset management	●	●			○					●
2	Customer/marketing	●	●		●						●
3	Sub-Saharan Africa experience	●	●	●	●	●	●	●	●	●	●
4	People/organisational development	●	●	●	●	●	●	●	○	●	●
5	Capital/risk management	●	●								●
6	Accounting/auditing	○	○				●	●			○
7	IT/IT governance	○	○						●	●	○
8	Governance leadership	●	●	●	●	●	●	●	●		●
9	Large corporate/ industrial	●	●			●	●	●			●
10	Regulation/public policy	●	●				●	○	●		●
11	Legal			●					○		
12	Remuneration	●	●	●	●	●		●			●
13	Global capital markets	●	●								●
14	Digital and new economy					○			●	●	
15	Directors' age	62	50	60	65	55	49	67	44	38	59
16	Directors' tenure	13	0	9	12	8	3	3	0	0	2

● Primary skill ○ Secondary skill

Our Governance **continued**

Delegation and Effective Control

The Bank operates within a clearly defined governance framework. Through this framework, the Board balances its role of providing risk oversight and strategic counsel with ensuring adherence to regulatory requirements and risk tolerance.

The governance framework provides for delegation of authority while enabling the Board to retain effective control. The Board delegates authority to relevant Board committees and the Chief Executive, with clearly defined mandates and authorities, while preserving its accountability.

Board committees facilitate the discharge of board responsibilities and provide in-depth focus on specific areas. Each committee has a mandate, which the Board reviews at least once a year. Mandates for each committee set out its role, responsibilities, scope of authority, composition, terms of reference and procedures. The committees report to the Board through their respective chairpersons and minutes of all committee meetings are submitted to the Board.

Authority has been delegated to the Chief Executive to manage the business and affairs of the Bank. This delegated authority is set out in writing, together with the matters reserved for Board decision. The Executive Committee assists the Chief Executive in the day-to-day management of the affairs of the Bank, subject to statutory parameters and matters reserved for the Board. Further delegations are managed through a defined process.

The Chief Executive is tasked with the implementation of Board decisions and there is a clear flow of information between Management and the Board, which facilitates both the qualitative and quantitative evaluation of the Bank's performance.

Directors have full and unrestricted access to Management and all Bank information. This includes unlimited access to the advice and services of the Company Secretary, who assists in providing any information and documentation they may require to facilitate the discharge of their duties and responsibilities.

Evaluation of Board Effectiveness

The Board is committed to continued improvement of its effectiveness and performance. An evaluation of the Board for the year 2020, covering structure, process and effectiveness, was conducted by an independent third-party consultant. The evaluation also included a review of the performance of Board Committees, individual directors, the Chairman, Chief Executive and the Company Secretary, as well as the independence of directors. The consolidated feedback was presented, discussed and relevant action points noted for implementation during the Board Evaluation session held on 5th March 2021. In addition, the Chairman provided further constructive feedback separately to each director, derived from the results of the peer evaluations, regarding their contribution to the Board.

Directors' Appointment

The Company's Directors are nominated by the Nominations Committee, which is chaired by an Independent Non-executive Director. In addition to 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 role effectively.

Candidates must also satisfactorily meet the fit and proper test, as required by the Central Bank of Kenya (CBK)and by the South Africa Reserve Bank (SARB). The Committee also considers appropriate demographic, age and gender diversity in its assessment.

Suitable candidates are recommended to the Board for consideration and appointment in accordance with the Company's Articles of Association. A director appointed by the Board holds office until the next Annual General Meeting (AGM) at which time the director will retire and will be eligible for election as a director by the Shareholder, with the recommendation of the Board. The appointments comply with the requirements of the Companies Act, 2015, the CBK Prudential Guideline and SARB regulations.

Two additional directors, Ory Okolloh and Samuel Gikandi, were appointed to the Board on 3 March 2020 and 29 June 2020 respectively, as Independent Non-Executive Directors.

Induction and Training

On appointment, each new director is taken through a robust and detailed induction process. One-on-one induction meetings are scheduled with Executive Management to introduce new Directors to the Bank's governance, business, strategy and operations. The induction and on-going training of Directors is the responsibility of the Company Secretary.

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 Bank on an ongoing basis.

The Board of the Bank continuously enhances its knowledge to hone its effectiveness in overseeing the Company. In 2020 the Board trainings met the 12-hour requirement by the Capital Markets Authority and were as follows:

- Board Training on Finance for Non-Finance Directors – 2 March 2020;
- Board Training on Cyber Security Management for Directors – 9 July 2020;
- Board Training on Risk Data Aggregation and Risk Reporting – 18 August 2020; and
- Board Training on Compliance – 5 and 7 October 2020.

Going concern

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

Remuneration

The Bank remunerates its Non-executive Directors at levels that are fair and reasonable in a competitive market, taking into account the skills, knowledge, and experience required in the Board.

Social Responsibility

The Bank 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 Bank is committed therefore not only to the promotion of the economic development but also to the strengthening of social and environmental well-being in jurisdictions they operate in. In line with this, the Bank has established a foundation, incorporated on 27 February 2019 as a company limited by guarantee. The foundation, Stanbic Kenya Foundation Limited, is 100% owned by the Bank. The sole purpose of the new subsidiary is to be a foundation for the implementation of corporate social investment programmes

Shareholder Relations

The Board of Directors recognises the importance of continued interaction and provision of information to its Shareholders, as well as the wider group of stakeholders; and endeavours to do so through a detailed annual report.

Board Meetings

The Board meets once every quarter with an additional meeting scheduled to discuss strategy. Special board 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 is set out in the following table, representing a 75% minimum attendance:

Board meeting attendance – FY2020

Directors	Q1 27 Feb 2020	Special Board 30 Apr 2020	Q2 14 May 2020	Special Board 26 June 2020	Q3 18 Aug 2020	Special Board 13 Aug 2020	Q4 26 Nov 2020	Special Board 11 Dec 2020
Kitili Mbathi	P	P	P	P	P	P	P	P
Charles Mudiwa	P	P	P	P	P	P	P	P
Greg Brackenridge	P	P	P	N/A	N/A	N/A	N/A	N/A
Patrick Mweheire	N/A	P	P	P	P	P	P	P
Christopher Newson	P	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rose Kimotho	P	P	P	P	P	P	P	P
Ruth T Ngobi	P	AP	P	P	P	P	P	P
Peter Gethi	P	P	P	P	P	P	P	P
Rose Osoro	P	P	P	P	P	P	P	P
Dorcas Kombo	P	AP	P	P	P	P	P	P
Samuel N Gikandi	N/A	N/A	N/A	N/A	P	P	P	P
Ory A Okolloh	N/A	P	P	P	P	P	P	N/A

P – Present.
AP – Absent with apology.
N/A – Was not a member.

Board Committees

The Board has established the Board Audit Committee, the Board Credit Committee, the Board Risk Committee and the Board Technology & Information Committee to assist it in discharging its responsibilities.

Board Audit Committee

The role of the Board Audit Committee is to review the Bank's financial position and make recommendations to the Board on all financial matters. The Committee mandate details its purpose and terms of reference, including ensuring that Management establishes and maintains an adequate, effective and efficient internal control framework.

As at the close of 2020, the Committee membership consisted of three Non-Executive Directors, all of whom were independent Non-Executive Directors. The Chairman of the Committee was an Independent Non-Executive Director.

Our Governance continued

During the year, the Committee carried out its duties as dictated by its Mandate. The Committee held 4 meetings during the year, with attendance as follows:

Member	Special BAC, 19 Feb 2020	Q1 26 Feb 2020	Q2 13 May 2020	Q3 12 Aug 2020	Q4 4 Nov 2020
Dorcas Kombo (Chairman)	P	P	P	P	P
Rose Osoro	P	P	P	P	P
Chris Newson	P	P	N/A	N/A	N/A
Ory Okolloh	N/A	N/A	P	P	P

P – Present.
AP – Absent with apology.
N/A – Was not a Director/Member.

Board Credit Committee

The role of the Committee is to provide independent and objective oversight of credit risk management within the Bank. The mandate for Committee requires review on a quarterly basis of the credit risk portfolio reports; the credit risk impairment adequacy; and the credit risk sections of the report to the main Board.

As at the close of 2020, the Committee comprised of four Non-Executive Directors, three of whom were independent. The Chairman of the Committee was an Independent Non-Executive Director.

The Committee held meetings in the year with attendance as shown below:

Member	Q1 26 Feb 2020	Q2 13 May 2020	Q3 12 Aug 2020	Q4 25 Nov 2020
Peter Gethi (Chairman)	P	P	P	P
Rose Kimotho	P	P	P	P
Ruth Ngobi	P	P	P	P
Chris Newson	P	N/A	N/A	N/A

P – Present.
AP – Absent with apology.
N/A – Was not a Director/Member.

Board Risk Committee

The role of the Committee is to assist the Board in ensuring that effective risk governance is in place, in order to provide for adequate identification, assessment and management of risk within the Bank.

At the close of 2020, the Committee comprised of five Non-Executive Directors, four of whom were independent. The Chairman of the Committee was a Non-Executive Director.

The Committee held meetings in the year with attendance as shown below:

Member	Q1 26 Feb 2020	Q2 13 May 2020	Q3 12 Aug 2020	Q4 25 Nov 2020
Chris Newson (former Chairman)	P	N/A	N/A	N/A
Patrick Mweheire (Chairman)	N/A	P	P	P
Rose Kimotho	P	P	P	P
Ruth Ngobi	P	P	P	P
Dorcas Kombo	N/A	N/A	P	P
Samuel Gikandi	N/A	N/A	P	P

P – Present.
AP – Absent with apology.
N/A – Was not a Director/Member.

Board Technology and Information Committee

The role of the Committee is to assist the Board in ensuring that there are effective procedures and infrastructure in place for appropriate management of technology and information within the Bank.

At the close of 2020, the Committee comprised of three Non-Executive Directors, two of whom were independent. The Chairman of the Committee was a Non-Executive Director.

The Committee held meetings in the year with attendance as shown below:

Member	Q3 11 Aug 2020	Q4 24 Nov 2020
Patrick Mweheire (Chairman)	P	P
Ory Okolloh	P	P
Samuel Gikandi	P	P

P – Present.
AP – Absent with apology.
N/A – Was not a Director/Member.

Management Committees

The following management committees are in place to ensure that the Bank carries out its obligations efficiently and effectively:

- Leadership Committee;
- Customer Experience and Brand Steering Committee;
- People and Culture Committee;
- Ecosystems and Partnerships Steering Committee;
- Operational Excellence Steering Committee;
- Asset and Liability Committee;
- Risk and Conduct Committee;
- Credit Risk Management Committee; and
- Agile Leadership Committee

Our Board Audit Committee

Report of the Board Audit Committee

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

- 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 2020, 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; and
  - Over the course of the year, met with the Internal Auditors in two formal exclusive meetings
- 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;
  - Considered the basis on which the Bank was determined to be a going concern
  - Ensured that the annual financial statements conform with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS);
  - Considered accounting treatments, significant unusual transactions and accounting judgements;
  - Considered the adequacy and effectiveness of the accounting policies adopted by the Bank 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; and
  - Considered and made recommendations to the Board on the interim and final dividend payments to shareholders.
- 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 Bank'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 available Internal Audit resources and found them to be adequate to perform the required audits approved in the Internal Audit Plan for 2020;
  - Received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof;
  - Discussed significant financial crime matters and control weaknesses identified; and
  - Over the course of the year, met with the Internal Auditors and the External Auditors in two formal exclusive meetings.

Based on the above, the Committee formed the opinion that, as at 31 December 2020, there were no material breakdowns in internal control, including internal financial controls, resulting in any material loss to the Bank.

Independence of the External Auditors

The Committee is satisfied that PricewaterhouseCoopers are independent of the Bank. 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 Bank
- 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 for the year 2020 and recommended it to the Board for approval.

On behalf of the Board Audit Committee.

Dorcas Kombo
Chairman, Board Audit Committee

4 March 2021

Our Board Committees continued

Report of the Board Nominations Committee

The role of the Board Nominations Committee is to assist the Board of Stanbic Bank Kenya Limited (the Bank), in discharging its obligations regarding appointments, succession planning and development of the directors on the Board.

During the year ended 31 December 2020 the Committee considered the following:

- Determined and evaluated the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the Bank;
- Carried out its duties as dictated by its Mandate;
- Reviewed its Mandate and submitted the same to the Board of the Bank;
- Analysed the existing skills on the Board and skills gaps in line with the Bank's strategy;
- Considered and endorsed the proposal to extend the employment contract for the Chief Executive of the Bank for approval by the Board;
- Reviewed and recommended the reconstitution of the Committees of the Board of the Bank, for approval by the Board;
- Considered and endorsed the annual review of the Board Diversity Policy for submission to the Board of the Bank for approval;
- Considered and approved the Committee's work plan for the year 2021;
- Considered and endorsed the proposed trainings for the Board for the year 2021 for submission to the Board for approval;
- Reviewed and made a recommendation to the Board of the Bank on the remuneration for Directors for the year 2021; and
- Considered and endorsed the Corporate Governance scorecard for the Bank for the year 2019 for submission to the Board for approval, prior to submission to the Capital Markets Authority for assessment.

The Committee composition in the first quarter of 2020 consisted of four members, namely: one Independent Non-executive Director and three Non-executive Directors (one being the Chairman of the Board of the Bank). Following, the first meeting of the year, the Committee was reconstituted to comprise four members (two being new and two having exited), namely: two Independent Non-executive Directors and two Non-Executive Directors (one being the Chairman of the Board of the Bank).

The Committee held the two scheduled meetings during the year, as well as one special meeting to consider and endorse the extension of the employment contract for the Chief Executive of the Bank, for a second term. The attendance of meetings by members was as follows:

Board Nominations Committee meeting attendance – FY2020

Member	Q2 13 Feb 2020	Q4 5 Nov 2020	Q4 11 Nov 2020
Rose Osoro (Chairman)	P	P	P
Patrick Mweheire	P	P	P
Peter Gethi	N/A	P	P
Kitili Mbathi	P	P	P
Gregeroy Brackenridge	P	N/A	N/A
Ruth Ngobi	P	N/A	N/A

P – Present.
N/A – Not a Member.

Remuneration overview

Board Remuneration Policy

In determining the fees for non-Executive Directors, all of whom are also members of Board committees, the Board considers market conditions and reviews comparative remuneration offered by other peer Banks. Non-Executive Directors receive fixed fees for service on boards and Board committees.

There are no contractual arrangements for compensation for loss of office for either executives or non-Executive Directors. Non-executive Directors do not receive annual incentive awards, nor do they participate in any of the Bank's long-term incentive schemes.

The Nominations Committee reviews the fees paid to non-Executive Directors annually and makes recommendations to the Board for endorsement and submission to shareholders for approval.

For additional information see pages 108 to 199 of the financial statements.

Remuneration for Executive Directors

Strategy

The Board considers the execution of the Bank strategy and the ability of the Bank to show demonstrable progress against key milestones to be an integral part of the performance measurement and reward for Executive Directors.

The Chief Executive (CE) has articulated three strategic focus areas for the Bank as part of the evolving strategy:
- Client: To cultivate a client-centric culture within the Bank
- Digital: To transition the Bank to a fully digital platform creating significant competitor advantage
- Integrated financial services organisation: To deliver seamless, consistent products and services to our clients across our franchise

The success of these strategic focus areas is measured by client experience scores, employee engagement metrics, risk and conduct measures, financial outcomes and social, environmental and economic impact on the communities in which we do business. Each of the strategic value drivers has a quantitative metric against which success can be measured.

For more on strategy and digitisation, see pages 16 and 60 respectively.

Remuneration methodology

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

Our methodology in sizing incentive pools is a combination of:
- A top-down approach that provides overall guidance to business units and countries
- A bottom-up approach based on executives' assessments of the performance of their teams
- A careful consideration of shareholder interests and stakeholder concerns

Our policy avoids a short-term bonus-centric culture but rewards sustainable performance on a through-the-cycle basis. Critically, this includes a three- to five-year growth analysis to ensure shareholder returns are appropriately aligned with executive and employee rewards.

The committee reviews performance to ensure that earnings are not the result of one year's work but rather the planned outcome of work done in the past years.

For more on remuneration see pages 113 to 114 of the financial statements.

Governance policies

Whistleblower policy summary

How to report unethical behaviour

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

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

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

Procurement policy summary

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

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

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

Our Board Committees continued

Information technology standards

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

Architecture technology standard

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

Cloud computing technology standard

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

Cyber resilience technology standard

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

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

Endpoint security minimum controls standard

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

Engineering technology standard

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

Service management standard

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

Technology finance standard

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

Bank ways of work standard

The purpose of the ways of work standard is to articulate and give effect to the Bank regarding ways of work. This standard provides guidance in the use of scaled agile framework (SAFe), and corresponding SAFe foundation principles.

Operational risk management policy, governance framework and user guide

Integrated operational risk

Stanbic Bank Kenya subscribes to sound governance principles, one of which is the use and application of the operational risk management policy, Governance Framework and User Guide which define and articulate principles within which the Bank will operate.

Operational risk management policy

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

Integrated operational risk governance framework

This framework covers all the risk types within the operational risk definition and the document also includes the concept of risk appetite.

The governance framework supports an integrated approach to the wider operational risk taxonomy, including top and emerging risks, leveraging a risk-based approach to prioritise risk in a consistent manner.

This framework provides overarching principles that facilitate a consistent and fit-for-purpose approach to operational risk across the Bank, Business Units and Corporate Functions.

Operational risk management (ORM) manual (user guide)

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

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

The performance of the Group during the year under review reflects resilience in the midst of a complex and challenging socio-economic environment, in which the COVID-19 pandemic played a central and dominant role.

Annual financial statements

Report of the Directors

for the year ended 31 December 2020

The Directors submit their report together with the audited financial statements for the year ended 31 December 2020, which disclose the state of affairs of Stanbic Bank Kenya Limited (the "Bank" or the "Company").

Principal activities

The Bank is a licensed financial institution under the Banking Act (Cap 488) and is a member of the Kenya Bankers Association.

The Bank is engaged in the business of banking and the provision of related banking services.

Principal risks and uncertainties

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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

Business review and financial performance

The COVID-19 pandemic and its associated public health restrictions negatively affected business conditions domestically and in the export markets, resulting in a significant slowdown in aggregate demand and consequently gross domestic product (GDP). Over the first nine months of 2020, the Kenyan economy contracted by 0.4% as compared to average annual GDP growth of 5.7% between 2015 and 2019. The challenging business environment caused an increase in stress levels experienced by the Bank's customers, especially in the hospitality, transport and agriculture sectors.

The Bank reported a profit after tax of KShs 5.2 billion. Reduction in Central Bank rate by 2% (200 basis points), subdued interbank rates and hushed yields on short-term government paper resulted in a 4% decline in net interest income. COVID-19 and its ripple effects on the economy, including the waivers on mobile transactions granted by the Bank to support clients and reduction in brokerage fees, has negatively impacted non-interest income. In addition, there were two non-recurring significant investment banking deals in the first quarter of 2019. Increase in credit impairment charges reflects worsening credit risk on the back of layoffs and liquidity constraints on businesses caused by the pandemic. The Bank continues to focus on cost management leading to a 15% decline in operating expenses.

The Bank continues to be recognised as one of the safest financial institutions in Kenya with strong capital base, corporate governance and risk management practices. This resulted in strong growth in customer deposits by 12%. The Bank also continues to live by its purpose to drive Kenya and South Sudan's growth as well as being the leading financial services organisation in the region. As a result, the Bank continued with lending to support customers especially with working capital management during the pandemic, resulting in a 4% growth in the loan book.

The South Sudan branch was also impacted by the COVID–19 pandemic and the economy also continues to suffer the effects of hyperinflation. While the branch remained profitable, the effects of COVID-19 resulted in a 75% decline in profits before hyperinflation to KShs 109 million (SSP 316 million) from KShs 414 million (SSP 1.2 billion) in 2019. Stanbic Bank continues to consider its presence in South Sudan as strategic. The Bank envisages that the South Sudan branch will contribute to growth in future as the South Sudan political environment continues to stabilise and its economy continues to mature.

Summary results for the year is as follows:

	2020 KShs billion	2019 KShs billion	Change %
Total income	**22.8**	24.0	(5.3)
Credit impairment charges	**4.9**	3.2	54.7
Total operating expenses	**11.6**	13.4	(13.2)
Profit for the year	**5.2**	6.2	(16.0)
Loans and advances to customers	**158.2**	152.8	3.5
Non-performing loans	**25.0**	19.3	29.5
Total assets	**318.9**	292.7	9.0
Deposits from customers	**217.9**	195.4	11.5
Total shareholders' equity	**41.9**	38.9	7.7
Cost to income ratio	**51%**	56%	(4.6)

Dividends

During the year, no interim dividend was paid (2019: KShs 2.93 per share amounting to KShs 500 000 000).

Subject to the approval of the shareholders at the next Annual General Meeting, the Directors recommend payment of a final dividend of KShs 8.21 (2019: KShs 12.31) per ordinary share equivalent to a total sum of KShs 1 400 000 000 (2019: KShs 2 100 000 000). The total dividend for the year, therefore, will be KShs 8.21 (2019: KShs 15.24) for every one ordinary share amounting to KShs 1 400 000 000 (2019: KShs 2 600 000 000).

The total number of issued shares at year end was 170 577 426 (2019: 170 577 426).

The results for the year are set out fully on pages 120 to 202 in the attached financial statements.

Directors

The Directors who held office during the year and to the date of this report are set out on page 1.

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.

Management by third parties

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

Auditor

Disclosures to auditor

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

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

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

Terms of appointment of auditor

During the Annual General Meeting on 20 May 2021, PricewaterhouseCoopers LLP will retire as auditor of the Bank. The Board has recommended to the shareholders the appointment of KPMG Kenya as the new auditor in accordance with section 721 of the Kenyan Companies Act, 2015 and to authorise the Directors to fix their remuneration.

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

Approval of financial statements

The financial statements were approved by the Board of Directors on 4 March 2021.

By order of the Board,

Lillian N Mbindyo
Company Secretary

Statement of the Directors' Responsibilities

for the year ended 31 December 2020

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

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

- designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- selecting suitable accounting policies and applying them consistently; and
- making accounting estimates and judgements that are reasonable in the circumstances.

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

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

Approved by the Board of Directors on 4 March 2021 and signed on its behalf by:

Kitili Mbathi	**Charles Mudiwa**	**Dorcas Kombo**
Chairman	Chief Executive	Director

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Independent Auditor's Report

for the year ended 31 December 2020

Independent auditor's report to the shareholders of Stanbic Bank Kenya Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Stanbic Bank Kenya Limited (the Company) set out on pages 120 to 202 which comprise the statement of financial position at 31 December 2020 and the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Stanbic Bank Kenya Limited at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with 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 financial statements of the current period. These matters were addressed in the context of our audit of the Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Credit risk and provision for expected credit losses (ECL) on loans and advances As explained in Notes 3.10 of these financial statements, determining ECL is complex, judgemental and involves estimation uncertainty. IFRS 9 requires the Directors to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. The standard adopts a 3-stage model approach where the loans and advances are categorised in stage 1, 2 and 3 depending on whether the facilities have experienced significant increase in credit risk, are in default or neither. Changes to the assumptions and estimates used by management could generate significant fluctuations in the Bank's financial performance, and materially impact the valuation of the Bank's portfolio of loans and advances. In addition, due to the evolving COVID-19 pandemic experienced in the year ended 31 December 2020, there has been a heightened risk of credit default and SICR, the economic downturn that increases the uncertainty around the judgements and estimation process. The determination of ECL inherently involves subjectivity of the assumptions and judgment made by management in: • estimation of default events that may happen during the lifetime of the instruments, and the probability weighting thereof; • quantitative and qualitative criteria for classification of loans and advances based on assessment of factors contributing to significant increase in credit risk and default; • application of complex modelling assumptions used to build the models that calculate ECL, completeness and accuracy of data used to calculate the ECL and the accuracy and adequacy of the financial statement disclosures; • determination of the forward-looking parameters to be incorporated in the estimation of expected credit losses including multiscenario weightings. • estimation of the expected cash flows (including from collateral realisation) used in the determination of the loss given default for stage 1 and 2 facilities and in estimating the recoverable amount of stage 3 facilities.	• We tested the rationale of the quantitative and qualitative criteria used in the classification of loans and advances into various staging categories and in assessing whether a significant increase in credit risk and default had occurred. • The classification of loans and advances relies on information systems. We understood and tested key information technology general and application controls including the accurate calculation of the number of days past due. • For a sample of loan contracts, we tested management's application of the qualitative criteria in the classification of loans and advances. This was done through examining documentation and credit performance to form an independent judgment as to whether the staging of such facilities was in line with the Bank's policy. • We tested the rationale for loans restructured, their subsequent measurement and the completeness of the list of restructured loans. • We tested the reliability of information used for estimating probability of default, loss given default and exposure at default. • We tested the reliability of the forward-looking parameters considered by management, application of scenarios and their relevant weighting. • We assessed overlays made by management over and above the formulae computed ECLs including those arising from the risks due COVID-19. • For stage 3 facilities, we selected a sample of loans and advances and examined the reasonableness of the expected future recoverable amounts as assessed by management to support the calculation of the ECL thereon. • For secured facilities, we agreed the collateral values used in the impairment model to valuation reports.

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Independent Auditor's Report (continued)

for the year ended 31 December 2020

Other information

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

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

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

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

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the 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 Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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, actions taken to eliminate threats or safeguards applied.

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

Report on other matters prescribed by the Companies Act, 2015

Report of the Directors

In our opinion the information given in the report of the Directors' report on pages 114 and 115 is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP (LLP-2Y1AB7)
Certified Public Accountants
Nairobi

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

4 March 2021

Statement of Profit or Loss

for the year ended 31 December 2020

	Note	Year ended 31 December 2020 KShs million	2019 KShs million
Interest income	7	**20 277**	20 944
Interest expense	7	**(7 542)**	(7 663)
Net interest income		**12 735**	13 281
Fees and commission income	8	**4 214**	5 017
Fees and commission expense	9	**(570)**	(533)
Net fees and commission income		**3 644**	4 484
Trading revenue	10	**6 234**	5 330
Net income from financial instruments at fair value through profit or loss	11(a)	**93**	173
Other gains and losses on financial instruments	11(b)	**17**	717
Other operating income	12	**27**	36
Trading and other income		**6 371**	6 256
Total income		**22 750**	24 021
Credit impairment losses	26.3	**(4 876)**	(3 151)
Net income before operating expenses		**17 874**	20 870
Employee benefits expense	13	**(5 757)**	(6 435)
Depreciation on property, plant and equipment	30(a)	**(472)**	(445)
Depreciation on right-of-use assets – land	30(b)	**(3)**	(3)
Depreciation on right-of-use assets	32	**(458)**	(357)
Amortisation of intangible assets	31	**(277)**	(198)
Finance costs	15	**(47)**	(90)
Other operating expenses	14	**(4 624)**	(5 876)
Total operating expenses		**(11 638)**	(13 404)
Profit before income tax		**6 236**	7 466
Income tax expense	16	**(1 012)**	(1 244)
Profit for the year		**5 224**	6 222
Earnings per share			
Basic and diluted (KShs per share)	17	**30.63**	36.48

Statement of Other Comprehensive Income

for the year ended 31 December 2020

	Note	2020 KShs million	2019 KShs million
		Year ended 31 December	
Profit for the year		**5 224**	6 222
Items that may subsequently be reclassified to profit or loss when specific conditions are met:			
– Net gain in debt financial assets measured at fair value through other comprehensive income (FVOCI)	22.1	**1**	12
– Net loss on financial assets reclassified to statement of profit or loss	22.1	**(34)**	–
– Currency translation differences for foreign operations		**(176)**	(86)
Total other comprehensive loss for the year, net of income tax		**(209)**	(74)
Total comprehensive income for the year		**5 015**	6 148

Statement of Financial Position

as at 31 December 2020

	Note	As at 31 December 2020 KShs million	2019 KShs million
Assets			
Cash and balances with Central Bank of Kenya	20	**18 077**	17 251
Financial assets – (FVTPL)	21(a)	**33 729**	34 162
Financial assets – (FVOCI)	22	**30 664**	20 978
Financial assets – (amortised cost)	23	**23 191**	14 890
Derivative assets	24	**2 956**	1 612
Loans and advances to other banks	25	**38 109**	38 353
Loans and advances to customers	26	**158 181**	152 817
Other assets and prepayments	27	**4 678**	3 704
Other equity investments	29	**18**	18
Property and equipment	30(a)	**2 241**	2 302
Right-of-use assets – land	30(b)	**42**	45
Intangible assets	31	**752**	862
Right-of-use assets	32	**1 480**	1 315
Deferred tax asset	34	**4 864**	4 422
Total assets		**318 982**	292 731
Equity and liabilities			
Liabilities			
Customer deposits	36	**217 911**	195 435
Amounts due to other banks	37	**42 905**	30 450
Lease liabilities	33	**1 386**	1 371
Current tax liability	35	**392**	389
Deferred tax liability	34	**1**	25
Derivative liabilities	24	**2 601**	2 757
Financial liabilities – (held-for-trading/FVTPL)	21(b)	**418**	1 487
Other liabilities and accruals	38	**6 008**	12 749
Borrowings	39	**5 504**	9 127
Total liabilities		**277 126**	253 790
Equity			
Ordinary share capital	40	**3 412**	3 412
Ordinary share premium	41	**3 445**	3 445
Proposed dividend	18	**1 400**	2 100
Reserves			
– Regulatory credit risk	42	**–**	938
– Translation	42	**(1 326)**	(1 150)
– Retained earnings		**34 817**	30 011
– FVOCI	42	**1**	34
– Revaluation	42	**107**	115
– Share-based payment	43	**–**	36
Total equity		**41 856**	38 941
Total equity and liabilities		**318 982**	292 731

The financial statements on pages 112 to 202 were approved for issue by the Board of Directors on 4 March 2021 and signed on its behalf by:

Kitili Mbathi
Chairman

Charles Mudiwa
Chief Executive

Dorcas Kombo
Director

Lillian Mbindyo
Company Secretary

Statement of Changes in Equity

for the year ended 31 December 2020

	Note	Ordinary share capital	Ordinary share premium	Regulatory credit risk reserve	Foreign currency translation reserve	Revaluation of financial assets – fair value through OCI	Revaluation reserve on buildings	Share-based payment reserve	Retained earnings	Proposed dividend	Total equity
Year ended 31 December 2020											
At 1 January 2020		**3 412**	**3 445**	**938**	**(1 150)**	**34**	**115**	**36**	**30 011**	**2 100**	**38 941**
Profit for the year		–	–	–	–	–	–	–	5 224	–	5 224
Other comprehensive income, net of tax		–	–	–	(176)	(33)	–	–	–	–	(209)
Total comprehensive income for the year		–	–	–	(176)	(33)	–	–	5 224	–	5 015
Transfer to retained earnings	43	–	–	–	–	–	–	(36)	36	–	–
Transfer of excess depreciation		–	–	–	–	–	(8)	–	8	–	–
Transfer from regulatory credit risk reserve	42.4	–	–	(938)	–	–	–	–	938	–	–
Transactions with owners recorded directly in equity											
2019 final dividend paid	18	–	–	–	–	–	–	–	–	(2 100)	(2 100)
2020 final dividend proposed	18	–	–	–	–	–	–	–	(1 400)	1 400	–
Total transactions with owners		–	–	–	–	–	–	–	(1 400)	(700)	(2 100)
At 31 December 2020		**3 412**	**3 445**	**–**	**(1 326)**	**1**	**107**	**–**	**34 817**	**1 400**	**41 856**
At 1 January 2019		3 412	3 445	938	(1 064)	22	123	35	26 381	1 300	34 592
Profit for the year		–	–	–	–	–	–	–	6 222	–	6 222
Other comprehensive income, net of tax		–	–	–	(86)	12	–	–	–	–	(74)
Total comprehensive income for the year		–	–	–	(86)	12	–	–	6 222	–	6 148
Transfer of excess depreciation		–	–	–	–	–	(8)	–	8	–	–
Transactions with owners recorded directly in equity											
Equity-settled share-based payment transactions	43	–	–	–	–	–	–	1	–	–	1
2019 interim and 2018 final dividend paid	18	–	–	–	–	–	–	–	(500)	(1 300)	(1 800)
2019 final dividend proposed	18	–	–	–	–	–	–	–	(2 100)	2 100	–
Total transactions with owners		–	–	–	–	–	–	1	(2 600)	800	(1 799)
At 31 December 2019		3 412	3 445	938	(1 150)	34	115	36	30 011	2 100	38 941

Statement of Cash Flows

for the year ended 31 December 2020

	Note	2020 KShs million	2019 KShs million
		Year ended 31 December	
Cash flows from operating activities	46.1	**6 336**	10 094
Interest paid on borrowings	39	**(558)**	(832)
Income tax paid	35	**(1 337)**	(3 164)
Cash flows from operating activities before changes in operating assets and liabilities		**4 441**	6 098
Changes in operating assets and liabilities:			
Loans and advances to customers		**(5 364)**	(6 212)
Loans and advances to other banks		**(1 055)**	(1 654)
Financial assets – held-for-trading		**3 657**	4 415
Financial assets – (FVOCI)		**(749)**	8 954
Deposits held for regulatory purposes (restricted cash)		**921**	(683)
Other assets and prepayments		**(974)**	28
Amounts due to other banks		**10 070**	4 424
Other liabilities and accruals		**(6 741)**	6 971
Customer deposits		**22 476**	3 177
Financial liabilities – (held-for-trading/FVTPL)		**(1 069)**	(8 886)
Net cash generated from operating activities		**25 613**	16 632
Cash flows from investing activities:			
Purchase of financial investments – (amortised cost)		**(8 301)**	8 311
Purchase of property and equipment	30	**(405)**	(541)
Purchase of intangible assets – software	31	**(166)**	(63)
Proceeds from disposal of property and equipment		**–**	6
Net cash (used in)/generated from investing activities		**(8 872)**	7 713
Cash flows from financing activities:			
Dividends paid	18	**(2 100)**	(1 800)
Proceeds from borrowings	39	**–**	2 029
Repayment of borrowings	39	**(3 998)**	–
Payments of principal portion of the lease liabilities	33	**(325)**	(346)
Net cash used in financing activities		**(6 423)**	(117)
Net increase in cash and cash equivalents		**10 318**	24 228
Cash and cash equivalents at start of year	46.2	**85 185**	60 954
Effect of exchange rate changes		**(77)**	3
Cash and cash equivalents at end of year	46.2	**95 426**	85 185

Notes to the Financial Statements

for the year ended 31 December 2020

1. General information

Stanbic Bank Kenya Limited is incorporated in Kenya under the Kenyan Companies Act, 2015 as a limited liability company, and is domiciled in Kenya. The address of its registered office is:
Stanbic Bank Centre
Chiromo Road, Westlands
PO Box 72833
00200 Nairobi GPO

The Bank provides personal and business banking; corporate and investment banking services.

For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and statement of other comprehensive income, in these financial statements.

2. Summary of significant accounting policies

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

(a) Basis of preparation

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

- FVOCI financial assets, financial assets and liabilities at fair value through profit or loss (FVTPL) and liabilities for cash-settled and equity-settled share-based payment arrangements (accounting policy 2.5).

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

- purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 2.5);
- property and equipment and intangible assets are accounted for using the cost model except for revaluation of buildings that arose from the merger between the former CfC Bank and Stanbic Bank in 2008 (accounting policy 2.7 and 2.8);
- the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy 2.6); and
- hyperinflation – the South Sudan economy has been considered to be hyperinflationary. Accordingly, the results, cash flows and financial position of the South Sudan branch have been expressed in terms of the measuring unit prevailing at the reporting date (accounting policy 2.21).

The Bank has not prepared the consolidated financial statements incorporating the Stanbic Nominees Limited and Stanbic Foundation accounts which it controls in line with the exemption allowed under IFRS 10: *Consolidated Financial Statements.*

The exemption conditions have been satisfied as follows:

- The ultimate parent of the Bank, Stanbic Holding Plc, incorporated in Kenya, produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.
- The financial statements of Stanbic Holding Plc for the year ended 31 December 2020 are available for public use and can be obtained at the company's place of business shown above.
- The Bank did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.
- The Bank had no publicly traded equity or debt instruments.
- The Bank is a subsidiary of Stanbic Holding Plc whose owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the Bank not presenting consolidated financial statements.

The Bank has significant control over Stanbic Nominees Limited and Stanbic Foundation.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in applying the accounting policies. These judgements and estimates used to prepare these financial statements are disclosed in Note 3.

(b) Functional and presentation currency

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies *(continued)*

(c) Changes in accounting policies and disclosures

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

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3 Definition of a Business (issued in October 2018) – The amendments, applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. These amendments had no impact on the financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

Amendments to IAS 1 and IAS 8 Definition of Material (issued in October 2018) – The amendments, applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS. These amendments had no impact on the financial statements of the Bank, but may impact future periods.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform (issued in September 2019) – The amendments, applicable to annual periods beginning on or after 1 January 2020, provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

Conceptual Framework for Financial Reporting issued on 29 March 2018 – The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.

Amendments to IFRS 16 COVID-19 Related Rent Concessions (issued on 28 May 2020) – The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Bank.

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

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

Standards and amendments	Key requirements	Effective date
Amendments to IFRS 10 and IAS 28 (issued in September 2014)	The International Accounting Standards Board (IASB) has published "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)". The amendments address a conflict between the requirements of IAS 28: Investments in Associates and Joint Ventures and IFRS 10: Consolidated Financial Statements and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.	Deferred indefinitely
IFRS 17 (issued in May 2017)	IFRS 17: Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Bank does not issue insurance contracts.	1 January 2023

Standards and amendments	Key requirements	Effective date
IAS 1 (issued in January 2020)	Amendments to IAS 1 Classification of Liabilities as Current or Non-current, clarify a criterion for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement for at least 12 months after the reporting date.	1 January 2022
IFRS 3 (issued in May 2020)	Amendments to IFRS 3: Business Combinations – Reference to the Conceptual Framework are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21: Levies, if incurred separately. The amendments also clarify that contingent assets do not qualify for recognition at the acquisition date.	1 January 2022
IAS 16 (issued in May 2020)	Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.	1 January 2022
IAS 37 (issued in May 2020)	Amendments to IAS 37 Onerous Contracts – Costs of Fulfilling a Contract specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.	1 January 2022
IFRS 1 (issued in May 2020)	Amendment to IFRS 1: First-time Adoption of International Financial Reporting Standards "Subsidiary as a first-time adopter" permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.	1 January 2022
Amendment to IFRS 9 (issued in May 2020)	Amendment to IFRS 9: Financial Instruments "Fees in the '10 per cent' test for derecognition of financial liabilities" clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.	1 January 2022

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

2.1 Translation of foreign currencies

(i) Transactions and balances

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies *(continued)*

2.1 Translation of foreign currencies *(continued)*

(ii) Foreign operations

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

- All amounts (i.e. assets, liabilities, equity items, income and expenses, including comparatives) are translated at the closing rate as of 31 December 2020.
- All resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the foreign currency translation reserve.

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

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

These gains and losses are recognised in profit or loss either on disposal of a foreign operation or partial disposal (a reduction in ownership interest in a foreign operation other than a disposal) of an associate or joint venture that includes a foreign operation.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation are translated at the closing rate. Exchange differences are recognised in OCI.

2.2 Net interest income

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

- purchased or originated credit impaired (POCI) for which the original credit adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- financial assets that are not POCI that have subsequently become impaired for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of expected credit losses) in subsequent reporting periods.

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

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

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

2.3 Non-interest revenue

(a) Net fee and commission revenue

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

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

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

(b) Trading revenue

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

(c) Other revenue

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

(d) Revenue sharing agreements with related companies

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

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

2.4 Cash and cash equivalents

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

2.5 Financial instruments

(i) Initial recognition and measurement

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

Financial assets

Financial assets are classified under each of the categories below and their carrying amounts are disclosed in Note 19.

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies *(continued)*

2.5 Financial instruments *(continued)*

(ii) Subsequent measurement

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

Nature	
Amortised cost	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through OCI	Debt instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other gains and losses on financial instruments within non-interest revenue. Interest income on a debt financial asset is recognised in interest income in terms of the effective interest rate method. Dividends received are recognised in interest income within profit or loss. Dividends received on equity instruments are recognised in other revenue within non-interest income.
Fair value through profit or loss – held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the statement of profit or loss as part of other gains and losses on financial instruments within non-interest revenue.
Fair value through profit or loss – default	Fair value gains and losses (including interest and dividends) on other financial assets at FVTPL are recognised in the statement of profit or loss as part of other gains and losses on financial instruments within non-interest revenue.

Impairment of financial assets

Expected credit losses (ECL) are recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a significant increase in credit risk (SICR) at the reporting date, which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL is set out in the table below. ECL is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Stages	
Stage 1	A 12-month ECL is calculated for financial assets which are neither credit impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed an SICR since origination and are not considered low credit risk.
Stage 3 (credit-impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: • Default (as defined below) • Significant financial difficulty of borrower and/or modification • Probability of bankruptcy or financial reorganisation • Disappearance of an active market due to financial difficulties

The key components of the impairment methodology are described as follows:

Nature	
Significant increase in credit risk	At each reporting date, the Bank assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.
Default	The Bank's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets: • Significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower) • A breach of contract, such as default or delinquency in interest and/or principal payments • Disappearance of active market due to financial difficulties • It becomes probable that the borrower will enter bankruptcy or other financial reorganisation • Where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Bank would not otherwise consider • Exposures which are overdue for more than 90 days are also considered to be in default
Forward-looking information	Forward-looking information is incorporated into the Bank's impairment methodology calculations and in the Bank's assessment of SICR. The Bank includes all forward-looking information which is reasonable and available without undue cost or effort. The information will typically include expected macroeconomic conditions and factors that are expected to impact portfolios or individual counterparty exposures.
Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

ECLs are recognised within the statement of financial position as follows:

Nature	
Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.
Off-balance sheet exposures (excluding loan commitments)	Recognised as a provision within other liabilities.
Financial assets measured at fair value through OCI	Recognised in the fair value reserve within equity. The carrying amount of the financial asset is recognised in the statement of financial position at fair value.

Reclassification

Reclassifications of debt financial assets are permitted when, and only when, the Bank changes its business model or managing financial assets, in which case all affected financial assets are reclassified. Reclassifications are accounted for prospectively from the date of reclassification as follows:

- Financial assets that are reclassified from amortised cost to fair value through profit or loss are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments.
- The fair value of a financial asset that is reclassified from fair value through profit or loss to amortised cost becomes the financial asset's new carrying amount.
- Financial assets that are reclassified from amortised cost to fair value through OCI are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in OCI.
- The fair value of a financial asset that is reclassified from fair value through OCI to amortised cost becomes the financial asset's new carrying amount with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying amount.
- The carrying amounts of financial assets that are reclassified from fair value through profit or loss to fair value through OCI remains at fair value.
- The carrying amount of financial assets that are reclassified from fair value through OCI to fair value through profit or loss remains at fair value, with the cumulative fair value adjustment in OCI being recognised in profit or loss at the date of reclassification.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies *(continued)*

2.5 Financial instruments *(continued)*

(ii) Subsequent measurement *(continued)*

Financial liabilities

Financial liabilities classified under each of the categories below are disclosed under Note 19.

Nature	
Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial liabilities are designated to be measured at fair value in the following instances to eliminate or significantly reduce an accounting mismatch that would otherwise arise where: • the financial liabilities are managed and their performance evaluated and reported on a fair value basis; and • the financial liability contains one or more embedded derivatives that significantly modify the financial liability's cash flows.
Amortised cost	All other financial liabilities not included in the above categories.

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Nature	
Held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in the other gains and losses on financial instruments as part of non-interest revenue. Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue.
Amortised cost	Amortised cost using the effective interest method.

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

	Derecognition	Modification
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Bank has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability. The Bank 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.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes. The terms of a financial asset are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial asset.

	Derecognition	Modification
Financial assets *(continued)*	When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	If the terms are not substantially different for financial assets or financial liabilities, the Bank recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	See modification of financial assets on the previous page.

Financial guarantee contracts
A financial guarantee contract is a contract that requires the Bank (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of the:
- ECL calculated for the financial guarantee; or
- unamortised premium.

Derivative and embedded derivatives
A derivative is a financial instrument whose fair value changes in response to an underlying variable requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date.

In the normal course of business, the Bank enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation, credit, commodity and equity exposures. Derivative instruments used by the Bank in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held-for-trading with all changes in fair value being recognised within trading revenue. This includes forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

In terms of IFRS 9, embedded derivatives included in hybrid instruments, where the host is a financial asset, are assessed in terms of the accounting policy on financial assets. In all other instances (being non-financial host contracts and financial liabilities), the embedded derivatives are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant Bank accounting policy. The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedging relationship.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies *(continued)*

2.5 Financial instruments *(continued)*

(ii) Subsequent measurement *(continued)*

Sale and repurchase agreements and lending of securities

Securities sold subject to linked 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.

Offsetting financial instruments

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

2.6 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions.

When a price for an identical asset or liability is not observable, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at measurement date.

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

Day one profit or loss is deferred where the fair value of the financial instrument cannot be evidenced by comparison with other observable current market transactions in the same instrument, or determined using valuation models that utilise non-observable market data as inputs. The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Subsequent to initial recognition, fair value is measured based on quoted market prices or dealer price quotations for the assets and liabilities that are traded in active markets and where those quoted prices represent fair value at the measurement date.

If the market for an asset or liability is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market-related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

The Bank has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits a group of financial assets and financial liabilities to be measured at fair value on a net basis. This election is applied where the Bank:

- manages the group of financial assets and financial liabilities on the basis of the Bank's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Bank's documented risk management or investment strategy;
- provides information on that basis about the group of financial assets and financial liabilities to the Bank's key management personnel; and
- is required to or has elected to measure those financial assets and financial liabilities at fair value at the end of each reporting period.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

2.7 Property and equipment

Equipment and owner-occupied properties, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Bank and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised profit or loss as incurred.

Owner-occupied properties are held for use in the supply of services or for administrative purposes.

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. Land is not depreciated. Leasehold buildings are depreciated over the shorter of the lease period or their useful lives. Depreciation starts when the asset is in location and condition as intended by management.

The revaluation reserve in equity arose from revaluation of the Stanbic Bank, Chiromo Road office at the point where CfC Bank and Stanbic Bank merged.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

The estimated useful lives of tangible assets are typically as follows;

Class	**Depreciation period**
Buildings	40 years
Motor vehicles	4 – 5 years
Computer equipment	3 – 5 years
Office equipment	5 – 10 years
Furniture and fittings	5 – 13 years

Work-in-progress is not depreciated.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the item is included in profit or loss in the year the asset is derecognised.

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

2.8 Intangible assets – computer software

Costs associated with developing or maintaining computer software programs and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with unique system, which will be controlled by the Bank and have probable future economic benefits beyond one year, are recognised as intangible assets. Capitalisation is further limited to development costs where the Bank is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, and the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development. Direct costs include software development costs, employee costs and an appropriate portion of relevant overheads.

Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (two to 10 years) from the date that the assets are available for use, and are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if necessary.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies *(continued)*

2.9 Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss. Borrowing costs consist of interest and other costs that an entity incurred in connection with the borrowing of funds.

2.10 Impairment of non-financial assets

Non-financial assets are tested annually for impairment and additionally whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Fair value less costs ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (CGUs). Impairment test can also be performed on a single asset when the fair value less costs of development or the value in use can be determined reliably. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Property and equipment (see Note 2.7 and Note 30)
- Intangible assets see Note (2.8 and Note 31)
- Disclosure on significant assumptions (see Note 3)

2.11 Accounting for leases

The Bank assesses at contract inception whether a contract is, or contains, a lease, i.e. if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank as lessee

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

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

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

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

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

Right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the Bank at the end of the lease term, the estimated useful life would not exceed the lease term.

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

2.12 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in provision due to passage of time is recognised as an expense.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole.

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the Bank, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Bank's control.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit.

Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote.

2.13 Taxation

(i) Direct tax

Current tax includes all domestic and foreign taxes based on taxable profits and capital gains tax. Current tax is determined for current period transactions and events and deferred tax is determined for future tax consequences. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI.

Current tax represents the expected tax payable on taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. They are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(ii) Indirect tax

Indirect taxes, including non-recoverable VAT, skills development levies and other duties for banking activities, are recognised in profit or loss and included in administrative expenses.

2.14 Employee benefits

(i) Defined contribution plans

The Bank operates a number of defined contribution plans, based on a percentage of pensionable earnings funded by both employer companies and employees, the assets of which are generally held in separate trustee-administered funds.

Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

The Bank and its employees also contribute to the National Social Security Fund. These contributions are determined by local statutes and the Bank's contributions are charged to profit or loss in the year which they relate to.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Bank is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies *(continued)*

2.14 Employee benefits *(continued)*

(iii) Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.15 Dividends

Dividends in ordinary shares are credited to a separate component of equity in the period in which they are declared.

2.16 Equity

Ordinary shares are classified as "share capital" in equity. Any premium received over and above the par value of the shares is classified as "share premium" in equity.

(i) Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.

(ii) Dividends on ordinary shares

Dividends are recognised in equity in the period in which they are declared. Dividends declared after the reporting date are disclosed in the dividends note.

Proposed dividends are presented separately within equity until declared.

2.17 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary share shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential shares, if any.

2.18 Equity-linked transactions

Equity compensation plans

The Bank operates both equity-settled and cash-settled share-based compensation plans.

The fair value of equity-settled share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. Non-market vesting conditions, such as the resignation of employees and retrenchment of staff, are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against profit or loss and equity over the remaining vesting period.

On vesting of share options, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of equity-settled share options, proceeds received are credited to share capital and premium.

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every reporting date and on settlement. Any changes in the liability are recognised in profit or loss.

2.19 Segment reporting

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

Transactions between segments are priced at market-related rates.

2.20 Fiduciary activities

The Bank 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 Bank. However, fee income earned and fee expenses incurred by the Bank relating to the Bank's responsibilities from fiduciary activities are recognised in profit or loss.

2.21 Hyperinflation

The South Sudan economy was classified as hyperinflationary from 1 January 2016. Accordingly, the results, cash flows and financial position of Stanbic's South Sudan branch have been expressed in terms of the measuring unit at the reporting date.

As the presentation currency of the Bank is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level or exchange rates in the current year. The prior period adjustments related to non-monetary items and differences arising on translation of comparative amounts are accounted for directly in retained earnings.

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.

Restated retained earnings are derived from all other amounts in the restated statement of financial position.

All items recognised in the statement of profit or loss 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 revenue (Note 10).

2.22 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, it recognises a contingent liability for the amount that it may be required to pay out to the confirming bank or beneficiary should the terms and conditions underlying the contract be met.

On the date that all terms and conditions underlying the contract are met, the Bank records a financial asset (at fair value) on the statement of financial position as part of loans and advances for the contractual right to receive cash from the applicant. Concurrently, the Bank recognises a financial liability (at fair value) on the statement of financial position as part of deposits for the contractual obligation to deliver cash to the beneficiary or the confirming bank, depending on the structure of the arrangement.

(ii) Confirming bank

At initial recognition where the Bank is the confirming bank, it recognises the amount that it may be required to pay out to the beneficiary should the terms and conditions underlying the contract be met. The Bank concurrently records a contingent asset for the amount that the issuing bank may be entitled to receive.

On the date that all terms and conditions underlying the contract are met, the Bank recognises a financial asset (at fair value) on the statement of financial position as part of loans and advances for the contractual right to receive cash from the issuing bank and concurrently recognises a financial liability (at fair value) on balance sheet as part of deposits for the contractual obligation to deliver cash to the beneficiary.

3. Critical accounting estimates and judgements in applying accounting policies

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

Unless otherwise stated, no material changes to assumptions have occurred during the year.

3.1 Going concern

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

3.2 Impairment of financial assets carried at fair value through other comprehensive income (FVOCI)

The Bank reviews its debt securities classified as FVOCI at each reporting date to assess whether they are impaired. This requires similar judgements as applied to the individual assessment of loans and advances.

3.3 Impairment of financial assets at amortised cost

The Bank reviews its debt securities classified as financial assets at amortised cost at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

3.4 Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets is determined using valuation techniques. Wherever possible, models use only observable market data. Where required, these models incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments.

The total amount of the change in fair value estimated using valuation techniques not based on observable market data that was recognised in profit or loss for the year ended 31 December 2020 was a profit of KShs nil (2019: KShs nil).

Additional disclosures on fair value measurements of financial instruments are set out in Notes 2.6 and 5.

3.5 Development costs

The Bank capitalises software development costs for intangible assets in accordance with the accounting policy detailed in Note 2.8. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone and where the Bank is able to demonstrate its intention and ability to complete and use the software.

3.6 Share-based payment

The Bank has a number of cash and equity-settled share incentive schemes which are issued to qualifying employees based on the rules of the schemes. The Bank uses the Black-Scholes option pricing model to determine the fair value of awards on grant date for its equity-settled share incentive schemes. The valuation of the Bank's obligation with respect to its cash-settled share incentive scheme obligations is determined with reference to the Standard Bank Group share price, which is an observable market input. In determining the expense to be recognised for both the cash and equity-settled share schemes, the Bank estimates the expected future vesting of the awards by considering staff attrition levels. The Bank also makes estimates of the future vesting of awards that are subject to non-market vesting conditions by taking into account the probability of such conditions being met. Refer to Note 43 for further details regarding the carrying amount of the liabilities arising from the Bank's cash-settled share incentive schemes and the expenses recognised in profit or loss.

3.7 Income taxes

The Bank is subject to direct taxation in two jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Bank recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in Notes 34 and 35, respectively, in the period in which such determination is made.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and ongoing developments will determine the recognition of deferred tax. The most significant management assumption is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the entities in the Bank in order to utilise the deferred tax assets.

Note 34 summarises the details of the carrying amount of the deferred tax assets. Accounting policy 2.13 provides further detail regarding the Bank's deferred tax accounting policy.

3.8 Hyperinflation

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

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

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

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

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

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

Date	Base year	General price index	Inflation rate %
31 December 2020	2019	**9 902.46**	**89.30**
31 December 2019	2018	5 834.35	69.14

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

	2020 KShs million	2019 KShs million
Impact on statement of profit or loss		
Profit for the year before hyperinflation	**5 027**	6 279
Net monetary gain/(loss) (Note 10)*	**197**	(57)
Profit for the year after hyperinflation	**5 224**	6 222

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

3.9 Provisions

The accounting policy for provisions is set out in accounting policy 2.12. The principal assumptions taken into account in determining the value at which provisions are recorded at, in the Bank's statement of financial position, include determining whether there is an obligation as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the obligation.

The probability of an event of a significant nature occurring will be assessed by management and, where applicable, consultation with the Bank's legal counsel. In determining the amount and timing of the obligation once it has been assessed to exist, management exercises its judgement by taking into account all available information, including that arising after the reporting date up to the date of the approval of the financial statements.

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

ECL measurement period

Personal and Business Banking (PBB)

- The ECL measurement period, at a minimum, is equal to the 12-month ECL of the financial asset.
- A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
- The impact of the lifetime loss given default (LGD) workout, being an increase in the lifetime period over which subsequent cures and re-defaults are considered.
- The IFRS 9 requirement to hold ECL on unutilised loan commitments, notably pertaining to PBB's card and other lending portfolios.

Corporate and Investment Banking (CIB)

- The ECL measurement period, at a minimum, is equal to the 12-month ECL of the financial asset.
- A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
- The requirement to hold ECL on unutilised loan commitments has been included, where appropriate, within this classification.

Significant increase in credit risk (SICR) and low credit risk

A lifetime ECL requirement for all exposures for which there has been SICR. This included the impact of the LGD work out, being an increase in the lifetime period over which subsequent cures and re-defaults are considered. The requirement to hold ECL on off-balance sheet exposures has been included, where appropriate, within this classification.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

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

Significant increase in credit risk (SICR) and low credit risk *(continued)*

PBB

In accordance with IFRS 9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised. SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and, consequently, reflect an increase in credit risk.

The Bank also determines an appropriate transfer rate of exposures from stage 1 to stage 2 by taking into account the expected levels of arrears status for similar exposures. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR throughout the life of the exposure and consequently facilitate appropriate impairment coverage.

Where behaviour scores are not available, historical levels of delinquency are applied in determining whether there has been SICR. For all exposures, IFRS 9's rebuttable presumption of 30 days past due as well as exposures classified as either debt review or as "watch-list" are used to classify exposures within stage 2.

Forward-looking economic expectations are included in the ECL by adjusting the probability of default (PD), LGD and SICR. Adjustments are made based on the Bank's macroeconomic outlook, using models that correlate these parameters with macroeconomic variables. Where modelled correlations are not viable or predictive, adjustments are based on expert judgement to predict the outcomes based on the Bank's macroeconomic outlook expectations.

CIB

The Bank uses a 25-point master rating scale to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the Bank's 25-point master rating scale. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

CIB exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historical default experience, which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historical default experience, exposures that are classified by the Bank's master rating scale as investment grade are assessed for SICR at each reporting date but are considered to be of a low credit risk for IFRS 9 purposes.

Forward-looking economic expectations are incorporated in CIB's client ratings. The client rating thus reflects the expected client risk for the Bank's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECLs representative of existing market conditions.

Forward-looking expectations

- The Bank Economics Research team determines the macroeconomic outlook and a Bank view of commodities over a planning horizon of at least three years. The outlook is provided to the legal entity's Chief Financial Officer for review and asset and liability committee for approval.
- Macroeconomic outlooks take into account various variables such as GDP, central bank policy interest rates, inflation, exchange rates and treasury bill rates.
- Narratives for each of the country economic outlooks, being bear, base and bull cases, are compiled and typically include consideration of the country's economic background, sovereign risk, foreign exchange risk, financial sector, liquidity and monetary policy stance.
- Probabilities are assigned to each of the bear, base and bull cases based on primary macroeconomic drivers and are reviewed monthly.
- The forward-looking economic expectations are updated on a bi-annual basis or more regularly when deemed appropriate.

PBB

Adjustments to the PD and LGD, based on forward-looking economic expectations at the reporting date, resulted in the requirement to hold higher credit impairments.

CIB

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

Lifetime LGD work out

Increased lifetime period over which subsequent cures and re-defaults are considered resulted in higher credit impairments for credit-impaired financial assets.

Default

The Bank's definition of default has been aligned to its internal credit risk management definitions and approaches. While the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the Basel definition) as occurring at the earlier of:

- where, in the Bank's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or in the case of overdraft facilities in excess of the current limit).

Write-off policy

An impaired loan is written off once all reasonable attempts at collection have been made and there is no economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- The financial asset has been in default for the period defined for the specific product (i.e. vehicle and asset finance, mortgage loans, etc.) which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan.
- At the point of write-off, the financial asset is fully impaired (i.e. 100% allowance) with the expectation that the probability of recovery is nil and this probability is not expected to change in the future.

As an exception to the above requirements, where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post-realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above. The shortfall amount does not need to meet the first requirement to be written off.

Partial write-off of an asset occurs when the Bank gives a concession to a debtor such that a part of the loan will not be recovered. In this case, the part that will not be recovered is written off.

Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e. stage 3) still exist. Financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e. six full consecutive monthly payments per the terms and conditions). However, in the case of financial assets with quarterly or longer dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the Bank's CIB or PBB Credit Governance Committee (as appropriate), such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial assets.

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, when compared to the credit rating at initial recognition, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively. In retail portfolios, a rehabilitation period of at least six months (subsequent to a customer repaying all outstanding facilities) would be needed for the customer's internal rating to decrease back to its rating scale at initial recognition and move from stage 2 to stage 1 accordingly.

Debt financial investments

In terms of IFRS 9, this impairment provision is calculated per exposure for the shorter of 12 months or the remaining lifetime of the exposure.

Off-balance sheet exposures – bankers' acceptances, guarantees and letters of credit

The requirement to hold ECL on off-balance sheet financial instruments, such as guarantees and letters of credit, resulted in a requirement to hold additional credit impairment provisions which were not held in terms of IAS 39.

Out of the above factors that drive the ECL, the most significant source of uncertainty is credit ratings allocated to counterparties which drive this assigned probability of default. The PDs in turn incorporate assessment for significant increase in credit risk, default risk assessment, forward-looking information and probability weighted scenarios. At 31 December 2020, had the average credit ratings for all counterparties shifted one notch down, expected credit losses would have increased by KShs 1 380 367 360 (2019: KShs 1 579 303 000). On the other hand, if the credit ratings had shifted one notch up, the expected credit losses would have decreased by KShs 665 015 002 (2019: KShs 278 190 000).

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

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

Credit impairment losses on loans and advances

Specific loan impairments

Non-performing loans include those loans for which the Bank has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Where the net present value of estimated cash flows to differ by +/-1%, the impairment loss is to be estimated at KShs 77 158 420 higher or KShs 77 158 420 lower (2019: KShs 76 285 000 higher or KShs 76 285 000 lower) respectively.

3.11 COVID-19 related operational losses

Following the onset of the COVID-19 pandemic, the Bank adopted accounting policies to capture the COVID-19 related costs. Incremental credit impairment costs for customers impacted by COVID-19 were accounted for in accordance with IFRS 9 and were therefore not reported as COVID-19 related costs. Costs to enable the firm to restore operations following the impacts of the coronavirus pandemic are reported as operational risk losses. These include costs to set up working from home arrangements, cost of protective equipment's, COVID-19 sanitation costs, cancelled travel costs due to COVID-19 and costs associated with providing travel outside of normal business practice (such as for essential services staff). Ongoing costs after the pandemic lockdown to maintain operations are not reportable as operational risk losses. For example, if these costs are incorporated in post-pandemic budgets in response to measures mandated by public health agencies, then these will be seen as preventative measures and therefore not classified as operational risk losses. These include sick payments, quarantine costs and COVID-19 related donations. Cost savings such as reduced travel or reduced electricity costs are also not reported as COVID-19 cost savings and therefore do not offset operational losses recognised as a result of COVID-19.

4. Financial risk management

Risk management is a cornerstone of the Bank's response to the COVID-19 crisis, enabling fast, targeted and responsible support of our clients, at the same time protecting our people while preserving the Bank's financial position. Our response to the pandemic was swift and purposeful, and a testament to our operational resilience. As we executed our business continuity measures on an unprecedented scale, we put our people, our customers and our communities front and centre of our response efforts to this public health emergency. We provided extensive client relief programmes while carefully monitoring and managing our capital, liquidity and impairment risk metrics. We helped ease the liquidity crisis facing many clients, and maintained the collections activity by enabling employees to work from home.

The Bank 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 Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk and the Bank's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established various committees, including the Assets and Liability, Credit and Operational Risk Committee, 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 Bank on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, 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 Bank, 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 Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The committees are assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

By their nature, the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank 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 Bank 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 Bank's operating units.

The Bank 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 Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Bank 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 price, currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

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

4.1 Capital management

The Bank'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, Central Bank of Kenya;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

It uses two approaches of measuring capital for capital management.

(a) Economic capital assessment

Economic capital is the Bank's internal measure of required capital and it incorporates granular risk assessments and portfolio concentration effects that may be absent from the regulatory capital assessment process. The Bank aggregates the individual risk type economic capital measurements conservatively assuming no inter-risk diversification. Economic capital is compared to available financial reserves to perform an assessment of capital adequacy based on internal measures.

(b) Regulatory capital assessment

The Bank 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 Bank's eligible capital with its statement of financial position assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The risk-based approach applies to both on- and off-statement of financial position items. The focus of this approach is credit risk, interest rate risk, market risk, operational risk, concentration risk and underlying collateral risk.

The assets are weighted according to broad categories, each being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied.

The Bank is required at all times to maintain:

- a minimum level of regulatory capital of KShs 1 billion as at 31 December 2020 (2019: KShs 1 billion);
- a core capital (tier 1) of not less than 10.5% (2019: 10.5%) of total risk-weighted assets plus risk weighted off-statement of financial position items;
- a core capital (tier 1) of not less than 8% (2019: 8%) of its total deposit liabilities; and
- a total capital (tier 1 + tier 2) of not less than 14.5% (2019: 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 -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.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.1 Capital management *(continued)*

(b) Regulatory capital assessment *(continued)*

The Bank has complied with these requirements. The Bank's capital adequacy level was as follows:

	2020 KShs million	2019 KShs million
Tier 1 capital (core capital)		
Share capital	**3 412**	3 412
Share premium	**3 445**	3 445
Retained earnings	**34 781**	30 011
Less: Deferred tax asset	**(699)**	(710)
Total tier 1 capital (core capital)	**40 939**	36 158
Tier 2 capital		
Regulatory credit risk reserve	**–**	938
Qualifying subordinate liabilities	**5 504**	6 599
Total Tier 2 capital	**5 504**	7 537
Total capital (tier 1 + tier 2)	**46 443**	43 695
Risk-weighted assets		
Operational risk	**39 795**	36 363
Market risk	**7 658**	4 102
Credit risk on-statement of financial position	**172 496**	164 176
Credit risk off-statement of financial position	**36 523**	33 583
Total risk – weighted assets	**256 472**	238 224
Capital adequacy ratios	**%**	%
Core capital/total deposit liabilities	**18.5**	18.4
Minimum statutory ratio	**8.0**	8.0
Core capital/total risk-weighted assets	**16.0**	15.2
Minimum statutory ratio	**10.5**	10.5
Total capital/total risk-weighted assets	**18.1**	18.3
Minimum statutory ratio	**14.5**	14.5

4.2 Credit risk

Credit risk is the risk of loss arising out of the 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 Bank as a result of failure by a counterparty to meet its financial and/or contractual obligations to the Bank as they fall due.
- Credit concentration risk: The risk of loss to the Bank 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 a maturity. This concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

4.2.1 Governance committees

The primary governance committees overseeing credit risk are the Board Credit Committee (BCC) 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 Bank'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 counterparties are governed by internal restraints, which restrict large exposures in relation to the Bank's capital.

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

4.2.2 General approach to managing credit risk

The Bank's credit risk comprises mainly corporate and retail loans and advances, together with the counterparty credit risk arising from derivative contracts entered into with our clients and market counterparties.

The Bank manages credit risk through:
- maintaining a strong culture of responsible lending and a robust risk policy and control framework;
- identifying, assessing and measuring credit risk clearly and accurately across the Bank, 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 Bank's credit risk relative to limits; and
- ensuring that there is expert scrutiny and independent approval of credit risks and their mitigation.

Primary responsibility for credit risk management resides with the Bank'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 or expected at reporting date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Bank's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

4.2.3 Management reporting

A number of reports are prepared as management information on credit risk. Various analysis of the data are done and a variety of reports are prepared on a monthly and quarterly basis. Some of these reports include the:
- quarterly Board Credit Committee Report;
- quarterly Board Audit Committee Report;
- quarterly Board Risk Committee Report;
- monthly Credit Risk Management Committee Report;
- regulatory returns;
- half-year results; and
- annual financial statements.

These reports are distributed to management and regulators, and are available for inspection by authorised personnel.

4.2.4 Credit risk measurement

(a) Loans and advances, including loan commitments and guarantees

The estimation of credit exposure is complex and requires the use of models as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The 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 ongoing appropriateness as business environments and strategic objectives change, and are recalibrated semi-annually using the most recent internal data.

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components:
- The "probability of default" by the client or counterparty on its contractual obligations
- Current exposures to the counterparty and its likely future development, from which the Bank derives the "exposure at default"
- The likely recovery ratio on the defaulted obligations (the "loss given default")

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.4 Credit risk measurement *(continued)*

(a) Loans and advances, including loan commitments and guarantees *(continued)*

Probability of default (PD)

The Bank uses a 25-point master rating scale to quantify the credit risk for each borrower as illustrated in the table below. 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 (LGD)

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 historical recovery data per category of LGD. A downturn LGD is used in the estimation of the capital charge and reflects the anticipated recovery rates and macroeconomic factors in a downturn period.

Exposure at default (EAD)

EAD captures the impact of potential drawdowns against unutilised facilities and changes in counterparty risk positions due to changes in market prices. By using historical data, it is possible to estimate the average utilisation of limits of an account when default occurs, recognising that customers may use more of their facilities as they approach default.

(b) Debt securities

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

Relationship between the bank master rating and external rating

Stanbic Bank Kenya Limited's Internal Rating Scale	Moody's Investor Services	Standard & Poor's	Fitch	Grading	Credit Quality
1 – 4	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	Investment grade	Normal monitoring
5 – 7	A1, A2, A3	A+, A, A-	A+, A, A-		
8 – 12	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-		
13 – 21	Ba1, Ba2, Ba3, B1, B2, B3	BB+, BB, BB-, B+, B, B-	BB+, BB, BB-, B+, B, B-	Sub-investment grade	Close monitoring
22 – 25	Caa1, Caa2, Caa3, Ca	CCC+, CCC, CCC-	CCC+, CCC, CCC-		
Default	C	D	D	D	D

4.2.5 Risk limit control and mitigation policies

The Bank 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 sub-limit covering on-balance sheet and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(a) Credit tailored to customer profile

There is a clear distinction between the fundamental credit characteristics of the Bank's customer base. This customer base is managed according to the following market segments:
- Corporate and Investment Banking (CIB)
- Personal and Business Banking (PBB)

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

CIB, Sovereign and Bank portfolios

Corporate, sovereign and bank borrowers include large corporates, financial institutions and international counterparties. 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 counterparty, 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 counterparty based on a review of the audited financial statements and underlying risk parameters.

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

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 relates to cheque accounts, credit cards and evolving personal loans and products, and includes 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.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.5 Risk limit control and mitigation policies *(continued)*

(b) Financial covenants (for credit-related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank 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 Bank 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 Bank 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 Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(c) Master netting arrangements

The Bank 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 on 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.

(d) 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.

(e) Collateral

The Bank 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 Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The main types of collateral taken are:

Personal and Business Banking	
Mortgage lending	First ranking legal charge over the property financed
Vehicle and asset finance	Joint registration of vehicles
Other loans and advances	Debentures over the Company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, Directors' personal guarantees and company guarantees

Corporate and Investment Banking	
Corporate lending	All assets debenture over the Company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, Directors' personal guarantees and company guarantees

Longer-term finance and lending to corporate entities is generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise possible credit loss the Bank seeks additional collateral from the counterparty 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 Bank 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. Valuers are required to provide the Bank with professional indemnity to cover the Bank in cases of professional negligence relating to their valuations. The Bank 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 are revalued.

The table below 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; and
- financial guarantees and intangible assets.

Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the Bank's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions.

In the retail portfolio, 76% (2019: 82%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures above 50% collateral coverage category is 100% (2019: 100%). Of the Bank's total exposure, 54% (2019: 48%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

						Collateral coverage – total		
	Total exposure KShs million	Unsecured exposure KShs million	Secured exposure KShs million	Netting agreements KShs million	Secured exposure after netting KShs million	Greater than 0% to 50% KShs million	Greater than 50% to 100% KShs million	Greater than 100% KShs million
31 December 2020								
Asset class								
Corporate	87 035	15 695	71 340	–	71 340	–	71 340	–
Sovereign	87 601	87 601	–	–	–	–	–	–
Loans and advances to banks	38 113	38 113	–	–	–	–	–	–
Group	27 172	27 172	–	–	–	–	–	–
Other banks	10 941	10 941	–	–	–	–	–	–
Retail	89 562	21 629	67 933	–	67 933	–	67 933	–
Retail mortgage	34 783	–	34 783	–	34 783	–	34 783	–
Other retail	54 779	21 629	33 150	–	33 150		33 150	–
Total	302 311	163 038	139 273	–	139 273	–	139 273	–
Less: Impairments for loans and advances	(18 436)							
Total exposure	283 875							

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.5 Risk limit control and mitigation policies *(continued)*

(e) Collateral *(continued)*

Valuation of collateral (continued)

	Total exposure KShs million	Unsecured exposure KShs million	Secured exposure KShs million	Netting agreements KShs million	Secured exposure after netting KShs million	Collateral coverage – total: Greater than 0% to 50% KShs million	Greater than 50% to 100% KShs million	Greater than 100% KShs million
31 December 2019								
Asset class								
Corporate	79 763	7 137	72 626	–	72 626	–	72 626	–
Sovereign	70 033	70 033	–	–	–	–	–	–
Loans and advances to banks	38 354	38 354	–	–	–	–	–	–
Group	27 516	27 516	–	–	–	–	–	–
Other banks	10 838	10 838	–	–	–	–	–	–
Retail	87 224	15 391	71 833	–	71 833	–	71 833	–
Retail mortgage	25 580	–	25 580	–	25 580	–	25 580	–
Other retail	61 644	15 391	46 253	–	46 253	–	46 253	–
Total	275 374	130 915	144 459	–	144 459	–	144 459	–
Less: Impairments for loans and advances	(14 174)							
Total exposure	261 200							

The Bank holds collateral on loans and advances. The tables above represent the collateral cover held on various types of loans and advances. Other deposits and margin balances held against off-balance sheet facilities are included in other liabilities in Note 38(a).

Foreclosed collateral

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

	2020 KShs million	2019 KShs million
Nature of assets		
Residential property	**120**	**50**
Assets financed under VAF	**174**	**262**
	294	**312**

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

Renegotiated financial assets

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure. The renegotiations resulted in the continuation of the original financial asset, with no gain or loss recognised as a consequence of the restructuring. The table below shows the carrying amount of financial assets whose terms have been renegotiated, by class.

	2020 KShs million	2019 KShs million
Vehicle and asset finance	3 786	947
Other loans and advances	36 489	4 485
	40 275	5 432

4.2.6 Default and provisioning policy

The Bank's definition of default has been aligned to its internal credit risk management definitions and approaches. While the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the Basel definition) as occurring at the earlier of:

- where, in the Bank's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter; or
- when the counterparty is past due for more than 90 days (or in the case of overdraft facilities in excess of the current limit).

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets as per IFRS 9:

- Significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower)
- A breach of contract, such as default or delinquency in interest and/or principal payments
- Disappearance of active market due to financial difficulties
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- Where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Bank would not otherwise consider

Exposures which are overdue for more than 90 days are also considered to be in default.

4.2.7 Credit quality

(a) Maximum exposure to credit risk before collateral held or other credit enhancements

Financial instruments whose carrying amounts represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 22. 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:

- 58% of the total maximum exposure is derived from loans and advances to customers (2019: 61%); 29% represents investments in debt securities (2019: 25%)
- 74% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2019: 75%)
- 86% of the loans and advances portfolio are considered to be neither past due nor impaired (2019: 88%)
- 99.8% of all the debt securities, which the Bank has invested in, are issued by the Central Bank of Kenya (2019: 99.0%)

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.7 Credit quality *(continued)*

(b) Credit quality by class

The table below shows the credit quality by class of loans and advances, based on the Bank's credit rating system:

		SB 1 – 12		SB 13 – 20		
	Gross carrying amount KShs million	**Stage 1 KShs million**	**Stage 2 KShs million**	**Stage 1 KShs million**	**Stage 2 KShs million**	**Stage 1 KShs million**
Year ended 31 December 2020						
Loans and advances to customers						
PBB	**89 561**	**–**	**–**	**59 526**	**–**	**165**
Mortgage loans	**34 783**	**–**	**–**	**25 660**	**–**	**–**
Vehicle and asset finance	**13 127**	**–**	**–**	**9 119**	**–**	**–**
Card debtors	**515**	**–**	**–**	**294**	**–**	**–**
Other loans and advances	**41 136**	**–**	**–**	**24 453**	**–**	**165**
CIB	**87 035**	**20 275**	**–**	**45 734**	**5 315**	**82**
	176 596	**20 275**	**–**	**105 260**	**5 315**	**247**
Loans and advances to banks	**38 109**	**26 581**	**–**	**11 528**	**–**	**–**
Gross carrying amount	**214 705**	**46 856**	**–**	**116 788**	**5 315**	**247**
Less: Total expected credit losses for loans and advances	**(18 419)**					
Net carrying amount of loans and advances measured at amortised cost	**196 286**					
Year ended 31 December 2019						
Loans and advances to customers						
PBB	87 226	–	–	59 548	–	–
Mortgage loans	25 581	–	–	16 226	–	–
Vehicle and asset finance	15 146	–	–	10 982	–	–
Card debtors	652	–	–	416	–	–
Other loans and advances	45 847	–	–	31 924	–	–
CIB	79 761	10 438	–	44 684	10 277	58
	166 987	10 438	–	104 232	10 277	58
Loans and advances to banks	38 354	26 826	–	11 528	–	–
Gross carrying amount	205 341	37 264	–	115 760	10 277	58
Less: Total expected credit losses for loans and advances	(14 172)					
Net carrying amount of loans and advances measured at amortised cost	191 169					

SB 21 – 25	Default							
Stage 2 KShs million	**Stage 3 KShs million**	**Purchased/ originated credit impaired KShs million**	**Total gross carrying amount of default exposures KShs Million**	**Securities and expected recoveries on default exposures KShs million**	**Interest in suspense on default exposures KShs million**	**Balance sheet expected credit loss on default exposures KShs million**	**Gross default coverage %**	**Non-performing exposures %**
19 420	**10 450**	**–**	**10 450**	**4 483**	**1 231**	**4 736**	**57**	**12**
6 526	**2 597**	**–**	**2 597**	**1 401**	**440**	**755**	**46**	**7**
2 240	**1 768**	**–**	**1 768**	**173**	**296**	**1 299**	**90**	**13**
197	**24**	**–**	**24**	**6**	**–**	**18**	**75**	**5**
10 457	**6 061**	**–**	**6 061**	**2 903**	**495**	**2 664**	**52**	**15**
1 042	**14 587**	**–**	**14 587**	**5 702**	**2 946**	**6 231**	**63**	**17**
20 462	**25 037**	**–**	**25 037**	**10 185**	**4 177**	**10 967**	**60**	**14**
–	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**–**
20 462	**25 037**	**–**	**25 037**	**10 185**	**4 177**	**10 971**	**52**	**12**
21 824	5 854	–	5 854	2 652	816	3 041	58	7
7 511	1 844	–	1 844	1 002	293	527	38	7
2 768	1 396	–	1 396	340	203	925	71	9
214	22	–	22	4	–	18	82	3
11 331	2 592	–	2 592	1 306	320	1 571	65	6
812	13 492	–	13 492	6 521	2 414	4 775	45	17
22 636	19 346	–	19 346	9 173	3 230	7 816	49	12
–	–	–	–	–	–	1	–	–
22 636	19 346	–	19 346	9 173	3 230	7 817	49	9

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.7 Credit quality *(continued)*

(b) Credit quality by class *(continued)*

		SB 1 – 12		SB 13 – 20		SB 21 – 25		Default	
	Gross carrying amount KShs million	Stage 1 KShs million	Stage 2 KShs million	Stage 1 KShs million	Stage 2 KShs million	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Purchased/ originated credit impaired
Year ended 31 December 2020									
Financial investments measured at amortised									
Corporate	**168**	**168**	–	–	–	–	–	–	–
Sovereign	**23 023**	**23 023**	–	–	–	–	–	–	–
Bank	–	–	–	–	–	–	–	–	–
Mutual funds and unit-linked investments	–	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–	–
Gross carrying amount	**23 191**								
Less: Total expected credit losses for financial investments at amortised cost	**(17)**								
Net carrying amount	**23 174**								
Financial investments at fair value through OCI									
Corporate	–	–	–	–	–	–	–	–	–
Sovereign	**30 664**	**30 664**	–	–	–	–	–	–	–
Bank	–	–	–	–	–	–	–	–	–
Mutual funds and unit-linked investments	–	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–	–
Gross carrying amount	**30 664**								
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	**(4)**								
Net carrying amount	**30 660**								
Year ended 31 December 2019									
Financial investments measured at amortised									
Corporate	661	661	–	–	–	–	–	–	–
Sovereign	14 231	14 231	–	–	–	–	–	–	–
Bank	–	–	–	–	–	–	–	–	–
Mutual funds and unit-linked investments	–	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–	–
Gross carrying amount	14 892								
Less: Total expected credit losses for financial investments at amortised cost	(2)								
Net carrying amount	14 890								
Financial investments at fair value through OCI									
Corporate	–	–	–	–	–	–	–	–	–
Sovereign	20 980	20 980	–	–	–	–	–	–	–
Bank	–	–	–	–	–	–	–	–	–
Mutual funds and unit-linked investments	–	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–	–
Gross carrying amount	20 980								
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	(2)								
Net carrying amount	20 978								

(c) Ageing analysis of past due but not impaired financial assets

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary.

The table below shows the ageing of financial assets that are past due at the reporting date but not impaired, per class.

	Performing (early arrears)			Non-performing		
	1 to 29 days KShs million	30 to 59 days KShs million	60 to 89 days KShs million	90 to 180 days KShs million	More than 180 days KShs million	Total KShs million
31 December 2020						
Personal and Business Banking	**6 834**	**2 067**	**842**	**–**	**–**	**9 743**
Mortgage lending	**2 385**	**542**	**402**	**–**	**–**	**3 329**
Vehicle and asset finance	**1 340**	**554**	**79**	**–**	**–**	**1 973**
Other loans and advances	**3 109**	**971**	**361**	**–**	**–**	**4 441**
Corporate and Investment Banking	**4 325**	**114**	**2**	**–**	**–**	**4 441**
Total recognised financial instruments	**11 159**	**2 181**	**844**	**–**	**–**	**14 184**
31 December 2019						
Personal and Business Banking	7 532	2 799	8 539	–	–	18 870
Mortgage lending	1 626	748	303	–	–	2 677
Vehicle and asset finance	1 867	998	241	–	–	3 106
Other loans and advances	4 039	1 053	7 995	–	–	13 087
Corporate and Investment Banking	1 753	198	–	–	–	1 951
Total recognised financial instruments	9 285	2 997	8 539	–	–	20 821

4.3 Market risk

Market risk is the risk of a change in market value, earnings (actual or effective) or future cash flows of a portfolio of financial instruments (including commodities) caused by moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these measures.

4.3.1 Governance committees

The Bank's policy is that all trading activities are undertaken within the Bank's trading operations. The Board grants general authority to take on market risk exposure to the Bank's Asset and Liability Committee (ALCO).

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

(i) Identification of market risks in the trading and banking books

This process entails 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 statement of financial position, statement of profit or loss, 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.).

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.3 Market risk *(continued)*

4.3.1 Governance committees *(continued)*

(iii) 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 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, shareholders, rating agencies, Central Bank of Kenya and Internal Capital Adequacy Assessment Process (ICAAP) stakeholders).

4.3.2 Market risk exposure on banking operations

Banking-related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and the economic value of equity that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk. The Bank'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. The Treasury and Capital Management team monitors banking book interest rate risk together with the country ALCO.

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

4.3.3 Approved regulatory capital approaches

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 risk assets throughout the Bank.

4.3.4 Trading book market risk

Trading book market risk is represented by financial instruments held on the trading book, arising out of normal global markets' trading activity.

4.3.5 Approach to managing market risk in the trading book

The Stanbic Bank policy is that all trading activities are undertaken within the Bank's trading operations. The market risk functions are independent of trading operations and accountable to ALCO. All Value at Risk (VaR) and Stress Value at Risk (SVaR) limits require prior approval from ALCO. The market risk functions have the authority to set limits at a lower level.

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

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

(a) VaR and SVaR

The Bank 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 following:

- 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 liquidity 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 2020 did not exceed the maximum tolerable losses as represented by the Bank's stress scenario limits.

(d) Back-testing

The Bank back-tests its VaR models to verify the predictive ability of the VaR calculations and ensure the appropriateness of the models within the inherent limitations of VaR. Back-testing compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's calculated VaR. In addition, VaR is tested by changing various model parameters, such as confidence intervals and observation periods to test the effectiveness of hedges and risk mitigation instruments.

(e) Specific business unit and product controls

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

4.3.6 Foreign exchange risk

Definition

The Bank'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 Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The ALCO 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 Bank's residual risk by means of forward exchange contracts, currency swaps and option contracts.

The repositioning of the currency profile is a controlled process based on underlying economic views of the relative strength of currencies. The Bank does not ordinarily hold open exposures of any significance with respect to the banking book.

Gains or losses on derivatives are reported in profit or loss.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.3 Market risk *(continued)*

4.3.6 Foreign exchange risk *(continued)*

Approach to managing foreign currency risk *(continued)*

The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2020.

Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in millions of Kenya Shillings):

	USD	GBP	EUR	Others	Total
At 31 December 2020					
Assets					
Cash and bank balances with banks abroad	**15 905**	**492**	**1 186**	**1 553**	**19 136**
Loans and advances	**59 244**	**942**	**6 360**	**15**	**66 561**
Investment in government securities	**2 554**	**–**	**–**	**–**	**2 554**
Balances due from group companies	**17 885**	**5 191**	**–**	**637**	**23 713**
Other foreign currency assets	**3 232**	**–**	**321**	**149**	**3 702**
Total foreign-denominated financial assets	**98 820**	**6 625**	**7 867**	**2 354**	**115 666**
Liabilities					
Amounts due to banking institutions abroad	**12 011**	**7**	**83**	**472**	**12 573**
Deposits	**82 768**	**7 353**	**7 172**	**1 156**	**98 449**
Borrowings	**5 504**	**–**	**–**	**–**	**5 504**
Balances due to group companies	**12 432**	**–**	**2 691**	**–**	**15 123**
Other foreign currency liabilities	**12 446**	**3**	**700**	**1 078**	**14 227**
Total foreign-denominated financial liabilities	**125 161**	**7 363**	**10 646**	**2 706**	**145 876**
Net on balance sheet financial position	**(26 341)**	**(738)**	**(2 779)**	**(352)**	**(30 210)**
Off-balance sheet net notional position	**26 456**	**724**	**3 162**	**127**	**30 469**
Overall net position	**115**	**(14)**	**383**	**(225)**	**259**
At 31 December 2019					
Assets					
Cash and bank balances with banks abroad	18 831	1 089	435	1 815	22 170
Loans and advances	62 073	850	3 812	19	66 754
Balances due from group companies	21 939	–	–	564	22 503
Other foreign currency assets	3 177	98	274	326	3 875
Total foreign-denominated financial assets	106 020	2 037	4 521	2 724	115 302
Liabilities					
Amounts due to banking institutions abroad	14 433	147	7 093	386	22 059
Deposits	68 485	9 676	8 133	987	87 281
Borrowings	5 132	–	–	–	5 132
Balances due to group companies	12 963	–	4 018	–	16 981
Other foreign currency liabilities	11 296	95	387	1 316	13 094
Total foreign-denominated financial liabilities	112 309	9 918	19 631	2 689	144 547
Net on-balance sheet financial position	(6 289)	(7 881)	(15 110)	35	(29 245)
Off-balance sheet net notional position	4 995	7 937	15 752	(213)	28 471
Overall net position	(1 294)	56	642	(178)	(774)

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and cash flows. The Board sets limit on the level of exposure by currency and in aggregate for both overnight and intraday positions, which are monitored daily. The table indicates the extent to which the Bank was exposed to currency risk as at 31 December on its monetary assets and liabilities denominated in foreign currency. It shows the sensitivity analysis for each currency to which the Bank has significant exposure and the effect of the change in exchange rate on the income statement. Percentage exchange rate changes represent the average of the largest 1 and 10 days increase/decrease for the year.

	Increase in currency rate in %	Effect on profit before tax KShs million	Effect on equity KShs million	Decrease in currency rate in %	Effect on profit before tax KShs million	Effect on equity KShs million
Year ended 31 December 2020						
Currency						
USD	**2.45**	**3**	**2**	**(2.17)**	**(2)**	**(2)**
GBP	**5.53**	**(1)**	**(1)**	**(3.96)**	**1**	**–**
EUR	**2.48**	**9**	**7**	**(3.59)**	**(14)**	**(10)**
Year ended 31 December 2019						
Currency						
USD	0.98	(13)	(9)	(1.09)	14	10
GBP	4.01	2	2	(2.34)	(1)	(1)
EUR	1.92	12	9	(2.01)	(13)	(9)

4.3.7 Interest rate risk

Interest rate risk in the banking book (IRRBB)

These are risks that have an impact on net interest income that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities.

IRRBB is further divided into the following sub-risk types:

- Repricing risk: Timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities.
- Yield curve risk: Shifts in the yield curves that have adverse effects on the 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 Treasury and Capital Management team monitors banking book interest rate risk operating under the oversight of ALCO.

Measurement

The analytical techniques used to quantify IRRBB include both earnings- and valuation-based measures. The analysis takes account of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.

Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing or maturity profiles, or through derivative overlays.

Limits

Interest rate risk limits are set in relation to changes in forecast banking book earnings and the economic value of equity. Economic value of equity sensitivity is calculated as the net present value of aggregate asset cash flows less the net present value of aggregate liability cash flows.

All assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on behavioural profiling.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.3 Market risk *(continued)*

4.3.7 Interest rate risk *(continued)*

Hedging of endowment risk

IRRBB is predominantly the consequence of endowment exposures, being the net effect of non-rate sensitive assets less non-rate sensitive liabilities and equity.

The endowment risk is hedged using liquid instruments as and when it is considered opportune. Where permissible, hedge accounting is adopted using the derivatives. The interest rate view is formulated through ALCO processes, following meetings of the monetary policy committees, or notable market developments.

Non-endowment IRRBB (repricing, yield curve, basis and optionality) is managed within the treasury and the global markets portfolios.

The table below indicates the KShs equivalent sensitivity of the Bank's banking book earnings (net interest income and banking book mark-to-market profit or loss) and other comprehensive income (OCI) given a parallel yield curve shock. A floor of 0% is applied to all interest rates under the decreasing interest rate scenario. Hedging transactions are taken into account while other variables are kept constant.

	Increase in basis points 2020	Sensitivity of net interest income 2020 KShs million	Sensitivity of other comprehensive income 2020 KShs million	Decrease in basis points 2020	Sensitivity of net interest income 2020 KShs million	Sensitivity of other comprehensive income 2020 KShs million
Currency						
KShs	**200**	**242**	**(68)**	**(200)**	**(334)**	**54**
Others*	**100**	**(1)**	**–**	**(100)**	**–**	**–**
Currency						
KShs	200	694	286	(200)	(677)	(229)
Others*	100	(98)	–	(100)	81	–

** These are any other currencies held by the Bank not denominated in KShs.*

4.4 Liquidity risk

Liquidity risk arises when the Bank, 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 Bank with short-term funding withdraw or do not roll over that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The nature of banking and trading activities results in a continuous exposure to liquidity risk. The Bank manages liquidity in accordance with applicable regulations and within the Bank's risk appetite. The Bank's liquidity risk management governance framework supports the measurement and management of liquidity at various levels to ensure that all payment obligations can be met by the Bank under both normal and stressed conditions. Liquidity risk management ensures that the Bank has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times.

The Bank's liquidity risk management framework differentiates between:

- Tactical (shorter-term) risk management: Managing intra-day liquidity positions and daily cash flow requirements, and monitoring adherence to prudential and internal requirements and setting deposit rates as informed by ALCO.
- Structural (long-term) liquidity risk management: Ensuring a structurally sound statement of financial position, a diversified funding base and prudent term funding requirements.
- 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 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.

A structural liquidity mismatch analysis is performed regularly to anticipate the mismatch between payment profiles of balance sheet items, in order to highlight potential risks within the Bank'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 ongoing basis to ensure appropriate Bank funding strategies are executed depending on the market, competitive and regulatory environment. The Bank employs a diversified funding strategy.

(d) Preserving a diversified funding base

Concentration risk limits are used within the Bank 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 Bank. 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 bank-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 Bank's ability to maintain sufficient liquidity under adverse conditions.

(f) Maintaining adequate liquidity contingency plans or liquidity buffer

Portfolios of highly marketable securities over and above regulatory and stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO defined limits on the basis of diversification and liquidity.

(g) Short-term and long-term cash flow management

Active liquidity and funding management is an integrated effort across a number of functional areas. Short-term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and internal requirements.

The Bank's long-term funding strategy is derived from the projected net asset growth, which includes consideration of personal and business banking and corporate and investment banking asset classes, capital requirements, the maturity profile of existing wholesale funding and anticipated changes in the retail deposit base. Funding requirements and initiatives are assessed in accordance with ALCO requirements for diversification, tenure and currency exposure as well as the availability and pricing of alternative liquidity sources.

Liquidity contingency plans are designed as far as possible, to protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an extensive early warning indicator process supported by a clear and decisive crisis response strategy. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event.

The cumulative impact of the above elements is monitored on a monthly basis by the Bank's ALCO and the process is underpinned by a system of extensive internal and external controls. In periods of increased volatility, the frequency of meetings is increased as required to facilitate appropriate and timely management action.

To ensure integrity of the process there is use of application of purpose-built technology; documented processes and procedures; independent oversight by risk management; and regular independent reviews; and evaluations of the effectiveness of the system. The total amount of liquidity held is adequate to meet all internal stress tests as well as regulatory requirements.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.4 Liquidity risk *(continued)*

Exposure to liquidity risk

The key measure by the Bank 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 banks. Details of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	2020 %	2019 %
At 31 December	**56.4**	58.4
Average for the year	**58.8**	54.1
Maximum for the year	**61.5**	59.1
Minimum for the year	**51.0**	44.6
Statutory minimum requirement	**20.0**	20.0

The tables below present the remaining contractual maturities of the Bank's non-derivative financial liabilities; it includes a maturity analysis for financial assets that the Bank 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 Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Maturity analysis for financial assets and financial liabilities

	Carrying value 2020 KShs million	Gross nominal inflow/ (outflow) 2020 KShs million	Redeem-able on demand 2020 KShs million	Maturing within 1 month 2020 KShs million	Maturing after 1 month but within 6 months 2020 KShs million	Maturing after 6 months but within 12 months 2020 KShs million	Maturing after 12 months but within 5 years 2020 KShs million	Maturing After 5 years 2020 KShs million
Non-derivative financial assets								
Cash and balances to banks	**18 077**	**18 077**	**18 077**	**–**	**–**	**–**	**–**	**–**
Financial assets at FVTPL	**33 729**	**34 021**	**–**	**8 791**	**11 954**	**10 118**	**1 579**	**1 579**
Financial assets at FVOCI	**30 664**	**31 711**	**–**	**3 500**	**8 572**	**18 172**	**1 467**	**–**
Financial assets at amortised cost	**23 191**	**27 855**	**–**	**8**	**949**	**949**	**15 511**	**10 438**
Loans and advances to banks	**38 109**	**37 273**	**11 233**	**18 282**	**3 027**	**179**	**4 552**	**–**
Loans and advances to customers	**158 181**	**224 914**	**16 109**	**3 978**	**20 406**	**23 869**	**112 696**	**47 856**
Other assets	**4 164**	**4 164**	**4 164**	**–**	**–**	**–**	**–**	**–**
	306 115	**378 015**	**49 583**	**34 559**	**44 908**	**53 287**	**135 805**	**59 873**
Derivative assets:	**2 956**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Inflows	**–**	**(225)**	**–**	**(2)**	**(20)**	**(38)**	**(165)**	**–**
– Outflows	**–**	**11 642**	**–**	**1 416**	**6 457**	**2 739**	**1 030**	**–**
	2 956	**11 417**	**–**	**1 414**	**6 437**	**2 701**	**865**	**–**
Non-derivative financial liabilities								
Amounts due to other banks	**(42 905)**	**(43 440)**	**–**	**(43 326)**	**(18)**	**(21)**	**(75)**	**–**
Customer deposits	**(217 911)**	**(218 201)**	**(130 620)**	**(73 538)**	**(12 019)**	**(1 122)**	**(895)**	**(7)**
Trading liabilities	**(418)**	**(1 000)**	**–**	**(515)**	**(17)**	**(66)**	**(402)**	**–**
Borrowings	**(5 504)**	**(6 591)**	**–**	**(66)**	**(395)**	**(790)**	**(3 502)**	**(1 838)**
Other liabilities	**(5 868)**	**(5 868)**	**(5 868)**	**–**	**–**	**–**	**–**	**–**
	(272 606)	**(275 100)**	**(136 488)**	**(117 445)**	**(12 449)**	**(1 999)**	**(4 874)**	**(1 845)**
Derivative liabilities:	**(2 601)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Inflows	**–**	**(1 481)**	**–**	**(111)**	**(862)**	**(463)**	**(45)**	**–**
– Outflows	**–**	**22**	**–**	**1**	**21**	**–**	**–**	**–**
	(2 601)	**(1 459)**	**–**	**(110)**	**(841)**	**(463)**	**(45)**	**–**

	Carrying value 2019 KShs million	Gross nominal inflow/ (outflow) 2019 KShs million	Redeem-able on demand 2019 KShs million	Maturing within 1 month 2019 KShs million	Maturing after 1 month but within 6 months 2019 KShs million	Maturing after 6 months but within 12 months 2019 KShs million	Maturing after 12 months but within 5 years 2019 KShs million	Maturing After 5 years 2019 KShs million
Non-derivative financial assets								
Cash and balances to banks	17 251	17 251	17 251	–	–	–	–	–
Financial assets held-for-trading	34 162	34 499	–	13 400	19 106	1 971	22	–
Financial assets at FVOCI	20 978	21 150	–	3 000	11 400	6 750	–	–
Financial assets at amortised cost	14 890	22 670	–	8	1 927	1 050	13 223	6 462
Loans and advances to banks	38 353	38 693	4 142	29 989	267	216	4 079	–
Loans and advances to customers	152 817	211 880	21 687	3 769	19 499	22 616	98 865	45 444
Other assets	3 292	3 292	3 292	–	–	–	–	–
	281 743	349 435	46 372	50 166	52 199	32 603	116 189	51 906
Derivative assets:	1 612	–	–	–	–	–	–	–
– Inflows	–	(357)	–	(121)	(132)	(89)	(15)	–
– Outflows	–	1 206	–	440	269	158	296	43
	1 612	849	–	319	137	69	281	43
Non-derivative financial liabilities								
Amounts due to other banks	(30 450)	(29 065)	–	(4 707)	(6 355)	(5 491)	(9 157)	(3 355)
Customer deposits	(195 435)	(195 910)	(170 707)	(9 035)	(10 849)	(4 269)	(1 014)	(36)
Trading liabilities	(1 487)	(1 509)	–	(136)	(479)	(786)	–	(108)
Borrowings	(9 127)	(10 873)	–	(423)	(2 181)	(2 929)	(3 502)	(1 838)
Other liabilities	(12 608)	(12 608)	(12 608)	–	–	–	–	–
	(249 107)	(249 965)	(183 315)	(14 301)	(19 864)	(13 475)	(13 673)	(5 337)
Derivative liabilities:	(2 757)	–	–	–	–	–	–	–
– Inflows	–	(2 453)	–	(385)	(979)	(821)	(226)	(42)
– Outflows	–	143	–	10	52	16	64	1
	(2 757)	(2 310)	–	(375)	(927)	(805)	(162)	(41)

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

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows which include interest payments
Issued financial guarantee contracts, and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
Derivative financial liabilities and financial assets held for risk management purpose	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) and the net amounts for derivatives that are net settled.

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and debt securities issued by sovereigns which can be readily sold to meet liquidity requirements. In addition, the Bank maintains lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central banks.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.5 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 IFRS 9, as required by IFRS 7 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 basis:

- Derivative asset and liabilities – fair value
- Loans and advances – amortised cost
- Customer deposits – amortised cost

As at 31 December 2020, the Bank had cash margins of KShs 1 321 000 000 (2019: KShs 1 517 139 000) held as collateral against loans and advances to customers. Therefore, the credit facilities secured by cash margins can be settled at net.

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

The Bank receives collateral in the form of cash in respect of lending.

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

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

IFRS 9: *Financial Instruments* 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 Bank 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.

5. Assets and liabilities at fair value

5.1 Fair value hierarchy of instruments measured at fair value

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 Bank'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 Bank. 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.

** An ISDA Master Agreement is a standard agreement used in over-the-counter derivatives transactions. The ISDA Master Agreement, published by the International Swaps and Derivatives Association (ISDA), is a document that outlines the terms applied to a derivatives transaction between two parties.*

Level hierarchy

The table in Note 5.2 shows the 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; and
- limiting exposure to such risk drivers and analysing this exposure on a regular basis.

5.2 Assets and liabilities measured at fair value on a recurring basis

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

	Note	Level 1 KShs million	Level 2 KShs million	Level 3 KShs million	Total KShs million
At 31 December 2020					
Assets					
Cash and balances with the Central Bank of Kenya	19	**11 656**	**–**	**–**	**11 656**
Financial assets – held-for-trading	21	**–**	**33 729**	**–**	**33 729**
Financial assets – FVOCI	22	**1 078**	**29 586**	**–**	**30 664**
Equity investments	29	**–**	**–**	**18**	**18**
Derivative assets	24	**–**	**2 956**	**–**	**2 956**
		12 734	**66 271**	**18**	**79 023**
Liabilities					
Trading liabilities	21	**–**	**418**	**–**	**418**
Derivative liabilities	24	**–**	**2 601**	**–**	**2 601**
		–	**3 019**	**–**	**3 019**
At 31 December 2019					
Assets					
Cash and balances with the Central Bank of Kenya	19	12 407	–	–	12 407
Financial assets – held-for-trading	21	–	34 162	–	34 162
Financial assets – FVOCI	22	–	20 978	–	20 978
Equity investments	29	–	–	18	18
Derivative assets	24	–	1 612	–	1 612
		12 407	56 752	18	69 177
Liabilities					
Trading liabilities	21	–	1 487	–	1 487
Derivative liabilities	24	–	2 757	–	2 757
		–	4 244	–	4 244

There were no transfers between levels in 2020 and 2019.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

5. Assets and liabilities at fair value *(continued)*

5.2 Assets and liabilities measured at fair value on a recurring basis *(continued)*

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 indirectly supported by prices from observable current market transactions in the same instruments and are based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

Level 2 financial assets and financial liabilities

	Valuation basis/technique	Main assumptions[1]
Derivative instruments	Discounted cash flow model Black-Scholes model Multiple valuation technique	Discount rate Risk-free rate, volatility rate Valuation multiples
Trading assets	Discounted cash flow model Black-Scholes model	Discount rate, liquidity discount rate Risk-free rate, volatility rate
Pledged assets	Discounted cash flow model	Discount rate, liquidity discount rate
Financial instruments	Discounted cash flow model Multiple valuation technique Quoted exit price adjusted for notice period	Discount rate, liquidity discount rate Valuation multiples Discount rate
Cash with Central Bank of Kenya	Prevailing exchange rate	Exchange rate
Investment in equities	Sale price	Discount rate

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

5.3 Assets and liabilities not measured at fair value

Financial assets and financial liabilities

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

	Level 1 KShs million	Level 2 KShs million	Level 3 KShs million	Fair value KShs million	Carrying value KShs million
At 31 December 2020					
Assets					
Cash and balances with the Central Bank of Kenya (Note 19)	6 421	–	–	6 421	6 421
Financial investments – amortised cost	–	20 722	–	20 722	23 191
Loans and advances to banks	–	–	32 196	32 196	38 109
Loans and advances to customers	–	–	164 264	164 264	158 181
Other assets	–	–	4 164	4 164	4 164
	6 421	20 722	200 624	227 767	230 066
Liabilities					
Deposits from customers	–	–	(197 081)	(197 081)	(217 911)
Deposits from banks	–	–	(40 506)	(40 506)	(42 905)
Borrowings	–	–	(4 997)	(4 997)	(5 504)
Other liabilities	–	–	(5 868)	(5 868)	(5 868)
	–	–	(248 452)	(248 452)	(272 188)

	Level 1 KShs million	Level 2 KShs million	Level 3 KShs million	Fair value KShs million	Carrying value KShs million
At 31 December 2019					
Assets					
Cash and balances with the Central Bank of Kenya (Note 19)	4 844	–	–	4 844	4 844
Financial investments – amortised cost	–	17 114	–	17 114	14 890
Loans and advances to banks	–	–	33 221	33 221	38 353
Loans and advances to customers	–	–	156 242	156 242	152 817
Other assets	–	–	3 292	3 292	3 292
	4 844	17 114	192 755	214 713	214 196
Liabilities					
Deposits from banks	–	–	(179 883)	(179 883)	(195 435)
Customer deposits	–	–	(23 682)	(23 682)	(30 450)
Borrowings	–	–	(8 620)	(8 620)	(9 127)
Other liabilities	–	–	(12 608)	(12 608)	(12 608)
	–	–	(224 793)	(224 793)	(247 620)

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 in table 5.3 above:

2020	Valuation basis/technique	Main assumptions
Loans and advances to banks **Loans and advances to customers** **Deposits from banks** **Customer deposits** **Subordinated debt** **Other financial assets**	Discounted cash flow model	Discount rate, liquidity discount rate

6. Segment information

The Bank 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 Bank 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 Bank's internal reporting to management.

The Chief Executive with the assistance of the Executive Committee and the ALCO is the Bank's chief operating decision-maker. The Directors have determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. Management considers the business from client turnover perspective.

The Bank has therefore segmented its operations into two: Personal and Business Banking (PBB) and Corporate and Investment Banking (CIB).

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

6. Segment information *(continued)*

PBB

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

- Mortgage lending – provides residential accommodation loans to individual customers;
- Vehicle and asset finances – 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; and
- 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.

CIB

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

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

Major customers

The Bank does not have any customer that contributes more than 10% of its revenue nor a customer that constitutes more than 10% of deposits or loans (2019: none)

The segment financial results and financial position:

Statement of profit and loss	**Total 2020 KShs million**	Total 2019 KShs million	**CIB 2020 KShs million**	CIB 2019 KShs million	**PBB 2020 KShs million**	PBB 2019 KShs million
Interest income	**20 277**	20 944	**11 289**	11 601	**8 988**	9 343
Interest expense	**(7 542)**	(7 663)	**(5 415)**	(5 134)	**(2 127)**	(2 529)
Net interest income	**12 735**	13 281	**5 874**	6 467	**6 861**	6 814
Fees and commission income	**4 214**	5 017	**1 765**	2 303	**2 449**	2 714
Fees and commission expense	**(570)**	(533)	**(215)**	(178)	**(355)**	(355)
Net fees and commission income	**3 644**	4 484	**1 550**	2 125	**2 094**	2 359
Trading revenue and net income from financial assets at FVOCI	**6 327**	5 560	**6 327**	5 560	**–**	–
Net other operating income	**44**	753	**41**	745	**3**	8
Trading and other income	**6 371**	6 313	**6 368**	6 305	**3**	8
Total income	**22 750**	24 078	**13 798**	14 897	**8 958**	9 181
Credit impairment losses	**(4 876)**	(3 151)	**(2 593)**	(1 576)	**(2 283)**	(1 575)
Employee benefits expense	**(5 757)**	(6 435)	**(2 955)**	(2 741)	**(2 802)**	(3 694)
Depreciation and amortisation expense	**(752)**	(646)	**(224)**	(210)	**(528)**	(436)
Depreciation on right-of-use assets	**(458)**	(357)	**(159)**	(60)	**(299)**	(297)
Other operating expenses	**(4 624)**	(5 876)	**(2 270)**	(3 945)	**(2 354)**	(1 931)
Finance costs	**(47)**	(147)	**(47)**	(147)	**–**	–
Profit before income tax	**6 236**	7 466	**5 544**	6 218	**692**	1 248
Income tax expense	**(1 012)**	(1 244)	**(826)**	(1 307)	**(186)**	63
Profit for the year	**5 224**	6 222	**4 718**	4 911	**506**	1 311

Statement of financial position	Total 2020 KShs million	Total 2019 KShs million	CIB 2020 KShs million	CIB 2019 KShs million	PBB 2020 KShs million	PBB 2019 KShs million
Assets						
Cash and balances with Central Bank of Kenya	18 077	17 251	12 384	11 978	5 693	5 273
Financial investments	87 584	70 030	87 584	70 030	–	–
Derivative assets	2 956	1 612	2 956	1 612	–	–
Loans and advances to banks	38 109	38 353	38 109	38 353	–	–
Loans and advances to customers	158 181	152 817	76 683	70 859	81 498	81 958
Other investments	18	18	18	18	–	–
Property, equipment and intangibles	3 035	3 209	989	1 158	2 046	2 051
Right-of-use assets	1 480	1 316	514	223	966	1 093
Deferred income tax	4 864	4 421	3 107	3 005	1 757	1 416
Other assets	4 678	3 704	547	3 027	4 131	677
Total assets	318 982	292 731	222 891	200 263	96 091	92 468
Liabilities						
Customer deposits	217 911	195 435	99 662	95 194	118 249	100 241
Amounts due to other banks	42 905	30 450	42 905	30 450	–	–
Lease liabilities	1 386	1 371	658	621	728	750
Current tax liability	392	389	307	386	85	3
Deferred tax liability	1	25	–	6	1	19
Derivative liabilities	2 601	2 757	2 601	2 757	–	–
Trading liabilities	418	1 487	418	1 487	–	–
Other liabilities	6 008	12 750	3 537	9 731	2 471	3 019
Borrowings	5 504	9 127	3 166	5 340	2 338	3 787
Total liabilities	277 126	253 791	153 254	145 972	123 872	107 819
Shareholders' equity	41 856	38 940	23 753	23 674	18 103	15 266
Funding	–	–	45 884	30 617	(45 884)	(30 617)
Total equity and liabilities	318 982	292 731	222 891	200 263	96 091	92 468

The Bank is domiciled in Kenya and has a branch in South Sudan. The revenue and non-current assets by country of operations are included in the sections below:

Statement of profit and loss	Total 2020 KShs million	Total 2019 KShs million	Kenya 2020 KShs million	Kenya 2019 KShs million	South Sudan 2020 KShs million	South Sudan 2019 KShs million
Interest income	20 277	20 944	20 271	20 940	6	4
Interest expense	(7 542)	(7 663)	(7 446)	(7 628)	(96)	(35)
Net interest income	12 735	13 281	12 825	13 312	(90)	(31)
Fees and commission income	4 214	5 017	3 301	4 246	913	771
Fees and commission expense	(570)	(533)	(530)	(530)	(40)	(3)
Net fees and commission income	3 644	4 484	2 771	3 716	873	768
Trading revenue and net income from financial assets at FVOCI	6 327	5 560	5 496	5 198	831	362
Net other operating income	44	753	44	739	–	14
Trading and other income	6 371	6 313	5 540	5 937	831	376
Total income	22 750	24 078	21 136	22 965	1 614	1 113
Credit impairment losses	(4 876)	(3 151)	(4 877)	(3 146)	1	(5)
Employee benefits expense	(5 757)	(6 435)	(5 132)	(6 087)	(625)	(348)
Depreciation and amortisation	(752)	(646)	(736)	(641)	(16)	(5)
Depreciation on right-of-use assets	(458)	(358)	(327)	(316)	(131)	(42)
Other operating expenses	(4 624)	(5 875)	(4 116)	(5 511)	(508)	(364)
Finance costs	(47)	(147)	(23)	(52)	(24)	(95)
Profit before income tax	6 236	7 466	5 925	7 212	311	254
Income tax expense	(1 012)	(1 244)	(1 024)	(1 157)	12	(87)
Profit for the year	5 224	6 222	4 901	6 055	323	167

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

6. Segment information *(continued)*

Statement of financial position	Total 2020 KShs million	Total 2019 KShs million	Kenya 2020 KShs million	Kenya 2019 KShs million	South Sudan 2020 KShs million	South Sudan 2019 KShs million
Assets						
Cash and balances with Central Bank of Kenya	**18 077**	17 251	**17 110**	15 798	**967**	1 454
Financial investments	**87 584**	70 030	**87 584**	70 030	**–**	–
Derivative assets	**2 956**	1 612	**2 956**	1 612	**–**	–
Loans and advances to banks	**38 109**	38 353	**23 880**	24 554	**14 229**	13 799
Loans and advances to customers	**158 181**	152 817	**158 163**	152 802	**18**	14
Other investments	**18**	18	**18**	18	**–**	–
Property, equipment and intangibles	**3 035**	3 209	**2 867**	3 078	**168**	131
Right-of-use assets	**1 480**	1 316	**947**	946	**533**	370
Deferred tax asset	**4 864**	4 421	**4 864**	4 408	**–**	13
Other assets and prepayments	**4 678**	5 569	**4 640**	5 569	**38**	–
Total assets	**318 982**	294 596	**303 029**	278 815	**15 953**	15 781
Liabilities						
Customer deposits	**217 911**	195 435	**207 368**	185 937	**10 543**	9 498
Amounts due to other banks	**42 905**	30 451	**41 317**	28 757	**1 588**	1 694
Lease liability	**1 386**	1 370	**1 038**	988	**348**	382
Deferred tax liability	**1**	25	**–**	–	**1**	25
Current tax liability	**392**	389	**389**	380	**3**	9
Trading liabilities	**418**	1 487	**418**	1 487	**–**	–
Derivative liabilities	**2 601**	2 757	**2 601**	2 757	**–**	–
Borrowings	**5 504**	9 127	**5 504**	9 127	**–**	–
Other liabilities	**6 008**	14 613	**3 677**	11 433	**2 331**	3 180
Total liabilities	**277 126**	255 654	**262 312**	240 866	**14 814**	14 788
Shareholders' equity	**41 856**	38 942	**40 717**	37 949	**1 139**	993
Total equity and liabilities	**318 982**	294 596	**303 029**	278 815	**15 953**	15 781

7. Interest income

	2020 KShs million	2019 KShs million
Loans and advances to customers	**14 921**	16 244
Financial investments – (FVOCI)	**2 146**	1 944
Financial investments – (amortised cost)	**2 380**	2 146
Loans and advances to banks	**830**	610
Total interest income	**20 277**	20 944
Interest expense		
Current accounts	**(1 556)**	(1 440)
Savings and term deposit accounts	**(4 699)**	(3 854)
Deposits and placements from other banks	**(567)**	(1 396)
Interest on borrowed funds	**(547)**	(848)
Interest expense on lease liabilities	**(173)**	(125)
Total interest expense	**(7 542)**	(7 663)
Net interest income	**12 735**	13 281

All interest income reported above relates to financial assets not carried at fair value through profit or loss and all interest expense reported relates to financial liabilities not carried at fair value through profit or loss.

		2020 KShs million	2019 KShs million
8.	**Fees and commission income**		
	Points of representation transaction fees	**1 563**	1 579
	Documentation and administration fees	**241**	347
	Electronic banking fees	**541**	645
	Knowledge-based and client administration fees	**1 110**	1 706
	Card-based commission	**219**	283
	Foreign service fees	**486**	403
	Other bank-related fees and commission	**54**	54
		4 214	5 017

The net fees and commission earned by the Bank on trust and fiduciary activities where the Bank holds or invests assets on behalf of its customers is KShs 298 974 575 (2019: KShs 288 001 164).

All net fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss.

		2020 KShs million	2019 KShs million
9.	**Fees and commission expense**		
	Card-based commission expenses	**212**	199
	Brokerage fees	**91**	107
	Other bank-related fees and commission expenses	**267**	227
		570	533
10.	**Trading revenue**		
	Net foreign exchange income	**6 037**	5 387
	Gain/(loss) in net monetary position	**197**	(57)
		6 234	5 330
11(a)	**Net income from financial instruments at fair value through profit or loss**		
	Fixed income – financial assets – held-for-trading	**93**	173
		93	173
11(b)	**Other gains and losses on financial instruments**		
	Net gain on disposal of financial assets – FVTPL	**17**	717
		17	717
12.	**Other operating income**		
	Other income	**27**	36
		27	36
13.	**Employee benefits expense**		
	Salaries and wages	**5 317**	5 247
	Voluntary early retirement costs	**–**	773
	Retirement benefit costs	**440**	415
		5 757	6 435
	Included in retirement benefit costs are:		
	Defined contribution scheme	**436**	412
	National Social Security Fund	**4**	3
		440	415
	Average staff numbers		
	Management	**354**	341
	Supervisory	**416**	442
	Clerical and other categories	**208**	241
	Total	**978**	1 024

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

	Note	2020 KShs million	2019 KShs million
14. Breakdown of expenses by nature			
Profit before tax has been arrived at after charging:			
Employees benefits expense	13	**5 757**	6 435
Audit fees		**20**	21
Directors' fees	45.6.2	**45**	38
Franchise fees	45.9	**675**	734
Advance payment guarantee claim		**–**	1 505
Depreciation of property and equipment	30(a)	**472**	445
Depreciation on right-of-use assets – land	30(b)	**3**	3
Depreciation on right-of-use assets	32	**458**	357
Amortisation of intangible assets	31	**277**	198
15. Finance costs			
Bank charges		**47**	90
		47	90
16. Income tax expense			
Current income tax		**1 337**	2 442
Current year charge (Note 35(a))		**1 337**	2 442
Deferred income tax		**(325)**	(1 198)
Current year charge (credit) (Note 34(a))		**(317)**	(1 223)
Current year charge (Note 34(b))		**(8)**	25
Income tax expense		**1 012**	1 244

Reconciliation of tax expense to expected tax base based on accounting profit

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

	2020 KShs million	2019 KShs million
Profit before income tax	**6 236**	7 466
Tax at statutory tax rate of 25% (2019: 30%)	**1 559**	2 240
Tax effect of:		
Income not subjected to tax	**(1 052)**	(790)
Expenses not deductible for tax purposes	**375**	426
Previous year deferred income tax underprovision	**160**	–
Previous year current income tax overprovision		(630)
Effect of different tax rate in South Sudan	**(7)**	(2)
Changes in tax rates	**(23)**	–
Income tax expense	**1 012**	1 244

17. Earnings per share – basic and diluted

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2020	2019
Earnings (profit after tax)		
Earnings for the purposes of basic earnings per share (KShs million)	**5 224**	6 222
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share ('million)	**171**	171
Earnings per share (KShs) basic and diluted	**30.63**	36.48

There were no dilutive potential ordinary shares as at 31 December 2020 or 31 December 2019. Therefore, diluted earnings per share are the same as basic earnings per share.

	2020 KShs million	2019 KShs million
18. Dividend		
The calculation of dividends per share is based on:		
Dividends for the year attributable to ordinary shareholders:		
Interim dividend paid (KShs million)	**–**	500
Final dividend proposed (KShs million)	**1 400**	2 100
	1 400	2 600
Number of ordinary shares in issue (million)	**171**	171
Dividends per share – KShs	**8.21**	15.24

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting.

A final dividend per share in respect of the year ended 31 December 2020 of KShs 8.21 (2019: KShs 12.31) per share amounting to a total of KShs 1 400 000 000 (2019: KShs 2 100 000 000) is to be proposed in the next Annual General Meeting. These financial statements do not reflect this as a dividend payable. However, the proposed dividend has been transferred to a separate category of equity.

During the year, no interim dividend was paid (2019: KShs. 2.93 per share totalling KShs. 500 000 000).

Payment of dividends is subject to withholding tax at a rate of either 5% for resident and 10% for non-resident shareholders. Dividend paid to resident shareholders who own more than 12.5% shareholding are exempt from withholding tax.

19. Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

The table below categorises the Bank's assets and liabilities as at 31 December 2020 between those that are financial and non-financial.

All financial assets and liabilities have been classified according to their measurement category with disclosure and their fair value.

	Fair value through profit or loss – default KShs million	Fair value through profit or loss – designated KShs million	Amortised cost KShs million	Fair value through OCI KShs million	Other non-financial assets/ liabilities KShs million	Total carrying amount KShs million	Fair value KShs million
Year ended 31 December 2020							
Assets							
Cash and balances with Central Bank of Kenya	11 656	–	6 421	–	–	18 077	18 077
Financial assets – held-for-trading	33 729	–	–	–	–	33 729	33 729
Financial assets – FVOCI	–	–	–	30 664	–	30 664	30 664
Financial assets – amortised cost	–	–	23 191	–	–	23 191	20 722
Derivative assets	2 956	–	–	–	–	2 956	2 956
Loans and advances to banks	–	1 309	36 800	–	–	38 109	32 196
Loans and advances to customers	–	–	158 181	–	–	158 181	164 264
Other financial assets	–	–	4 678	–	–	4 678	4 678
Investment securities	18	–	–	–	–	18	18
Other non-financial assets	–	–	–	–	9 379	9 379	–
	48 359	1 309	229 271	30 664	9 379	318 982	307 304
Liabilities							
Deposits from customers	–	–	(217 911)	–	–	(217 911)	(197 081)
Deposits from banks	–	–	(42 905)	–	–	(42 905)	(40 506)
Derivative liabilities	(2 601)	–	–	–	–	(2 601)	(2 601)
Trading liabilities	(418)	–	–	–	–	(418)	(418)
Borrowings	–	–	(5 504)	–	–	(5 504)	(4 997)
Other financial liabilities	–	–	(6 008)	–	–	(6 008)	(6 008)
Other non-financial liabilities	–	–	–	–	(1 779)	(1 779)	–
	(3 019)	–	(272 328)	–	(1 779)	(277 126)	(251 611)

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

19. Classification of assets and liabilities *(continued)*

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

	Fair value through profit or loss – default KShs million	Fair value through profit or loss – designated KShs million	Amortised cost KShs million	Fair value through OCI KShs million	Other non-financial assets/ liabilities KShs million	Total carrying amount KShs million	Fair value KShs million
Year ended 31 December 2019							
Assets							
Cash and balances with Central Bank of Kenya	12 407	–	4 844	–	–	17 251	17 251
Financial assets – held-for-trading	34 162	–	–	–	–	34 162	34 162
Financial assets – FVOCI	–	–	–	20 978	–	20 978	20 978
Financial assets – amortised cost	–	–	14 890	–	–	14 890	17 114
Derivative assets	1 612	–	–	–	–	1 612	1 612
Loans and advances to banks	–	3 052	35 300	–	–	38 352	33 221
Loans and advances to customers	–	–	152 817	–	–	152 817	156 242
Other financial assets	–	–	3 704	–	–	3 704	3 704
Investment securities	18	–	–	–	–	18	18
Other non-financial assets	–	–	–	–	8 921	8 921	–
	48 199	3 052	211 555	20 978	8 921	292 705	284 302
Liabilities							
Deposits from customers	–	–	(195 435)	–	–	(195 435)	(179 883)
Deposits from banks	–	–	(30 450)	–	–	(30 450)	(23 682)
Derivative liabilities	(2 757)	–	–	–	–	(2 757)	(2 757)
Trading liabilities	(1 487)	–	–	–	–	(1 487)	(1 487)
Borrowings	–	–	(9 127)	–	–	(9 127)	(8 620)
Other financial liabilities	–	–	(12 750)	–	–	(12 750)	(12 750)
Other non-financial liabilities	–	–	–	–	(1 760)	(1 760)	–
	(4 244)	–	(247 762)	–	(1 760)	(253 766)	(229 179)

20. Cash and balances with Central Bank of Kenya

	2020 KShs million	2019 KShs million
Cash in hand	**2 877**	2 737
Balances with Central Bank of Kenya	**15 200**	14 514
	18 077	17 251

Banks are required to maintain a prescribed minimum cash reserve ratio (CRR) including cash in hand and balances with Central Bank of Kenya. The minimum cash reserve is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. At 31 December 2020, the cash reserve requirement was 4.25% of the eligible deposits (2019: 5.25%). The decline in CRR is mainly due to the decrease in reserving ratio required by the Central Bank of Kenya from 5.25% to 4.25%.

The cash reserve requirement balance for the year ended 31 December 2020 is KShs 8 779 084 750 (2019: KShs 9 700 376 333). The Central Bank allows a daily minimum of 3% (2019: 3%) of eligible deposits when the average total reserving for the month is above the CRR. The applicable daily minimum for the Bank therefore is KShs 6 197 000 990 as at 31 December 2020 (2019: KShs 5 543 072 190). The Bank complied with the CRR requirement throughout the reporting period.

	2020 KShs million	2019 KShs million
21. Financial assets and liabilities at fair value through profit and loss (FVTPL)		
(a) Financial assets – (FVTPL)		
Government treasury bills and bonds	**33 729**	34 162
Corporate bonds	**–**	–
	33 729	34 162
Maturity analysis		
Maturing within 1 month	**8 600**	13 354
Maturing after 1 month but within 6 months	**11 651**	15 105
Maturing after 6 months but within 12 months	**9 625**	5 543
Maturing after 12 months	**3 853**	160
	33 729	34 162

The maturities represent periods to contractual redemption of financial assets at fair value through profit or loss recorded. Financial assets at fair value through profit or loss had a redemption value at 31 December 2020 of KShs 33 954 619 000 (2019: KShs 34 625 634 000). The weighted average effective interest yield on debt securities held-for-trading at 31 December 2020 was 8.73% (2019: 7.61%).

	2020 KShs million	2019 KShs million
(b) Financial liabilities – (FVTPL)		
Unlisted	**418**	1 487
	418	1 487
Maturity analysis		
Maturing within 1 month	**58**	139
Maturing after 1 month but within 6 months	**–**	464
Maturing after 6 months but within 12 months	**50**	781
Maturing after 12 months	**310**	103
	418	1 487

The maturities represent periods to contractual redemption of trading liabilities recorded. Dated trading liabilities had a redemption value at 31 December 2020 of KShs 405 590 000 (2019: KShs 1 448 797 000). The weighted average effective interest cost on debt securities held-for-trading at 31 December 2020 was 9.56% (2019: 8.30%).

	2020 KShs million	2019 KShs million
22. Financial investments – (FVOCI)		
Financial investments – (FVOCI)	**30 091**	20 403
Pledged assets – (FVOCI)	**573**	575
	30 664	20 978
22(a) Financial assets – (FVOCI)		
Debt securities – at FVOCI:		
Listed	**1 078**	–
Unlisted	**29 013**	20 405
Expected credit loss	**(4)**	(2)
	30 086	20 403
Comprising:		
Government bonds	**1 078**	–
Government treasury bills	**29 009**	20 403
	30 087	20 403

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

	2020 KShs million	2019 KShs million
22. Financial investments – (FVOCI) *(continued)*		
22(a) Financial assets – (FVOCI) *(continued)*		
Maturity analysis		
Maturing within 1 month	**3 460**	2 976
Maturing after 1 month but within 6 months	**8 328**	9 042
Maturing after 6 months but within 12 months	**17 221**	8 385
Maturing after 12 months but within 5 years	**1 078**	–
	30 087	20 403

Financial investment securities had a redemption value at 31 December 2020 of KShs 31 100 000 000 (2019: KShs 21 684 000 000). The weighted average effective interest cost on debt securities held-for-trading at 31 December 2020 was 8.24% (2019: 8.30%).

	2020 KShs million	2019 KShs million
22(b) Pledged assets – (FVOCI)		
Debt securities	**573**	575
Expected credit loss	**–**	–
	573	575
Maturity analysis		
Maturing after 1 month but within 6 months	**573**	–
Maturing after 12 months but within 5 years	**–**	575
	573	575

Dated pledged assets at fair value through OCI had a redemption value at 31 December 2020 of KShs 534 000 000 (2019: KShs 534 000 000).

The weighted average effective interest yield on investment securities at FVOCI on 31 December 2020 was 11.18% (2019: 7.77%).

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

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

			Statement of profit or loss movements					
	Opening ECL 1 Jan 2020 KShs million	Total transfers between stages KShs million	ECL on new exposure raised KShs million	Sub-sequent changes in ECL KShs million	Change in ECL due to derecog-nition KShs million	Net ECL raised/ (released)[1]	Impair-ment accounts written off KShs million	Closing ECL 31 Dec 2020 KShs million
2020								
Financial investments at FVOCI								
Sovereign	**(2)**	**–**	**(4)**	**–**	**2**	**(2)**	**–**	**(4)**
Stage 1	**(2)**	**–**	**(4)**	**–**	**2**	**(2)**	**–**	**(4)**
Total	**(2)**	**–**	**(4)**	**–**	**2**	**(2)**	**–**	**(4)**

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

Reconciliation of fair value through OCI reserve for debt financial investments measured at fair value through OCI

	Balance at beginning of year KShs	Reclassi-fications KShs	Net change in fair value KShs	Realised fair value adjustments and reversal to profit or loss KShs	Total fair value movements KShs	Exchange and other movements KShs	Balance at end of year KShs
31 December 2020							
Financial investments	**(34)**	**–**	**(1)**	**34**	**33**	**–**	**(1)**
Sovereign	**(34)**	**–**	**(1)**	**34**	**33**	**–**	**(1)**

	Opening ECL 1 Jan 2019 KShs million	Total transfers between stages KShs million	Statement of profit or loss movements: ECL on new exposure raised KShs million	Statement of profit or loss movements: Sub-sequent changes in ECL KShs million	Change in ECL due to derecog-nition KShs million	Net ECL raised/ (released)[1]	Impair-ment accounts written off KShs million	Closing ECL 31 Dec 2019 KShs million
2019								
Financial investments at FVOCI								
Sovereign	(1)	–	(2)	–	–	(2)	1	(2)
Stage 1	(1)	–	(2)	–	–	(2)	1	(2)
Total	(1)	–	(2)	–	–	(2)	1	(2)

Reconciliation of fair value through OCI reserve for debt financial investments measured at fair value through OCI

	Balance at beginning of year KShs	Reclassi-fications KShs	Net change in fair value KShs	Realised fair value adjustments and reversal to profit or loss KShs	Total fair value movements KShs	Exchange and other movements KShs	Balance at end of year KShs
31 December 2019							
Financial investments	(22)	–	(12)	–	(12)	–	(34)
Sovereign	(22)	–	(12)	–	(12)	–	(34)

	2020 KShs million	2019 KShs million
23. Financial investments – (amortised cost)		
Pledged assets – (amortised cost)	**3 676**	4 186
Financial assets – (amortised cost)	**19 515**	10 704
	23 191	14 890
(a) Pledged assets – (amortised cost)		
Amortised cost debt securities	**3 677**	4 186
Expected loss	**(1)**	–
	3 676	4 186
Maturity analysis		
Maturing after 1 months but within 6 months	**514**	
Maturing after 6 months but within 12 months	**210**	–
Maturing after 12 months but within 5 years	**2 952**	3 686
	3 676	4 186

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

23. Financial investments – (amortised cost) *(continued)*

(a) Pledged assets – (amortised cost) *(continued)*

Dated pledged assets at amortised cost had a redemption value at 31 December 2020 of KShs 3 570 000 000 (2019: KShs 4 070 000 000). The weighted average effective interest yield on pledged assets on 31 December 2020 was 11.45% (2019: 11.05%).

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

	2020 KShs million	2019 KShs million
(b) Financial assets – (amortised cost)		
Debt securities:		
Listed	19 531	10 706
Gross financial investments at amortised cost	19 531	10 706
Allowances for impairments		
Expected credit loss for financial investments measured at amortised cost (IFRS 9)	(16)	(2)
Credit impairment allowances	(16)	(2)
Net financial investments at amortised cost	19 515	10 704
Comprising:		
Government bonds	19 515	10 704
Government treasury bills	–	–
	19 515	10 704
Maturity analysis:		
Maturing within 1 month	–	–
Maturing after 1 month but within 6 months	–	661
Maturing after 6 months but within 12 months	–	275
Maturing after 12 months but within 5 years	10 995	4 765
Maturing after 5 years	8 520	5 003
	19 515	10 704

Dated held to collect assets had a redemption value at 31 December 2020 of KShs 19 504 870 000 (2019: KShs 10 537 975 000).

The weighted average effective interest yield on held to collect investment securities at 31 December 2020 was 11 .01% (2019: 11.88%).

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

			Statement of profit or loss movements						
	Opening ECL 1 Jan 2020 KShs million	Total transfers between stages KShs million	ECL on new exposure raised KShs million	Sub-sequent changes in ECL KShs million	Change in ECL due to derecog-nition KShs million	Net ECL raised/ (released)[1]	Impair-ment accounts written off KShs million	Exchange and other movements	Closing ECL 31 Dec 2020 KShs million
Financial investments Amortised cost									
Sovereign	(2)	–	(15)	2	2	(11)	–	(3)	(16)
Stage 1	(2)	–	(15)	2	2	(11)	–	(3)	(16)
Pledged assets	–	–	(1)	–	–	(1)	–	–	(1)
Stage 1	–	–	(1)	–	–	(1)	–	–	(1)
Total	(2)	–	(16)	2	2	(12)	–	(3)	(17)

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

	Opening ECL 1 Jan 2019 KShs million	Total transfers between stages KShs million	Statement of profit or loss movements: ECL on new exposure raised KShs million	Statement of profit or loss movements: Sub-sequent changes in ECL KShs million	Statement of profit or loss movements: Change in ECL due to derecog-nition KShs million	Net ECL raised/ (released)[1]	Impair-ment accounts written off KShs million	Exchange and other movements	Closing ECL 31 Dec 2019 KShs million
Sovereign	(1)	–	–	–	1	1	–	–	–
Stage 1	(1)	–	–	–	1	1	–	–	–
Financial Investments Amortised cost									
Sovereign	(16)	–	(1)	1	14	14	–	–	(2)
Stage 1	(16)	–	(1)	1	14	14	–	–	(2)
Stage 2	–	–	–	–	–	–	–	–	–
Total	(17)	–	(1)	1	15	15	–	–	(2)

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

24. Derivative assets and derivative liabilities

All derivatives are classified as held-for-trading.

24.1 Use and measurement of derivative instruments

In the normal course of business, the Bank enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation and for credit exposures. Derivative instruments used by the Bank in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of equities.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that there is both a legal right of set-off and an intention to settle on a net basis, or the intention to realise the derivative asset and settle the derivative liability simultaneously.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.

The major types of swap transactions undertaken by the Bank are as follows:
- Interest rate swap contracts which generally entail the contractual exchange of fixed and floating interest payments in a single currency, based on a notional amount and an interest reference rate.
- Options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified amount of a financial instrument or commodity at a predetermined price. The seller receives a premium from the purchaser for this right. Options may be traded over the counter (OTC) or on a regulated exchange.
- Forwards and futures are contractual obligations to buy or sell financial instruments on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the OTC market, whereas futures are standardised contracts transacted on regulated exchanges.

24.2 Derivatives held-for-trading

The Bank transacts derivative contracts to address client demand both as a market maker in the wholesale markets and in structuring tailored derivatives for clients. The Bank also takes proprietary positions for its own account. Trading derivative products include the following derivative instruments:

(a) Foreign exchange derivatives

Foreign exchange derivatives are primarily used to economically hedge foreign currency risks on behalf of clients and for the Bank's own positions. Foreign exchange derivatives primarily consist of foreign exchange forwards and swaps, foreign exchange futures and foreign exchange options.

(b) Interest rate derivatives

Interest rate derivatives are primarily used to modify the volatility and interest rate characteristics of interest-earning assets and interest-bearing liabilities on behalf of clients and for the Bank's own positions. Interest rate derivatives primarily consist of bond options, caps and floors, forwards, options, swaps and swap options.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

24. Derivative assets and derivative liabilities *(continued)*

24.3 Day one profit or loss

Where the fair value of an instrument differs from the transaction price, and the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation model whose variables include only data from observable markets, the difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If the fair value of the financial instrument cannot be evidenced by comparison with other observable current market transactions in the same instrument or non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the valuation model is deferred and subsequently recognised in accordance with the Bank's accounting policies (refer to accounting policy 2.5 – Financial instruments).

24.4 Fair values

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

24.5 Notional amount

The contract/notional amount is the sum of the absolute value of all bought and sold contracts. The notional amounts have been translated at the closing exchange rate at the reporting date where cash flows are receivable in foreign currency. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the Bank's participation in derivative contracts.

	2020	Fair values		2019	Fair values	
	Notional contract amount KShs million	Assets KShs million	Liabilities KShs million	Notional contract amount KShs million	Assets KShs million	Liabilities KShs million
Foreign exchange derivatives						
Currency forwards	**59 914**	**1 077**	**983**	49 309	123	670
Currency swaps	**43 509**	**413**	**245**	45 396	164	455
Currency options	**10 595**	**416**	**187**	18 702	296	191
Total over the counter derivatives	**114 018**	**1 906**	**1 415**	113 407	583	1 316
Interest rate derivatives						
Cross-currency interest rate swaps	**33 247**	**1 050**	**1 186**	66 102	1 029	1 441
Total over the counter derivatives	**33 247**	**1 050**	**1 186**	66 102	1 029	1 441
Total derivative assets held-for-trading	**147 265**	**2 956**	**2 601**	179 509	1 612	2 757
Current	**118 915**	**1 798**	**1 481**	141 880	549	1 361
Non-current	**28 350**	**1 158**	**1 120**	37 629	1 063	1 396
Total	**147 265**	**2 956**	**2 601**	179 509	1 612	2 757

	2020 KShs million	2019 KShs million
25. Loans and advances to banks		
Balances due from banks	**10 941**	10 838
Balances due from group companies (Note 45.1)	**27 172**	27 516
Gross loans and advances to banks	**38 113**	38 354
Impairment stages 1 and 2 (performing loans)	**(4)**	(1)
Impairment stage 3 (non-performing loans)	**–**	–
Credit impairment allowances	**(4)**	(1)
Net loans and advances to banks	**38 109**	38 353
Maturity analysis:		
Redeemable on demand	**11 247**	35 304
Maturing within 1 month	**20 249**	–
Maturing after 1 month but within 12 months	**2 743**	49
Maturing after 12 month but within 5 years	**3 870**	3 000
Net loans and advances to banks	**38 109**	38 353

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

	Opening ECL 1 Jan 2020 KShs million	Total transfers between stages KShs million	ECL on new exposure raised KShs million	Changes in ECL due to modifications KShs million	Subsequent changes in ECL KShs million	Change in ECL due to derecognition KShs million	Net ECL raised/ (released)[1]	Impairment accounts written off KShs million	Exchange and other movements	Closing ECL 31 Dec 2020 KShs million
			Statement of profit or loss movements							
Bank	1	–	2	–	1	–	3	–	–	4
Stage 1	1	–	2	–	1	–	3	–	–	4
Total	1	–	2	–	1	–	3	–	–	4

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

	Opening ECL 1 Jan 2019 KShs million	Total transfers between stages KShs million	ECL on new exposure raised KShs million	Changes in ECL due to modifications KShs million	Subsequent changes in ECL KShs million	Change in ECL due to derecognition KShs million	Net ECL raised/ (released)[1]	Impairment accounts written off KShs million	Exchange and other movements	Closing ECL 31 Dec 2019 KShs million
			Statement of profit or loss movements							
Bank	1	–	–	–	3	–	3	–	(3)	1
Stage 1	1	–	–	–	3	–	3	–	(3)	1
Total	1	–	–	–	3	–	3	–	(3)	1

26. Loans and advances to customers

26.1 Net loans and advances

	2020 KShs million	2019 KShs million
Mortgage lending	34 783	25 580
Vehicle and asset finance	13 127	15 146
Overdraft and other demand lending	16 109	19 185
Term lending	112 062	106 427
Card lending	515	650
Gross loans and advances to customers	176 596	166 988
Allowances for impairments		
Expected credit loss for loans and advances measured at amortised cost (IFRS 9) (Note 26.2)	(18 415)	(14 171)
Credit impairment allowances	(18 415)	(14 171)
Net loans and advances	158 181	152 817
Maturity analysis:		
Redeemable on demand	13 088	17 668
Maturing within 1 month	8 646	6 809
Maturing after 1 month but within 6 months	25 544	16 179
Maturing after 6 months but within 12 months	13 998	6 612
Maturing after 12 months but within 5 years	77 440	65 153
Maturing after 5 years	19 465	40 396
Net loans and advances	158 181	152 817

The weighted average effective interest rate on loans and advances to customers as at 31 December 2020 was 8.79% (2019: 10.06%). The Bank extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment sales and overdrafts.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

26. Loans and advances to customers *(continued)*

26.2 Net loans and advances *(continued)*

Reconciliation of expected credit losses for loans and advances to customers measured at amortised cost

	Opening ECL 1 Jan 2020 KShs	Total transfers between stages KShs	ECL on new exposure raised KShs
Customers			
Mortgage loans	1 154	–	10
Stage 1	23	36	4
Stage 2	311	(42)	4
Stage 3	820	6	2
Vehicle and asset finance	1 713	–	82
Stage 1	96	40	28
Stage 2	489	(95)	40
Stage 3	1 128	55	14
Card debtors	83	–	–
Stage 1	24	10	–
Stage 2	41	(11)	–
Stage 3	18	1	–
Other loans and advances	3 022	–	717
Stage 1	251	63	148
Stage 2	880	(143)	89
Stage 3	1 891	80	480
Corporate	8 199	–	777
Stage 1	657	(122)	221
Stage 2	353	28	75
Stage 3	7 189	94	481
Total	14 171	–	1 586

	Opening ECL 1 Jan 2019 KShs	Total transfers between stages KShs	ECL on new exposure raised KShs
Customers			
Mortgage loans	842	–	24
Stage 1	22	28	5
Stage 2	181	(12)	18
Stage 3	639	(16)	1
Vehicle and asset finance	1 473	–	144
Stage 1	110	72	42
Stage 2	479	(91)	74
Stage 3	884	19	28
Card debtors	51	–	6
Stage 1	17	5	3
Stage 2	16	(5)	3
Stage 3	18	–	–
Other loans and advances	2 029	–	492
Stage 1	175	100	140
Stage 2	675	(115)	160
Stage 3	1 179	15	192
Corporate	6 855	–	1 017
Stage 1	450	35	307
Stage 2	140	(38)	237
Stage 3	6 265	3	473
Total	11 250	–	1 683

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

	Income statement movements							
	Sub-sequent changes in ECL KShs	Change in ECL due to dere-cognition KShs	Net ECL raised/ (released)[1] KShs	Impair-ment accounts written off KShs	Exchange and other move-ments KShs	Closing ECL 31 Dec 2020 KShs	Interest in suspense KShs	Total KShs
	222	–	232	(4)	(17)	1 365	145	1 510
	(43)	–	(3)	–	–	20	–	20
	57	–	19	–	–	330	–	330
	208	–	216	(4)	(17)	1 015	145	1 160
	493	–	575	(61)	10	2 237	226	2 463
	(87)	–	(19)	–	–	77	–	77
	(6)	–	(61)	–	10	438	–	438
	586	–	655	(61)	–	1 722	226	1 948
	74	–	74	(76)	7	88	–	88
	(7)	–	3	–	–	27	–	27
	5	–	(6)	–	–	35	–	35
	76	–	77	(76)	7	26	–	26
	720	–	1 437	(403)	47	4 103	176	4 279
	(96)	–	115	–	–	366	–	366
	94	–	40	–	–	920	–	920
	722	–	1 282	(403)	47	2 817	176	2 993
	1 885	(2)	2 660	(1 240)	55	9 674	401	10 075
	(171)	–	(72)	–	(25)	560	–	560
	(117)	(2)	(16)	–		337	–	337
	2 173	–	2 748	(1 240)	80	8 777	401	9 178
	3 394	(2)	4 978	(1 784)	102	17 467	948	18 415

	Income statement movements							
	Sub-sequent changes in ECL KShs	Change in ECL due to dere-cognition KShs	Net ECL raised/ (released)[1] KShs	Impair-ment accounts written off KShs	Exchange and other move-ments KShs	Closing ECL 31 Dec 2019 KShs	Interest in suspense KShs	Total KShs
	237	–	261	(1)	(1)	1 101	53	1 154
	(4)	–	1	–	–	23	–	23
	112	–	130	–	–	311	–	311
	129	–	130	(1)	(1)	767	53	820
	200	–	343	(192)	(2)	1 640	73	1 713
	(56)	–	(14)	–	–	96	–	96
	(75)	–	(2)	–	12	489	–	489
	331	–	359	(192)	(14)	1 055	73	1 128
	76	–	82	(48)	(4)	83	–	83
	3	–	6	–	–	24	–	24
	21	–	24	–	1	41	–	41
	52	–	52	(48)	(5)	18	–	18
	586	–	1 078	(155)	4	2 970	52	3 022
	(64)	–	76	–	–	251	–	251
	24	–	185	–	21	880	–	880
	626	–	817	(155)	(17)	1 839	52	1 891
	621	(189)	1 449	(724)	25	7 609	590	8 199
	45	(137)	215	–	(8)	657	–	657
	(53)	(19)	165	–	47	353	–	353
	629	(33)	1 069	(724)	(14)	6 599	590	7 189
	1 720	(189)	3 213	(1 120)	22	13 403	768	14 171

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

	2020 KShs million	2019 KShs million
26. Loans and advances to customers *(continued)*		
26.3 Loans impairment charge		
Loans impairment charge/(credit) for financial investments	**14**	(15)
Loans impairment for non-performing customer loans	**4 978**	2 427
Loans impairment for performing customer loans	**–**	786
Loans impairment charge/(credit) for performing bank loans (Note 25.1)	**3**	3
Loans impairment for non-performing off-balance sheet letters of credit and guarantees (Note 44.3)	**–**	18
Loans impairment for performing off-balance sheet letters of credit and guarantees (Note 44.3)	**2**	84
Amounts recovered and cured during the year	**(121)**	(152)
Net impairment charge on loans and advances	**4 876**	3 151

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

26.4 Vehicle and asset finance

The Bank holds contracts with customers where the Bank finances the purchase of assets under a series of contracts which transfer title to the Bank as security for the loan. The Bank receives the loan repayments and sets off the repayments against the principal loan and interest.

	2020 KShs million	2019 KShs million
Maturity analysis:		
Not later than 1 year	**2 199**	1 320
Later than 1 year and not later than 5 years	**10 070**	13 791
Later than 5 years	**858**	35
	13 127	15 146

26.5 Loans and advances to employees

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

	2020 KShs million	2019 KShs million
At start of year	**3 894**	4 195
New loans issued	**1 073**	1 186
Interest	**336**	205
Loan repayments	**(1 505)**	(1 692)
At end of year	**3 798**	3 894

27. Other assets and prepayments

	2020 KShs million	2019 KShs million
Uncleared effects	**3 011**	1 711
Prepayments	**514**	413
Off-market loan adjustment	**585**	688
Due from group companies (Note 45.7)	**402**	688
Other receivables	**166**	204
	4 678	3 704

The off-market adjustment relates to the prepaid benefit granted to staff, being the difference between the fair value of the staff loans and the initial cash outflow. The fair value of future cash flows are discounted at a market-related rate. The asset represents the Bank's right to receive future service from employees.

28. Investment in subsidiaries

Investment in subsidiary relates to 100% ownership of Stanbic Bank Nominees Limited amounting to KShs 2 000.

Stanbic Nominees Limited was dormant during the two financial years.

The principal place of business for the subsidiary is Stanbic Bank Centre, Chiromo Road.

There were no significant restrictions on the Bank's ability to access the assets and settle liabilities of the subsidiary. The total amount disclosed as investment in a subsidiary is a non-current asset.

29. Other investments

	2020 KShs million	2019 KShs million
Unquoted:		
Equity investment at fair value through profit and loss (default)	18	18
At 31 December	18	18

The investment is in Anglo African Property Holding Limited where the Bank holds a beneficial interest of 1%. The investment is unquoted and its carrying value (cost) is estimated to approximate the fair value.

30(a) Property and equipment

	Premises KShs million	Equipment, furniture and fittings KShs million	Motor vehicles KShs million	Work in progress (WIP) KShs million	Total KShs million
31 December 2020					
Opening net carrying amount	254	1 625	36	387	2 302
Additions	–	338	5	62	405
Transfer from work in progress	–	324	–	(324)	–
Transfer to intangible assets (Note 31)	–	–	–	(1)	(1)
Disposals	–	–	(14)	–	(14)
Depreciation charge on disposal	–	–	14	–	14
Translation differences	–	–	–	(12)	(12)
Depreciation charge	(13)	(444)	(15)	–	(472)
Hyperinflation adjustment	–	19	–	–	19
Closing net carrying amount	241	1 862	26	112	2 241
At 31 December 2020					
Cost	388	5 092	148	112	5 740
Accumulated depreciation	(147)	(3 230)	(122)	–	(3 499)
Net carrying amount	241	1 862	26	112	2 241
Tuesday, 31 December 2019					
Opening net carrying amount	267	1 684	55	181	2 187
Additions	–	208	–	333	541
Transfer from work in progress	–	127	–	(127)	–
Transfer from intangible assets (Note 31)	–	35	–	–	35
Disposals	–	–	(17)	–	(17)
Depreciation charge on disposal	–	–	14	–	14
Translation differences	–	–	–	–	–
Depreciation charge	(13)	(416)	(16)	–	(445)
Hyperinflation adjustment	–	(13)	–	–	(13)
Closing net carrying value	254	1 625	36	387	2 302
At 31 December 2019					
Cost	388	4 411	157	387	5 343
Accumulated depreciation	(134)	(2 786)	(121)	–	(3 041)
Net carrying amount	254	1 625	36	387	2 302

Work in progress is composed of refurbishments and equipment for branches and projects that had not been completed as at year end. The total amount disclosed as property and equipment is non-current. As at 31 December 2020 and 31 December 2019, there were no items of property and equipment pledged by the Bank to secure liabilities.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

30(a) Property and equipment *(continued)*

Revaluation of land and buildings

The revaluation reserve in equity relates to the value of the Stanbic office in Chiromo at the point of merger between CfC Bank and Stanbic Bank in 2008. The fair value of the properties was determined using the market comparable method. This means that valuations performed by the valuer were based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property.

As the functional currency of Stanbic Bank's South Sudan branch is the currency of a hyperinflationary economy, property, plant and equipment relating to this branch is restated by applying the change in the general price indices from the date of acquisition to the current reporting date.

Depreciation relating to the property, plant and equipment of Stanbic Bank's South Sudan branch is based on the restated amounts, which have been adjusted for the effects of hyperinflation.

30(b) Right-of-use assets – land

	2020 KShs million	2019 KShs million
Cost		
At start and end of year	**85**	85
Amortisation		
At start of year	**(40)**	(37)
Charge for the year	**(3)**	(3)
At end of year	**(43)**	(40)
Net carrying amount as at 31 December 2020	**42**	45

This relates to land leased by the Bank from the Government of Kenya for a lease term period of 99 years.

31. Intangible assets

	Work in progress KShs million	Computer software KShs million	Total KShs million
Year ended 31 December 2020			
Cost			
At start of year	**–**	**3 089**	**3 089**
Additions	**66**	**100**	**166**
Transfer from work in progress	**(63)**	**63**	**–**
Transfer from property and equipment (Note 30)		**1**	**1**
At end of year	**3**	**3 253**	**3 256**
Amortisation			
At start of year	**–**	**(2 227)**	**(2 227)**
Amortisation for the year	**–**	**(277)**	**(277)**
Translation differences	**–**		**–**
At end of year	**–**	**(2 504)**	**(2 504)**
Net carrying amount at end of year	**3**	**749**	**752**
At 31 December 2020			
Cost	**3**	**3 253**	**3 256**
Accumulated amortisation	**–**	**(2 504)**	**(2 504)**
Net carrying amount	**3**	**749**	**752**

	Work in progress KShs million	Computer software KShs million	Total KShs million
Year ended 31 December 2019			
Cost			
At start of year	312	2 749	3 061
Additions	2	61	63
Transfer from work in progress	(279)	279	–
Transfer to property and equipment (Note 30)	(35)	–	(35)
At end of year	–	3 089	3 089
Amortisation			
At start of year	–	(2 029)	(2 029)
Amortisation for the year	–	(198)	(198)
Translation differences		–	–
At end of year	–	(2 227)	(2 227)
Net carrying amount	–	862	862
At 31 December 2019			
Cost	–	3 089	3 089
Accumulated amortisation	–	(2 227)	(2 227)
Net carrying amount	–	862	862

As the functional currency of Stanbic Bank's South Sudan branch is the currency of a hyperinflationary economy, intangible assets relating to this branch are hyperinflated by applying the change in the general price indices from the date of acquisition to the current reporting date.

Amortisation relating to intangible assets of Stanbic Bank's South Sudan branch is based on the hyperinflated amounts, which have been adjusted for the effects of hyperinflation.

The total amount disclosed as intangible assets is non-current and relates to computer software. Work in progress relates to computer software for upgrades in core banking and the flow credit workflow system had not been completed as at year end.

As at 31 December 2020, the intangible assets had an average remaining useful life of three years.

32. Right-of-use assets

	Buildings KShs million	Branches KShs million	ATM space KShs million	Others KShs million	Total KShs million
31 December 2020					
Cost					
At start of year	78	1 574	33	32	1 717
Additions	167	57	24	80	328
Translation difference	–	229	–	–	229
At end of year	245	1 860	57	112	2 274
Depreciation					
At start of year	47	318	13	24	402
Depreciation charge for the year	52	363	14	29	458
Translation difference	–	(66)	–	–	(66)
At end of year	99	615	27	53	794
Right-of-use assets	146	1 245	30	59	1 480

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

32. Right-of-use assets *(continued)*

	Buildings KShs million	Branches KShs million	ATM space KShs million	Others KShs million	Total KShs million
31 December 2019					
Cost					
At start of year	–	–	–	–	–
IFRS 16 transition adjustment	78	1574	33	32	1 717
At end of year	78	1 574	33	32	1 717
Depreciation					
At start of year	–	–	–	–	–
Depreciation charge for the year	47	273	13	24	357
Translation difference	–	45	–	–	45
At end of year	47	318	13	24	402
Right-of-use assets	31	1 256	20	8	1 315

The Group leases property for use as branches, offices, ATMs and parking spaces. The leases of offices and ATM spaces are typically for periods of between two and 10 years, with options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

33. Lease liabilities

	2020 KShs million	2019 KShs million
Non-current	**1 371**	1 136
Current	**15**	235
	1 386	1 371

Reconciliation of lease liabilities arising from financing activities:

	Buildings KShs million	Branches KShs million	ATM space KShs million	Others KShs million	Total KShs million
31 December 2020					
At start of year	**40**	**1 304**	**20**	**7**	**1 371**
Additions	**167**	**58**	**24**	**79**	**328**
Interest charged to profit or loss	**16**	**140**	**7**	**12**	**173**
Translation difference	**–**	**1**	**3**	**9**	**12**
Cash flows:					
– Operating activities (interest paid)	**(16)**	**(140)**	**(7)**	**(12)**	**(173)**
– Payments under leases	**(32)**	**(254)**	**(11)**	**(25)**	**(325)**
At end of year	**175**	**1 109**	**36**	**70**	**1 386**
31 December 2019					
At start of year	–	–	–	–	–
IFRS 16 transition adjustment	77	1 574	34	32	1 717
Interest charged to profit or loss	6	114	3	2	125
Cash flows:					
– Operating activities (interest paid)	(6)	(114)	(3)	(2)	(125)
– Payments under leases	(37)	(270)	(14)	(25)	(346)
At end of year	40	1 304	20	7	1 371

	2020 %	2019 %
Weighted average effective interest rate at the reporting date was:	**9.44**	9.44

	2020 KShs million	2019 KShs million
Maturity analysis of lease liabilities is as follows:		
Within 1 year	**15**	235
From 1 year to 5 years	**1 338**	889
More than 5 years	**33**	247
	1 386	1 371

The lease liabilities are unsecured.

34(a(i) Deferred income tax asset

	Note	2020 KShs million	2019 KShs million
		2020	2019
At start of year		**(4 422)**	(3 206)
Credit to statement of profit or loss	16	**(317)**	(1 223)
Other temporary differences		**(157)**	–
Debit/(credit) to other comprehensive income	34(a)(ii)	**32**	6
Other exchange differences		**–**	1
At end of year		**(4 864)**	(4 422)

Deferred income tax (assets)/liabilities and deferred income tax (credit)/charge in the statement of profit or loss and statement of other comprehensive income are attributable to the following items:

	1.1.2020	(Credited)/ charged to statement of profit or loss	Credited to OCI	31.12.2020
Year ended 31 December 2020				
Arising from:				
Property and equipment	**67**	**(117)**	**–**	**(50)**
Expected credit loss charges	**(3 206)**	**(623)**	**–**	**(3 829)**
Right-of-use assets	**8**	**(34)**	**–**	**(26)**
Unrealised gain on bonds – FVOCI	**14**	**–**	**32**	**46**
Unrealised gain on bonds – held-for-trading	**(318)**	**451**	**–**	**133**
Other provisions	**(972)**	**(151)**	**–**	**(1 123)**
South Sudan differed tax asset	**(15)**	**–**	**–**	**(15)**
Net deferred income tax asset	**(4 422)**	**(474)**	**32**	**(4 864)**
Year ended 31 December 2019				
Arising from:				
Property and equipment	49	18	–	67
Expected credit loss charges	(2 628)	(578)	–	(3 206)
Right-of-use assets	–	8	–	8
Unrealised gain on bonds – FVOCI	8	–	6	14
Unrealised gain on bonds – held-for-trading	(111)	(207)	–	(318)
Other provisions	(515)	(457)	–	(972)
South Sudan deferred tax asset	(9)	(6)	–	(15)
Net deferred income tax asset	(3 206)	(1 222)	6	(4 422)

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

	2020 KShs million	2019 KShs million
34(b) Deferred income tax liability		
At start of year	**25**	–
Debit to statement of profit or loss (Note 16)	**(8)**	25
Translation difference	**(16)**	–
At end of year	**1**	25

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

As the functional currency of Stanbic Bank's South Sudan branch is the currency of a hyperinflationary economy, deferred tax relating to this branch is recognised using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their restated carrying amounts.

	1.1.2020	(Credited)/ charged to statement of profit or loss	Translation difference	31.12.2020
Year ended 31 December 2020				
Arising from:				
Property and equipment	**5**	**(2)**	**–**	**3**
Right-of-use assets	**20**	**(6)**	**(16)**	**(2)**
Net deferred income tax liability	**25**	**(8)**	**(16)**	**1**
Year ended 31 December 2019				
Arising from:				
Property and equipment	–	5	–	5
Right-of-use assets	–	20	–	20
Net deferred income tax liability	–	25	–	25

35. Current income tax

The current income tax payable and current income tax receivable have been separately recognised as Kenya and South Sudan have no legal enforceable right to set off current tax.

	2020 KShs million	2019 KShs million
(a) Current income tax payable		
As at 1 January	**389**	1 097
South Sudan tax payable (Note 35(b))	**3**	–
Current tax charge (Note 16)	**1 337**	2 442
Income tax paid	**(1 337)**	(3 164)
Exchange difference on translation	**–**	14
As at 31 December	**392**	389

The amount above relates to current income tax recoverable in Kenya and is current.

	2020 KShs million	2019 KShs million
(b) Current income tax payable/(recoverable)		
As at 1 January		
Current tax charge	**(3)**	–
Transfer to tax payable account (Note 35(a))	**3**	–
Prior year provision	**–**	–
As at 31 December	**–**	–

The amount above relates to current income tax payable in South Sudan and is current.

36. Customer deposits

	2020 KShs million	2019 KShs million
Current accounts	**130 240**	111 693
Call deposits	**9 305**	10 590
Savings accounts	**58 030**	43 598
Term deposits	**17 484**	24 728
Letters of credit acceptances	**2 852**	4 826
	217 911	195 435
Maturity analysis:		
Redeemable on demand	**130 620**	165 881
Maturing within 1 month	**73 525**	9 502
Maturing after 1 month but within 6 months	**11 893**	13 315
Maturing after 6 months but within 12 months	**1 076**	5 816
Maturing after 12 months	**797**	921
	217 911	195 435

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 2020 was 1.67% (2019: 1.79%).

37. Amounts due to other banks

	2020 KShs million	2019 KShs million
Deposits from banks	**16 689**	11 900
Balances due to group companies (Note 45.2)	**26 216**	18 550
	42 905	30 450
Maturity analysis:		
Redeemable on demand	**21 869**	3 138
Maturing within 1 month	**176**	6 610
Maturing after 1 month but within 6 months	**9 418**	3 178
Maturing after 6 months but within 12 months	**2 185**	4 561
Maturing after 12 months	**9 257**	12 963
	42 905	30 450

Included in balances due to group companies are borrowings of KShs 13 610 584 528 (2019: KShs 16 958 318 000) maturing in one year. Interest on these borrowings is at libor + 1.91% (2019: libor + 1.91%).

38(a) Other liabilities and accruals

	2020 KShs million	2019 KShs million
Accruals	**2 910**	2 619
Deferred bonus scheme (Note 38(b))	**78**	115
Unpresented bank drafts	**56**	113
Margin on guarantees and letters of credit	**1 321**	1 516
Items in transit	**59**	115
Due to group companies (Note 45.8)	**427**	339
Sundry creditors	**1 017**	7 791
Expected credit losses on off-balance sheet items (Note 44.3)	**140**	141
	6 008	12 749

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

38(b) Deferred bonus scheme (DBS)

It is essential for the Bank 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 Bank and employees as well as to attract and retain skilled, competent people.

The Bank 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 78 446 000 at 31 December 2020 (2019: KShs 114 849 000) and the amount charged for the year was KShs 50 989 553 (2019: KShs 63 316 000).

	Units	
Reconciliation	**2020**	2019
Units outstanding at beginning of year	**59 152**	52 238
Granted	**32 923**	40 842
Exercised	**(25 762)**	(59 626)
Lapsed	**–**	(745)
Transfers	**521**	26 443
Units outstanding at end of year	**66 834**	59 152
Weighted average fair value at grant date (ZAR)*	**152.64**	182.43
Expected life (years)	**2.51**	2.51

** South African Rand*

39. Borrowings

	Notional value KShs million	Carrying value KShs million	Interest rate %	Date of issue	Maturity date
At 31 December 2020					
Subordinated debt – USD 30m	**3 052**	**3 285**	**6.82**	**28 Feb 2018**	**28 Feb 2028**
Subordinated debt – USD 20m	**2 018**	**2 219**	**6.28**	**30 Jan 2019**	**12 Dec 2028**
Total	**5 070**	**5 504**			
At 31 December 2019					
CfC Stanbic Bond	4 000	3 998	12.95	15 Dec 2014	15 Dec 2021
Subordinated debt – USD 30m	3 052	3 055	6.82	28 Feb 2018	28 Feb 2028
Subordinated debt – USD 20m	2 018	2 074	6.28	30 Jan 2019	12 Dec 2028
Total	9 070	9 127			

There were no charges placed on any of the Bank's assets in relation to these borrowings.

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

Interest expense incurred in the above borrowings was KShs 546 694 865 (2019: KShs 848 548 820). The weighted average effective interest rate on borrowings as at 31 December 2020 was 9.93% (2019: 9.38%).

The Bank has borrowed two subordinated debt facilities as follows:

(a) USD 30 million obtained from the Standard Bank of South Africa in 2018. There are no covenants relating to this facility.

(b) USD 20 million obtained from the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in 2019. The Bank complied with all covenants relating to this facility throughout the reporting year.

	2020 KShs million	2019 KShs million
Reconciliation of liabilities arising from financing activities:		
At start of year	**9 127**	7 064
Interest charged to profit or loss	**547**	848
Foreign exchange loss/(gain)	**386**	18
Cash flows:		
– Operating activities (interest paid)	**(558)**	(832)
– Proceeds from borrowings	**–**	2 029
– Repayments of borrowings	**(3 998)**	–
At end of year	**5 504**	9 127

40. Share capital

	2020 Number of shares (million)	2020 Share capital KShs million	2019 Number of shares (million)	2019 Share capital KShs million
Authorised share capital				
Authorised share capital at KShs 20 each	**187**	**3 745**	187	3 745
At 31 December	**187**	**3 745**	187	3 745

	2020 Number of shares (million)	2020 Share capital KShs million	2019 Number of shares (thousands)	2019 Share capital KShs million
Issued share capital				
Balance as at 1 January	**171**	**3 412**	171	3 412
At 31 December	**171**	**3 412**	171	3 412
Unissued shares	**16**	**333**	16	333

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

41. Share premium

	2020 KShs million	2019 KShs million
At 1 January	**3 445**	3 445
At 31 December	**3 445**	3 445

42. Nature and purpose of reserves

42.1 Revaluation reserve on financial assets at fair value through other comprehensive income

The fair value reserve comprises the cumulative net change in the fair value of FVOCI financial assets until the investment is derecognised or impaired. The reserve is non-distributable.

42.2 Revaluation reserve on land and buildings

The revaluation reserve represents solely the surplus on the revaluation of buildings and freehold land net of deferred income tax and is non-distributable. This reserve arose from the merger between CfC Bank Limited and Stanbic Bank Limited in 2008.

42.3 Foreign currency translation reserve

Currency translation reserve comprises all the foreign exchange differences arising from the translation of the financial results of foreign operations.

42.4 Regulatory reserve

The regulatory reserve represents an appropriation from retained earnings to comply with the Prudential Guidelines of the Central Bank of Kenya on loan loss provisions. The balance represents the excess of impairment provisions determined in accordance with the Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. The reserve is non-distributable.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

	2020 KShs million	2019 KShs million
43. Share-based payment reserve		
At start of year	**36**	35
Equity growth scheme for the year	**–**	1
Vested during the year	**(36)**	–
At end of year	**–**	36

The Bank's share incentive scheme enables key management personnel and senior employees of the Bank to benefit from the performance of SBG shares.

The Bank has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights. The share appreciation rights granted during the year were valued using Black Scholes pricing model. Each grant was valued separately.

At 31 December 2020, the total amount included in staff costs for Group Share Incentive Scheme was KShs nil (2019: KShs 1 014 677) and for Equity Growth Scheme was KShs nil (2019: KShs 258 572).

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	2020	2020	2019
Options outstanding at beginning of year		**36 250**	60 000
Granted		**–**	22 750
Transfers		**–**	–
Exercised	**98.80 – 111.94**	**(16 250)**	(46 000)
Lapsed		**–**	(500)
Options outstanding at end of year		**20 000**	36 250

The weighted average SBG share price for the year to 31 December 2020 was ZAR 116.16 (2019: ZAR 183.51).

The following options granted to employees had not been exercised at 31 December 2020:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
25 000	**107.55**	**107.55**	**Year to 31 December 2021**

The following options granted to employees had not been exercised at 31 December 2019:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
11 250	111.94	111.94	Year to 31 December 2020
25 000	98.80 – 107.55	101.65	Year to 31 December 2021
36 250			

	Number of rights	
	2020	2019
Equity Growth Scheme		
Rights outstanding at beginning of year	**5 375**	3 000
Transfers	**–**	2 375
Exercised	**–**	–
Lapsed	**–**	–
Rights outstanding at end of year[1]	**5 375**	5 375

[1] At 31 December 2020 the Bank would need to issue 1 196 (2019: 2 223) SBG shares to settle the outstanding appreciated rights value.

The following rights granted to employees had not been exercised at 31 December 2020:

Number of rights	**Option price range (ZAR)**	**Weighted average price (ZAR)**	**Option expiry period**
5 375	**98.80**	**98.80**	**Year to 31 December 2021**
5 375			

The following rights granted to employees had not been exercised at 31 December 2019:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5 375	98.80	98.80	Year to 31 December 2021
5 375			

Commitments were with respect to:

44. Contingent liabilities

	2020 KShs million	2019 KShs million
Letters of credit and acceptances	**3 427**	7 379
Guarantees	**67 497**	62 099
Unutilised facilities	**11 331**	9 948
	82 255	79 426

44.1 Nature of contingent liabilities

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

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

An acceptance is an undertaking by the Bank to pay a bill of exchange drawn on a customer. The Bank expects most of the acceptances to be presented, and to be reimbursed by the customer almost immediately.

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

44. Contingent liabilities *(continued)*

44.2 Segmental analysis of off-balance sheet liabilities

	2020 KShs million	2020 %	2019 KShs million	2019 %
Agriculture	**1 406**	**2**	1 071	1
Manufacturing	**5 751**	**7**	4 785	6
Construction	**20 311**	**25**	18 423	23
Energy	**274**	**–**	98	–
Transport and communication	**1 581**	**2**	1 270	2
Distribution/wholesale	**14 287**	**17**	15 803	20
Financial services	**38 255**	**47**	36 243	46
Tourism	**–**	**–**	121	–
Other activities and social service	**390**	**–**	1 611	2
	82 255	**100**	79 425	100

44.3 Expected credit losses on off-balance sheet items

	Opening ECL 1 Jan 2020 KShs	Total transfers between stages KShs	ECL on new exposure raised KShs (Statement of profit or loss movements)	Derecog-nition KShs (Statement of profit or loss movements)	Sub-sequent changes in ECL KShs (Statement of profit or loss movements)	Net ECL raised/ (released)[1] KShs (Statement of profit or loss movements)	Impair-ment accounts written off KShs	Exchange and other move-ments KShs	Closing ECL 31 Dec 2020 KShs
Off balance sheet									
Stage 1	**62**	**35**	**42**	**(16)**	**–**	**26**	**–**	**–**	**123**
Letters of credit	**10**	**–**	**3**	**(4)**	**6**	**5**	**–**		**15**
Guarantees	**52**	**35**	**39**	**(12)**	**(6)**	**21**	**–**	**–**	**108**
Stage 2	**79**	**(35)**	**2**	**(30)**	**4**	**(24)**	**–**	**(3)**	**17**
Letters of credit	**9**	**–**	**–**	**(2)**	**–**	**(2)**	**–**	**(3)**	**4**
Guarantees	**70**	**(35)**	**2**	**(28)**	**4**	**(22)**	**–**	**–**	**13**
Total ECL	**141**	**–**	**44**	**(46)**	**4**	**2**	**–**	**(3)**	**140**

	Opening ECL 1 Jan 2019 KShs	Total transfers between stages KShs	ECL on new exposure raised KShs (Statement of profit or loss movements)	Derecog-nition KShs (Statement of profit or loss movements)	Sub-sequent changes in ECL KShs (Statement of profit or loss movements)	Net ECL raised/ (released)[1] KShs (Statement of profit or loss movements)	Impair-ment accounts written off KShs	Exchange and other move-ments KShs	Closing ECL 31 Dec 2019 KShs
Off balance sheet									
Stage 1	41	–	54	(33)	–	21	–	–	62
Letters of credit	6	–	5	(1)	–	4	–	–	10
Guarantees	35	–	49	(32)	–	17	–	–	52
Stage 2	17	–	71	(8)	–	63	–	(1)	79
Letters of credit	9	–	–	–	–	–	–	–	9
Guarantees	8	–	71	(8)	–	63	–	(1)	70
Stage 3	80	–	18	–	–	18	(98)	–	–
Letters of credit	19	–	–	–	–	–	(19)	–	–
Guarantees	61	–	18	–	–	18	(79)	–	–
Total ECL	138	–	143	(41)	–	102	(98)	(1)	141

44.4 Legal proceedings

In the conduct of its ordinary course of business, the Bank is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The Directors are satisfied, based on present information and the assessed probability of claims arising, that the Bank has adequate insurance programmes and provisions in place to meet such claims. The amounts provided for in other liabilities are KShs 253 000 000 (2019: KShs 25 000 000).

45. Related party transactions and balances

The Bank is a wholly owned subsidiary of Stanbic Holdings Plc, which is in turn a subsidiary of Stanbic Africa Holdings Limited (SAHL), incorporated in South Africa. The ultimate parent of the Bank is Standard Bank Group Limited, which is incorporated in the United Kingdom.

There are other companies which are related to Stanbic Bank Kenya Limited through common shareholdings or common directorships.

In the normal course of business, nostro and vostro accounts are operated and placements of both foreign and local currencies are made with the parent company and other group companies at interest rates in line with the market. Outstanding balances at the year end are unsecured. There have been no guarantees provided or received for any related party balances.

For the year ended 31 December 2020, the Bank has made provision for doubtful debts relating to long outstanding amounts owed by related parties KShs 275 290 000 (2019: KShs 275 290 000) as indicated on Note 45.7.

The relevant balances are as shown below:

	2020 KShs million	2019 KShs million
45.1 Loans and advances to group banks		
Stanbic Bank Uganda Limited	**27**	2
Stanbic Bank Tanzania Limited	**13**	685
Standard Bank (Mauritius) Limited	**3**	–
Standard Bank of South Africa Limited	**6 285**	4 938
Standard Bank Isle of Man	**20 844**	21 891
	27 172	27 516
Interest income earned on the above is:	**396**	465
45.2 Deposits due to group to banks		
Standard Bank of South Africa Limited	**12 590**	1 404
Standard Bank Namibia Limited	**1**	9
Stanbic Bank Uganda Limited	**3**	126
Stanbic Bank Zambia Limited	**2**	1
Stanbic Bank Botswana Limited	**–**	1
Standard Bank (Mauritius) Limited	**617**	710
Standard Bank Isle of Man Limited	**12 993**	16 281
Stanbic Bank Tanzania Limited	**9**	18
Stanbic Bank Malawi	**1**	–
	26 216	18 550
Interest expense incurred on the above is:	**417**	603

The weighted average effective interest rate on loans and advances to group companies as at 31 December 2020 is 2.43% (2019: 2.46%) and on amounts due to group companies was 1.41% (2019: 2.14%).

	2020 KShs million	2019 KShs million
45.3 Deposits due to group companies non-bank		
Stanbic Holdings Plc	**133**	137
SBG Securities Limited	**572**	413
The Heritage Insurance Company Limited	**268**	332
STANLIB Kenya Limited	**–**	136
Liberty Life Assurance Kenya Limited	**106**	401
Stanbic Insurance Agency Limited	**142**	261
Liberty Kenya Holdings Limited	**10**	–
SBG Nominees Limited	**1**	–
Stanbic Africa Holdings Limited	**13**	–
	1 245	1 680
Interest expense incurred on the above is:	**10**	55

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

	2020 KShs million	2019 KShs million
45. Related party transactions and balances *(continued)*		
45.4 Trading liabilities with group companies non-bank		
SBG Securities Limited	–	404
	–	404

45.5 Due to subsidiary

Amounts due to subsidiary relates to Stanbic Nominees Limited amounting to KShs 2 000.

45.6 Key management compensation

Key management personnel include the members of the Stanbic Bank Kenya Limited Board of Directors and prescribed officers effective for 2020 and 2019. 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 Bank. 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.

45.6.1 Loans and advances to key management

The aggregate amount of loans to directors, affiliates and their families as at 31 December 2020 is KShs nil (2019: KShs 199 952 000).

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 (2019: KShs nil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

	2020 KShs million	2019 KShs million
45.6.2 Key management remuneration		
Fees for services as a director	45	38
Salaries and other short-term employment benefits	77	98
Post-employment pension	4	3
Share-based payments	18	16
	144	155
45.7 Other receivable from related companies		
SBG Securities Limited	8	41
Liberty Life Assurance Kenya Limited	–	3
The Heritage Insurance Company Limited	–	1
Stanbic Holdings Plc	6	12
Stanbic Bank Uganda Limited	–	4
Stanbic Bank Tanzania Limited	297	297
Standard Bank of South Africa Limited	296	508
Mozambique: Standard Bank s.a.r.l.	–	1
Stanbic Bank Malawi Limited	–	3
Standard Bank de Angola S.A.	9	8
Stanbic Insurance Agency Limited	8	76
Stanbic Bank Zambia Limited	2	1
Standard Bank Jersey Limited	1	4
Standard Bank Isle of Man Limited	–	4
Stanbic Foundation	50	–
	677	963
Provisions on regional costs balances	(275)	(275)
	402	688
Movement analysis		
At 1 January	963	1 121
Additions	1 013	1 344
Receipts	(1 299)	(1 502)
Closing balance	677	963
Provisions on regional costs balances	(275)	(275)
At 31 December	402	688

	2020 KShs million	2019 KShs million
45.8 Other payables due to related companies		
Standard Bank of South Africa Limited	**425**	331
Stanbic Bank Uganda Limited	**2**	5
Standard Bank Jersey Limited	**–**	3
	427	339
Interest expense incurred on the above is:	**–**	–

45.9 Related party expenses

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

	2020 KShs million	2019 KShs million
Franchise fees	**675**	734
Information technology	**257**	199
Other operating costs	**121**	127
	1 053	1 060

46. Notes to the statement of cash flow

46.1 Cash flows from operating activities

	2020 KShs million	2019 KShs million
Reconciliation of profit before income tax to cash flows from operating activities:		
Net income before income tax	**6 236**	7 466
Adjusted for:		
– Amortisation of intangible assets (Note 31)	**277**	198
– Depreciation – property and equipment (Note 30(a))	**472**	445
– Depreciation – right-of-use asset – land (Note 30(b))	**3**	3
– Depreciation – right-of-use asset (Note 32)	**458**	357
– Change in fair value of derivatives	**(1 500)**	780
– Interest charged on borrowings (Note 39)	**547**	848
– Share-based payment expense (Note 43)	**–**	1
– Gain on disposal of property and equipment	**–**	(4)
– Other temporary differences	**(157)**	–
Cash flow from operating activities	**6 336**	10 094

46.2 Analysis of cash and cash equivalents

	2020 KShs million	2019 KShs million
Cash and balances with CBK	**9 298**	7 551
Treasury bills	**56 245**	44 068
Loans and advances to banks	**33 948**	35 247
Amounts due to other banks	**(4 065)**	(1 681)
Cash and cash equivalents at year end	**95 426**	85 185

For the purpose of presentation of cash flows in the financial statements, the cash and cash equivalents include balances with Central Bank of Kenya net of cash reserve ratio, net of balances from banking institutions and treasury bills with a maturity period of three months or less from the contract date.

	2020 KShs million	2019 KShs million
47. Capital commitments		
Capital commitments for the acquisition of property and equipment are summarised below:		
Authorised and contracted for	**142**	278
Authorised but not contracted for	**963**	615

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

48. Operating leases

The Bank has entered into a number of commercial leases for it premises and office equipment. These leases have an average life of 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:

	2020 KShs million	2019 KShs million
Less than one year	**27**	15
Between one and five years	**18**	11
More than five years	**–**	–
	45	26

49. Fiduciary activities

	2020 KShs million	2019 KShs million
Assets held on behalf of individuals, trusts, retirement benefit plans and other institutions	**365 573**	341 824

50. Subsequent event

There have been no other events or transactions subsequent to 31 December 2020 to the date of these financial statements that would have a material effect on the financial statements at that date or for the year then ended, and would require adjustment of or disclosure in the financial statements or notes thereto in accordance with IAS 10: *Events After the Balance Sheet Date.*


Stanbic
Bank

Corporate Information

Chairman
Kitili Mbathi

Chief Executive
Charles Mudiwa***

Chief Executive of Stanbic Holding Plc
Patrick Mweheire**
(Appointed on 3 March 2020)
Greg Brackenridge*
(Retired on 3 March 2020)

Non-executive Directors
Christopher J Blandford – Newson**** (Resigned on 4 March 2020)
Greg Brackenridge* (Retired on 26 June 2020)
Peter N Gethi
Samuel N Gikandi (Appointed on 29 June 2020)
Rose W Kimotho
Dorcas Kombo
Ruth T Ngobi
Ory A Okolloh (Appointed on 3 March 2020 and resigned on 9 December 2020)
Rose B Osoro

*   *South African*
** *Ugandan*
*** *Zimbabwean*
**** *South African and British*

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