Stanbic Bank Kenya Limited

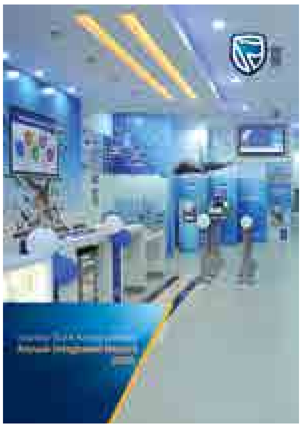
Annual Integrated Report 2016

Who we are

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

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

Contents



About this report

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

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

Scope and boundary of this report

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

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

Determining Materiality

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

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

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

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

Who we are

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

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

We subscribe to:

EQUATOR PRINCIPLES

Sfi Sustainable Finance Initiative

Our History

1911

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

1920

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

1962

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

1964

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

1992

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

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

1993

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

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

2008

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

2011

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

2013

CfC Stanbic Financial Services rebrands to SBG Securities

2016

CfC Stanbic Holdings Limited rebrands to Stanbic Holdings Plc

CfC Stanbic Bank Limited rebrands to Stanbic Bank Kenya Limited

Our vision

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

Our values

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

01 Serving our customers

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

02 Growing our people

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

03 Delivering to our shareholders

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

04 Being proactive

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

05 Working in teams

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

06 Constantly raising the bar

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

07 Respecting each other

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

08 Upholding the highest levels of integrity

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

Review of performance

KShs 16,304 million
TOTAL INCOME
2015: 15,348 million

1,082
EMPLOYEES
2015: 1,040

119,904 million
DEPOSITS FROM CUSTOMERS
2015: 106,493 million

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

56.9%
COST-TO-INCOME RATIO (CTI)*
2015: 50.9%

15.1%
RETURN ON AVERAGE EQUITY
2015: 17.1%

15.9%
TIER 1 CAPITAL ADEQUACY RATIO
2015: 15.9%

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

2016 Awards

Category	Award	Category	Award
Best Foreign Exchange provider- Kenya	Best Foreign Exchange Provider Award • 2016 Global Finance	Corporate Bank of the year	Banker Africa East Africa Awards 2016
Best Treasury and Cash Management provider - Kenya	Best Treasury and Cash Management Provider Award • 2016 Global Finance	Best Investment Bank - Kenya	emeafinance African Banking Awards 2016
Best Trade Finance Bank - Kenya	Best Trade Finance Bank Award • 2016 Global Finance	Best Private Bank - Kenya	The Banker & Professional Wealth Management Magazines
2nd Runners up Best Bank in Internet Banking	Think Business Banking Awards 2016	2nd Runners up Best Bank in Product Marketing	Think Business Banking Awards 2016
2nd Runners up Best Bank in Mortgage Finance	Think Business Banking Awards 2016	IPO of the year 2016	Think Business Investment Awards 2016

Our stakeholders

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

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

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

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

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

Our key stakeholders include:

Shareholders and Investors

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

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

Regulators

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

Customers

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

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

What do our customers value most?

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

Community

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

Employees

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

Employee Benefits

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

Suppliers

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

Business organisations and Peers

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

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

Our Capitals

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

1

Financial Capital

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

2

Human Capital

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

3

Intellectual Capital

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

4

Social and relationship Capital

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

5

Manufactured Capital

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

6

Natural Capital

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

Business structure

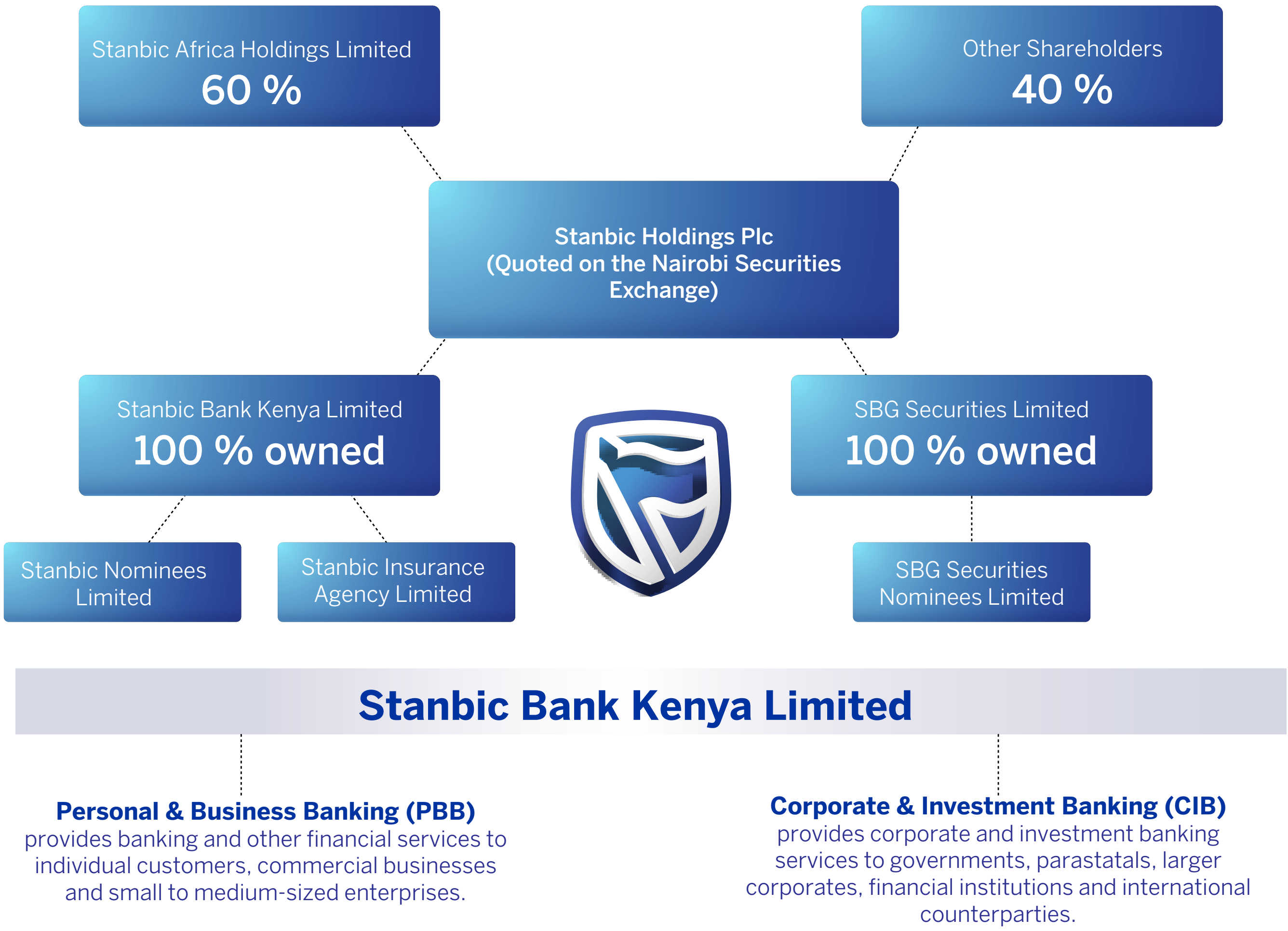
Stanbic Bank Kenya Limited (the Bank or the Company) is a universal bank and has consolidated its position in Kenya and East Africa as a diversified business with a proven track record. The Bank focuses on two key business segments - Corporate and Investment Banking (CIB) and Personal and Business Banking (PBB) that leverage the skills, economies of scale and synergies that come from being part of an international group.

Stanbic Bank Kenya Limited is incorporated in Kenya and is a commercial bank licensed by the Central Bank of Kenya.

The Bank is a subsidiary of Stanbic Holdings Plc. Stanbic Holdings Plc, which is listed on the Nairobi Securities Exchange, is a subsidiary of Stanbic Africa Holdings Limited (SAHL), which is in turn owned by Standard Bank Group Limited (SBG), Africa's leading banking and financial services group.

Stanbic Bank Kenya Limited owns 100% of Stanbic Nominees Limited and Stanbic Insurance Agency Limited (SIAL).

The Bank's sister company SBG Securities Limited owns 100% of SBG Securities Nominees Limited.



Business units

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

Personal and Business Banking (PBB)

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

What we offer

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

Corporate and Investment Banking (CIB)

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

What we offer

- Global Markets
- Investment Banking
- Transactional Products and Services

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

Chairman's statement

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

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

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

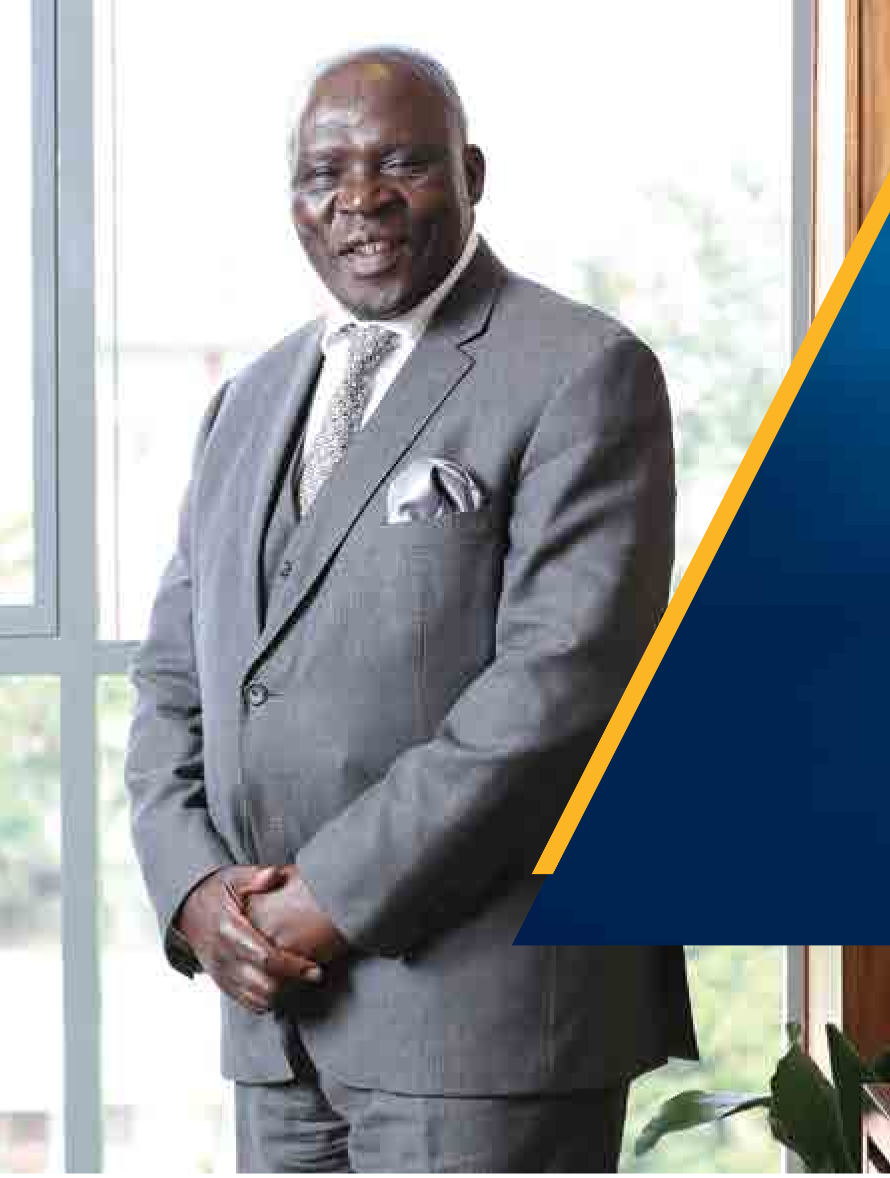
Along with this came the opening of new branches and leveraging on technology and innovation to bring the customer even closer. Through sustained improvement in our digital channels, we have enhanced our capability and capacity to reach even more customers and serve them more efficiently.

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

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

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

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



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

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

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

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

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

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

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

Q & A

with Stanbic Bank Kenya Limited Chief Executive

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

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

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

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

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

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

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

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

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

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

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

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

How was the Bank's performance in 2016?

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

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

What is in the offing for 2017?

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

Philip Odera
Chief Executive
Stanbic Bank Kenya Limited

Business unit reviews

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

5,998 million
TOTAL INCOME
2015: 5,419 million

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

57,256 million
CUSTOMER DEPOSITS
2015: 53,638 million

Adam Jones
Head – PBB

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

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

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

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

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

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

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

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

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

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

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

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

Our products and services in PBB

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

Mortgage lending

- Residential accommodation loans to individual customers.

Vehicle and asset financing

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

Card products

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

Lending products

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

Transactional products

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

Wealth and investment & Bancassurance

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

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

10,030 million
TOTAL INCOME
2015: 9,930 million

63,123 million
CUSTOMER LOANS AND ADVANCES
2015: 55,495 million

62,648 million
CUSTOMER DEPOSITS
2015: 52,855 million

Mike Blades
Regional Head – CIB

Corporate Investment Banking (CIB)

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

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

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

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

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

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

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

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

Our products and services in CIB

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

Global Markets

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

Investment Banking

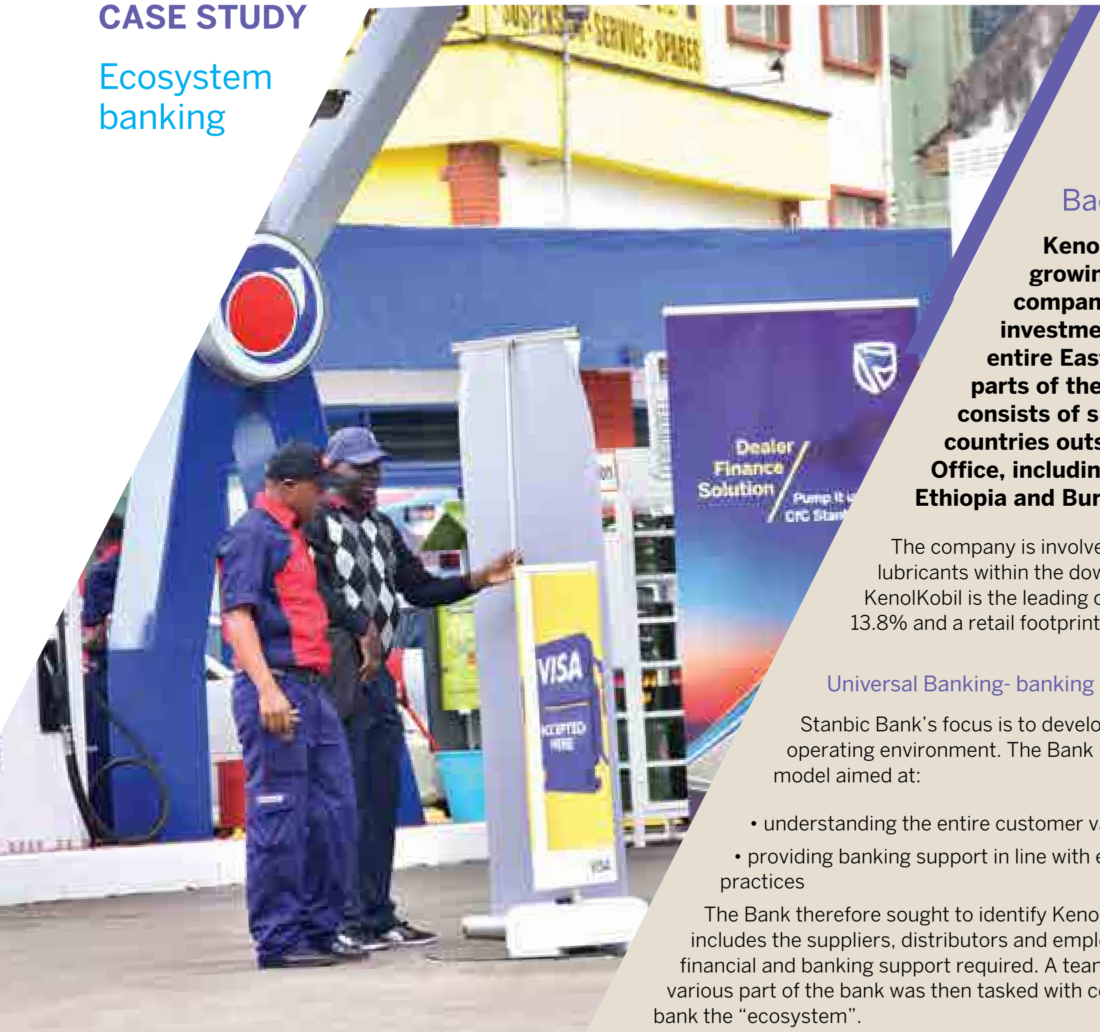
- Project finance
- Advisory
- Corporate lending (including syndicated lending)
- Equity capital markets
- Debt capital markets
- Property finance
- Vehicle and Asset Finance

Transactional Products and Services

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

CASE STUDY

Ecosystem banking



Kenol**Kobil** Limited

Background

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

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

Universal Banking- banking the KenolKobil ecosystem

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

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

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

Business Solutions on the ecosystem

Corporate solutions

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

- Payments and Collections solutions- Stanbic is currently the principal payments and collections bank for KenolKobil. Availability of the Bank's cash management solutions (both physical and electronic) has ensured that the client's payments and collections requirements have been addressed. The Bank won the mandate to manage the client's dividends payments in 2015 and has continued to do so ever since.
- Working capital financing- The Bank has provided working capital facilities in the form of funded and non-funded lines that have made it possible for the client to trade.
- Structured Trade Finance – Tailor-made solutions aimed at supporting KenolKobil's participation in the open tender system. The Bank has supported KenolKobil import circa 230,000 MT of white fuels in 2016.
- Digital Banking through Business Online, which allows the client to "be your own banker" and makes reconciliations on the accounts easier.
- Investment Banking mainly targeted towards providing mergers & acquisitions and advisory services on areas of strategic importance to the client.
- Global Markets: Foreign exchange (FX) hedging solutions aimed at assisting the client manage FX risk.

Dealers' solutions

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

- Bundled product solution which allows the client to pay a flat fee for a number of transactional solutions thereby removing the issue of reconciling bank charges from the dealers' daily routine.
- Bancassurance offering structured solutions to meet specific requirements unique to the dealers. This has been done in partnership with leading insurance companies.
- Payments and collection solutions including cash management solutions; we have PDQ terminals at the dealers for card payments, Till2Bank solution for MPesa payments, Bulk Note Acceptors for cash payments integrated in our core offering for this segment.

- Working capital solutions including issuance of payment guarantees and overdrafts

Suppliers' solutions

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

Employees

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

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

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

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

Value of banking the KenolKobil ecosystem for Stanbic Bank

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

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

Financial Review

CFO Statement

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

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

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

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

Abraham Ongenge
Chief Financial Officer

This year's financial performance reflects:

- Growth in revenues by 11% with net interest income growing by 20%.
- Negative effects of hyperinflation and prudent provisioning to cover for uncertainties in South Sudan.
- Growth in balance sheet with customer deposits growing by 12.6% and customer loans growing by 18.8%.

Profitability

Profit before tax declined by 15% to KShs 6,036 million, a decrease of KShs 1 billion from the previous year. Profit after tax decreased by 6% from KShs 4,697 million in 2015 to KShs 4,425 million in 2016.

Return on equity

The return on equity decreased to 14.6%% in 2016 from 16.6%% in 2015. On a weighted average capital basis, the return on equity is 15.1% compared to 17.1% in 2015.

Economic factors affecting the results

Inflation

The year-end inflation rate stood at 6.4% compared to 8.0% in 2015. The increase was driven by unwinding base effects from the introduction of excise tax in December 2015.

Central Bank rate

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

Key financial highlights

Performance Indicators	2016	2015
Total income growth	11%	0.1%
Credit impairment charges growth	(93%)	(29%)
Profit before tax growth	(15%)	(4%)
Customer loans and advances growth	10%	19%
Customer deposits growth	13%	10%
Capital adequacy (tier 1 ratio)	16%	16%
Return on average equity	15%	17%
Earnings per share (KShs)	25.94	27.54

Net interest income increased by KShs 1.8 billion while fees commission revenue decreased by KShs 74 million respectively. In 2016, non-interest income accounted for 39% of total operating income as compared to 44% in 2015.

Total operating costs increased by KShs 1.9 billion, a 24% increase from the previous year largely due to increase in staff costs arising from annual salary reviews and increase in headcount. Other operating expenses were also higher than prior year by 24% mainly due to loss on monetary value in South Sudan as a result of adoption of hyperinflation accounting.

The cost to income ratio increased to 57% from 51% in 2015.

Net interest income

	2016	2015	
	KShs 000	KShs 000	Change
Interest income	19,263,054	14,665,543	31%
Interest expense	(8,262,713)	(5,490,683)	(50%)
Net interest income	**11,000,341**	**9,174,860**	**20%**

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

Net fees and commission income

Net fees and commission income decreased from KShs 2,621 million in 2015 to KShs 2,547 million in 2016. This was mainly attributable to decreased transactional volumes.

Trading revenue

Income from trading increased from KShs 4,306 million to KShs 4,493 million. The increase was mainly driven by foreign exchange gains as a result of devaluation of the South Sudanese Pound.

Impairment losses

	2016 KShs 000	2015 KShs 000
Impairment charge for non-performing loans	776,650	1,237,063
Impairment charge for performing loans	1,008,118	270,337
Recoveries during the period	(84,966)	(506,657)
Other movements	(84,136)	(93,438)
Net impairment charge on loans and advances	**1,615,666**	**907,305**

Increase in provisions was mainly due to:

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

Operating expenses

	2016 KShs 000	2015 KShs 000
Staff costs	5,238,431	4,851,926
Operating expenses	5,029,806	3,419,321
Total expenses	**10,268,237**	**8,271,247**

Other operating expenses for 2016 were higher than 2015 costs by KShs 1.6 billion largely due to loss on monetary value in South Sudan as a result of adoption of hyperinflation accounting.

Employee compensation and related costs increased by KShs 386 million mainly due to annual salary reviews, coupled with an increase in staff head count to support the Bank's growth strategy.

Statement of financial position

During the year under review, the Bank's total assets grew by 3% to KShs 205 billion as at close of 2016. The balance sheet growth was largely driven by growth in customer loans and advances.

Customer loans grew by KShs 10.6 billion to close the year at KShs 115.6 billion.

Customer deposits increased by KShs 12.6% with Pure save and current account balances accounting for the highest growth.

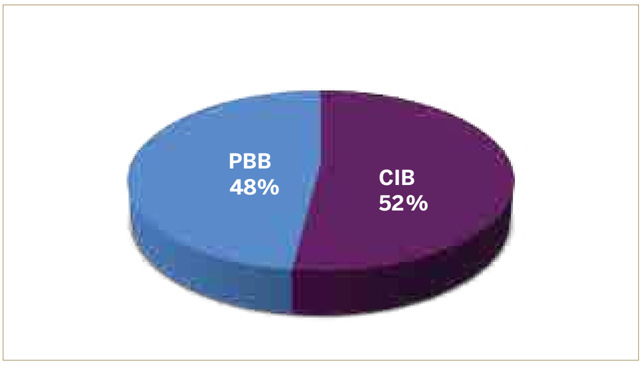
Capital adequacy

At 31 December 2016, the Bank's total capital ratio was 18.1% (2015: 18.7%) of risk-weighted assets, with core capital at 15.9% (2015: 15.9%). The capital adequacy ratios remain above the stipulated regulatory minimum of 14.5% and 10.5% respectively.

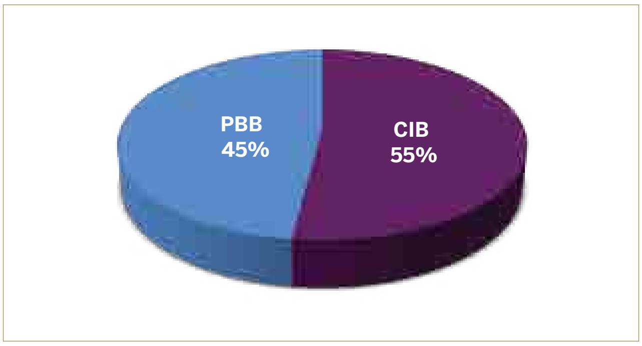
Part of the earnings for the year will be reinvested in the business to enable it grow its assets.

Customer deposits and loans and advances per business segment

Customer deposits



Customer loans and advances



Corporate & Investment Banking (CIB)

CIB offers services to larger corporates, financial institutions and international counterparties in Kenya

- Gross revenue KShs 11,219m
- Up by 10% from 2015

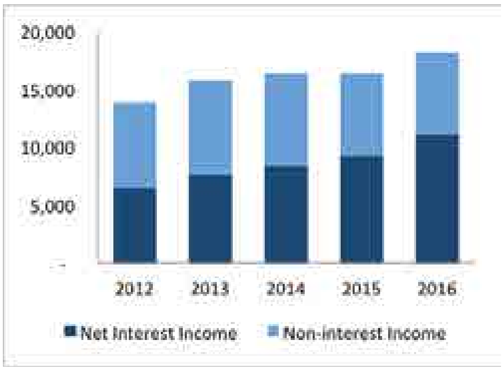
Personal & Business Banking (PBB)

PBB offers banking and other financial services to individual customers and small to medium size enterprises

- Gross revenue KShs 6,837m
- Up by 12% from 2015

Revenue evolution

KShs millions



Gross revenue grew by 11% year on year with net interest income growing by 20% and non-interest revenue decreasing by 0.4%.

Increase in net interest income was mainly driven by growth in customer loans and advances and improved margins within the first three quarters of the year.

Decrease on non-interest revenue was mainly attributed to reduction in transactional volumes.

Expenses evolution

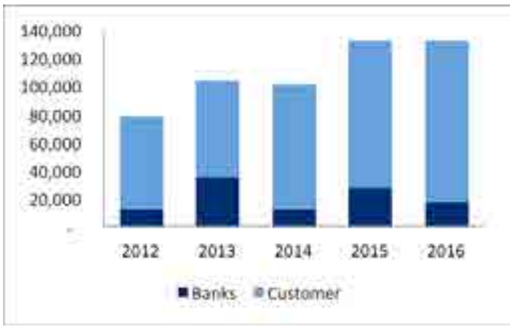
KShs millions

The cost to income ratio increased to 57% due to the increase in operating costs by 24% compared to growth in revenue by 11%

The Bank continues to focus on cost discipline.

Loans and advances performance

KShs millions



Customer loans and advances grew by 10% year on year mainly on term lending. The growth was mainly within the Corporate and Investment Banking space.

Customer deposits performance

KShs millions

Customer deposits grew by 13% year on year. Pure Save and current accounts accounted for the highest growth in deposits.

Financial Highlights

	2016 KShs million	2015 KShs million	2014 KShs million	2013 KShs million	2012 KShs million	CAGR %
Income statement						
Profit before tax	**6,036**	7,077	7,391	7,005	4,712	6.4%
Profit after tax	**4,425**	4,697	5,479	4,959	3,109	9.2%
Statement of financial position						
Shareholders' equity	**30,237**	28,251	26,644	22,353	17,338	14.9%
Total assets	**204,895**	198,578	171,347	170,726	133,378	11.3%
Loans and advances to customers	**115,588**	104,982	88,347	69,133	66,150	15.0%
Property and equipment (including intangible assets)	**3,081**	2,708	2,513	2,566	2,873	
Customer deposits	**119,904**	106,493	96,830	95,708	75,633	12.2%
Return on average equity	**15.1%**	17.1%	22.4%	25.0%	22.6%	
Return on total assets	**2.2%**	2.4%	3.2%	2.9%	2.3%	
Costs to income	**56.9%**	50.9%	50.2%	50.5%	61.3%	
Capital adequacy						
Tier 1 capital ratio (regulatory minimum- 10.5%)	**15.9%**	15.9%	17.5%	17.7%	20.5%	
Total capital ratio (Tier + Tier 2)	**18.1%**	18.7%	21.1%	20.5%	25.5%	
Risk - weighted assets	**179,751**	162,284	138,735	119,641	83,127	
Other information						
Number of employees	**1,082**	1,040	985	942	879	

Economic review

Our Context

Kenya

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

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

South Sudan

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

Key Regulatory Highlights

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

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

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

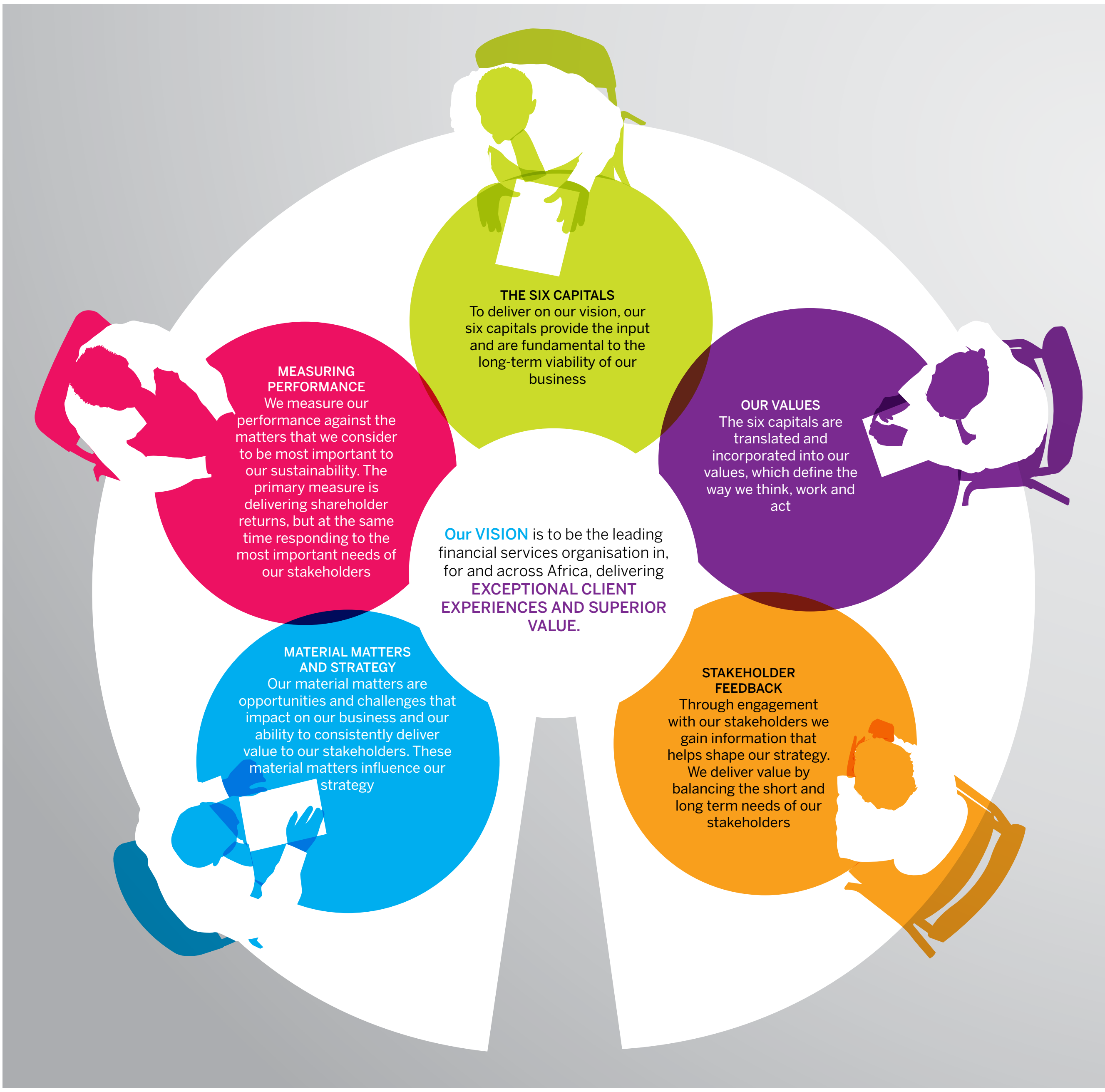
- The Employment Amendment Bill
- The Health Bill
- Kenya deposit insurance draft regulations
- VAT amendment bill
- Information Communication Technology Practitioners Bill

Ensuring our sustainability

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

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

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



Our Material Issues

Definition

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

Identification

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

Response

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

Operating within the macro-economic conditions in the region

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

Increased competition and evolving customer trends

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

Increasing regulatory activity

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

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

Confidence in the banking industry

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

Increased reliance on technology and innovation

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

Environmentally and socially sustainable growth

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

Our socio-economic impact

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

Access to Finance

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

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

Responsible lending and consumer protection

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

Transformational and large impact projects

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

Financial crime

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

Financing agriculture

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

Employee wellbeing

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

Procurement

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

Community investment

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

Sustainability review

Financial Capital

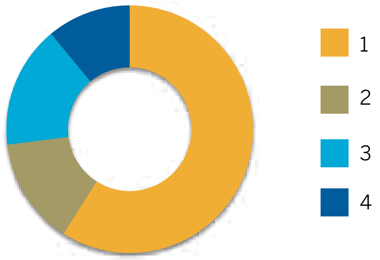
Our ability to raise funds is dependent on a number of factors, including credit ratings, economic conditions and the perception of the market.

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

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

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

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



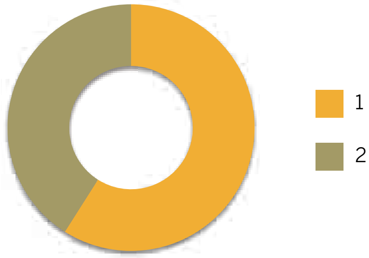
2016 Loans and Advances by product

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

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

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

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



Balance of interest and non-interest income

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

Human Capital

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

Attracting talent

Core to supporting the business strategy is our ability to attract, retain and develop the Bank's talent, embed the Bank's culture and values while working in partnership with business units to drive sustainable performance and deliver superior value and service to our customers. Our Human Capital team comprises of 13 professionals, responsible for 1,069 employees of the Bank.

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

Diversity

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

Key Human Capital data as at December 2016

Total employee complement	1,082
Gender Parity	47% Female, 53% Male
Age segmentation	Below 30 years - 22% 30-40 years - 60%; Above 40 - 18%
Management / Non-Management	Management 28% Non-Management 72%
Average length of service	5.3 Years
Promotions in the year	153
Distribution of training	Entry Level – 13% Management – 33% Non-Management – 54%
Turnover	2013 - 10.7% 2014 - 11.2% 2015 - 8.4% 2016 - 8%

Learning and Development

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

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

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

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

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

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

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

Open communication

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

We communicate with employees through:

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

Performance management

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

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

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

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

Criteria for reward or recognition

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

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

Recognising and rewarding performance

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

(1) Beyond Excellence

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

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

(2) Mark of Excellence

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

Compensation and incentives

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

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

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

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

Health, Safety and Wellness

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

Some of the activities carried out in 2016 includes:

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

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

Involving Employees

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

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

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

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

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

Employee feedback from these engagements has mainly focused on:

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

Workers union

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

Intellectual Capital

Research and forecasting

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

Our Brand

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

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

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

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

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

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

Customer experience

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

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

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

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

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

Technology and innovation

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

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

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

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

Social and Relationship Capital

Ethics and Transparency

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

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

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

Governance

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

Information security

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

Customer satisfaction

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

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

Shareholders and investment community

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

Fighting corruption and illegal activities

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

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

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

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

Suppliers

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

Government

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

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

Socio-economic impact

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

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

Corporate Citizenship

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

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

The strategic focus of our CSI investments is on;

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

Education

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

• *Strathmore University Scholarship*

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

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

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

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

• *Palmhouse Foundation Sponsorship and Mentorship Program*

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

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

• *SOS Children's Villages*

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

Stanbic Bank Kenya Limited Communications Manager presents cheque to Palmhouse Foundation

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

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

Health and wellness

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

Entrepreneurship and Financial Literacy

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

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

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

The program will be officially launched in 2017.

Sponsorships

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

Stanbic Bank shirt sponsorship for Mwamba Rugby Football Club

Manufactured Capital

Geographical footprint and technologies

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

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

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

Administrative centres and offices

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

Service Level Agreements (SLAs)

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

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

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

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

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

Natural Capital

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

Our Social and Environmental Risk

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

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

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

Environmental management

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

Eco-efficiency

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

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

Some of the activities rolled out in 2016 include:

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

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

Risk Management Statement

Risk Management Overview

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

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

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

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

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

Introduction

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

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

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

Risk management framework

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

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

Roles in risk management

Board of Directors

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

Board Risk Committee and Board Credit Committee

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

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

- Determining the bank's risk appetite as set out in the risk appetite framework and risk appetite statement (RAS).
- Monitoring the current and future risk profile of the bank to confirm that it is managed within risk appetite.
- Evaluating the results of stress tests and providing oversight of the adequacy and effectiveness of the bank's risk governance framework.

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

The Board Audit Committee (BAC)

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

Internal Audit

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

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

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

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

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

Management committees

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

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

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

Business units

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

Governance documents

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

Risk management approach

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

First line of defence

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

Second line of defence

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

Third line of defence

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

Approach to risk appetite and stress testing

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

Risk appetite

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

Risk tolerance

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

Risk capacity

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

Risk profile

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

Process

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

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

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

Risk Appetite Statement (RAS) dimensions

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

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

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

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

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

Risk areas in banking activities

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

Credit risk

Risk description

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

Risk examples

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

Mitigation

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

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

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

Refer to the financial statements on page 100 to 111 which highlights the credit risk impact on the Bank, in the current year.

Operational risk

Risk description

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

Risk examples

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

Mitigation

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

1. Risk identification

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

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

- Cause categories
- Event Categories and
- Effect categories

2. Assessment and measurement

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

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

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

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

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

3. Management and treatment of operational risk

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

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

4. Monitoring

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

5. Reporting

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

6. Business continuity management

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

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

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

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

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

Mitigation

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

Compliance risk

Risk description

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

Risk examples

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

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

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

Environmental and Social (E&S) risks

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

Mitigation

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

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

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

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

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

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

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

(i) Annually update their environmental, social and occupational health and safety legal registers;

(ii) Ensure that where appropriate environmental and social risk mitigation clauses are integrated into contracts; and

(iii) Monitor compliance with policy and procedures.

Legal risk

Risk description

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

Risk examples

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

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

Mitigation

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

Tax risk

Risk description

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

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

Risk examples

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

Mitigation

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

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

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

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

Reputational risk

Risk description

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

Risk examples

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

Mitigation

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

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

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

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

Business risk

Risk description

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

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

Risk examples

Competitors, changing customer behaviour and inappropriate due diligence.

Mitigation

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

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

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

Strategic risk

Risk description

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

Risk examples

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

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

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

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

Mitigation

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

Market risk

Risk description

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

Risk examples

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

Mitigation

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

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

1. Identification of market risks in the trading and banking books

This process entails checking that all market risks are identified. It includes an analysis of new business plans, new products, new pricing models, new risk models and regular reviews by Market Risk employee of financial and management accounts balance sheets, income statements, and portfolio structure hierarchies, accounting classification and accounting elections, jointly with financial control, Risk Self Assessments jointly with financial operational risk, price testing reports and profit and loss decomposition reports.

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

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

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

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

2. Measurement of market risk

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

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

General Measurement Definitions:

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

3. Management of market risk

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

a) Market risk exposure on trading activities

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

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

Calculation of market risk capital for trading

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

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

b) Market risk exposure on banking operations

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

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

4. Derivative instruments and structured transactions

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

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

Reporting on market risk

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

Information & Technology (IT) risk

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

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

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

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

How the bank is managing this risk

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

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

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

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

Corporate information

Chairman:	Fred N. Ojiambo, MBS, SC
Chief Executive:	Philip Odera
Chief Executive of Stanbic Holdings Plc	Greg Brackenridge* (Appointed: 28 July 2016)
Regional Head Corporate & Investment Banking:	Michael Blades**
Non-Executive Directors:	Kitili Mbathi Rose Kimotho Edward W. Njoroge Ruth T. Ngobi Peter N. Gethi Christopher J. Blandford – Newson** Charles K. Muchene (Resigned: 19 May 2016)

* South African
** South African and British

Company Secretary:	Lillian N. Mbindyo P.O. Box 72833 00200 Nairobi
Auditor:	PricewaterhouseCoopers PwC Tower Waiyaki Way/Chiromo Road P.O. Box 43963 00100 Nairobi
Registered Office:	Stanbic Centre Chiromo Road, Westlands P.O. Box 72833 00200 Nairobi

Board of Directors

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

2 **PHILIP ODERA/58**
Chief Executive
Appointed 2015

3 **GREG BRACKENRIDGE /59**
Non-Executive Director
Appointed 2010

4 **KITILI MBATHI /58**
Non-Executive Director
Appointed 2007

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

6 **MICHAEL A. BLADES /50**
Executive Director
Appointed 2013

7 **EDWARD W. NJOROGE, CBS /64**
Non-Executive Director
Appointed 2002

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

9 **ROSE KIMOTHO, MBS /61**
Non-Executive Director
Appointed 2010

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

11 **LILLIAN N. MBINDYO**
Company Secretary

Directors' Profiles

Mr Fred N. Ojiambo, MBS, SC, 67

Chairman

Appointed 2010

Mr Fred N. Ojiambo was appointed as a Non-Executive Director of Stanbic Bank Kenya Limited on 15 August 2008 and as Chairman of the Board on 15 July 2010. Mr Ojiambo is a lawyer and holds a Bachelor of Laws, (LLB) (Hons) Degree from the University of Nairobi and a Post Graduate Diploma in Advocacy (Council of Legal Education) from the Kenya School of Law. He has had a long career in private practice and his experience was recognised with an award of Senior Counsel in 2007. Mr Ojiambo sits on various boards of companies and corporations, including Bata Shoe Company Limited, The International Leadership University, The Council of Legal Education, Windle Charitable Trust and Rafiki Orthopaedic Limited, among others. He is also a member and former Chairman of the Law Society of Kenya, a member of the International Bar Association and the Commonwealth Law Association, and is a Senior Partner in the legal firm of Messrs. Kaplan & Stratton, Advocates. Mr Ojiambo was also appointed as chancellor of Kirinyaga University in 2017.

Philip Odera, 58

Chief Executive

Appointed 2015

Mr Philip Odera was appointed the Chief Executive of Stanbic Bank Kenya Limited on 2 March, 2015. Mr Odera has been with Standard Bank for 15 years where he joined as General Manager at Stanbic Bank Kenya Limited. He has served Standard Bank in various capacities as Country Head and Managing Director in Kenya, Malawi and Uganda. Prior to joining Standard Bank, he served as Consumer Bank Head at Citibank NA, Kenya. He has 34 years of experience in the banking and financial services industry, rising from position of Commodities Analyst in Boston (USA) at Kramer Brokerage Company to his current position as Chief Executive, of the Company. He holds a Bachelor of Arts Degree (Economics) from St Lawrence University, New York and a Master of Business Administration (Finance) from Suffolk University, Boston, both in the United States of America. He also sits as a Non-Executive Director on the boards of Stanbic Insurance Agency Limited and Liberty Kenya Holdings Board.

Mr Greg Brackenridge, 59

Non-Executive Director

Appointed 2010

Mr Greg Brackenridge previously served as the Chief Executive of Stanbic Bank Kenya Limited from 29 March 2010 until 2 March 2015. He has remained on the Board of the Company as a Non-Executive Director and is also the Chief Executive of Stanbic Holdings Plc, having been appointed on 28 July, 2016.

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

Kitili Mbathi, 58

Non-Executive Director

Appointed 2007

Mr Kitili Mbathi was appointed as an Executive Director of Stanbic Bank Kenya Limited on 9 October, 2007; and served as the Regional Chief Executive of the Company from 2008 to May, 2015, at which time he took up the role of Regional Director, East Africa, until 29 January, 2016, when he resigned as an employee of Standard Bank Group. He still remains a Non-Executive Director of Stanbic Bank Kenya Limited Board. Mr Mbathi is also a Non-Executive Director of Stanbic Holdings Plc, SBG Securities Ltd and Stanbic Insurance Agency Limited. In addition, he is a member of the University of Nairobi Council. In February, 2016, Mr. Mbathi was appointed Director-General of the Kenya Wildlife Service. He holds a Bachelor of Arts Degree (Economics and Political Science) from the University of Michigan, Ann Arbor, Michigan, USA, and a Masters of Banking and Finance for Development from Instituto Finafrica in Milan, Italy. He has vast experience in banking which was acquired when serving in various banking institutions. He has also served as Investment Secretary in the Ministry of Finance and Planning – Government of Kenya.

Christopher J. Blandford –Newson, 52

Non-Executive Director

Appointed 2014

Mr Christopher Newson was appointed to the Board of Stanbic Bank Kenya Limited on 26 June, 2014 as a Non-Executive Director. He is also a 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 Investec Asset Management as their Director Private Markets in 2016.

Michael A. Blades, 50

Executive Director

Appointed 2013

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

Edward W. Njoroge, CBS, 64

Non-Executive Director

Appointed 2002

Mr Edward W. Njoroge was appointed as a Non-Executive Director of Stanbic Bank Kenya Limited on 21 February, 2002. He is also a Non-Executive Director Stanbic Holdings Plc. He graduated with a Bachelor of Science degree from Makerere University. He also holds an MBA (Leadership and Sustainability) from University of Cumbria. He was appointed on 26 March 2003 as Managing Director of Kenya Electricity Generating Company Limited (now retired). He started his career with Twiga Chemical Industries in 1975. He then held a senior position with Akile Associates Limited before moving to Affiliated Business Contacts (ABCON) Group in 1977. His other directorships include Britam General Insurance, Aquatech Industries Limited, Nerifa Holdings Limited and ABCON. He is also a Director of Globeleq and a member of the Investment Committee of the Africa Renewable Fund. He is also the Chairman of Telkom Kenya and Aureos East Africa Fund, and was the former Chairman of the Nairobi Securities Exchange Ltd.

Peter Nderitu Gethi 51

Non-Executive Director

Appointed 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 has served as a Board member of Liberty Life Assurance Limited and Heritage Insurance (K) Limited since 2009 and is currently serving as the Chairman of both companies since 2011. He is also a Non-Executive Director at Stanbic Holdings Plc and Nebange Ltd.

Rose W. Kimotho, 61

Non-Executive Director

Appointed 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 the Company, she serves on the boards Stanbic Holdings Plc; Population Services International (PSI) Kenya; PS Kenya, Y&R Brands; is a Trustee of Rhino Ark; and is a member of the Task Force on Press Law appointed by the Attorney General to make recommendations on laws governing the media. She also joined the Board of Cytonn Investments Management Ltd in 2016. Ms Kimotho holds a diploma in journalism from University of Nairobi, a Management Diploma from Columbia University Graduate School and a Marketing Certificate from the Marketing Society of Kenya.

Ruth T. Ngobi, 56

Non-Executive Director

Appointed 2011

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

Lillian N. Mbindyo

Company Secretary

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

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

Corporate Governance Report for Stanbic Bank Kenya Limited

Stanbic Bank Kenya: 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 in balance with responsibility. 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.

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

Board of Directors

The 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.

Board Composition

There are ten Directors on the Board, two of whom are Executive and eight are 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 managements 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 shareholders for financial and operational performance.

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. During the year, an evaluation of the Board, covering structure, process and effectiveness is conducted. The consolidated feedback is considered and relevant action points noted for implementation. The Board also evaluates the Chairman's and the Chief Executive's performance on an annual basis.

Directors' Appointment

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

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

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

Induction and Training

On appointment, each new Director receives a corporate governance manual that includes relevant information such as mandates, management structures, significant reports, important legislation and key company policies. In addition, one-on-one meetings are scheduled with management to introduce new Directors to the Company and its operations. The induction and on-going training of Directors is the responsibility of the Company Secretary.

To ensure maximum participation in on-going director training, themes for training are scheduled in advance. Subjects of note covered during the year include an in-depth review of the Asset and Liability Management framework of the Bank; Credit and Capital Management and Anti-Money Laundering (AML) and the Control of Terrorist Financing (CFT) Compliance training.

The Board received training in Corporate Governance at the beginning of the 2016 conducted by an independent consultant/ trainer. The training covered Board responsibilities under the new Code of Corporate Governance Practices for Issuers of Securities to the Public (2015) and the new Companies Act 2015. The Board Risk Committee also received a training session on IT Governance on 6 May, 2016. The Board further received training on Capital Management and Market Risk on 5 September, 2016.

The key issue the Board has been concerned with recently is the amendment to the Banking Act, resulting in the capping of interest rates. This is expected to impact the banking industry in Kenya as a whole.

Board Meetings

The Board meets once every quarter with an additional meeting scheduled to discuss strategy. Ad-hoc meetings are held whenever deemed necessary. Directors are provided with comprehensive Board documentation at least seven days prior to each of the scheduled meetings.

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

STANBIC BANK BOARD ATTENDANCE FOR 2016

	DIRECTOR'S NAME	Q1, 2 MARCH, 2016	Q2, 5 MAY, 2016	Q3, 11 AUGUST, 2016	Q4, 24 NOVEMBER, 2016
1	Fred Ojiambo	P	P	P	P
2	Philip Odera	P	P	P	P
3	Greg Brackenridge	P	P	P	P
4	Mike Blades	P	P	P	P
5	Christopher Newson	P	P	P	P
6	Kitili Mbathi	P	P	P	P
7	Rose Kimotho	P	P	P	P
8	Edward Njoroge	P	P	P	P
9	Ruth T. Ngobi	P	P	P	P
10	Peter Gethi	P	P	P	P
11	Charles Muchene	P	P	N/A	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 and the Board Risk 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 detail's its purpose and terms of reference, including ensuring the Management establishes and maintains an adequate, effective and efficient internal control framework.

The Committee membership currently consists of three Non-Executive Directors, one of whom is an independent Non-Executive Director.

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:

		Q1, 29 FEBRUARY, 2016	Q2, 3 MAY, 2016	Q3, 9 AUGUST, 2016	Q4, 23 NOVEMBER, 2016
	NAME				
1	Charles Muchene (Chairman)	P	P	N/A	N/A
2	Chris Newson (Chairman)	P	P	P	P
3	Kitili Mbathi	P	P	P	P
4	Ruth Ngobi	P	P	P	P

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

The Committee comprises of four Non-Executive Directors, two of whom are independent.

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

		Q1, 1 MARCH, 2016	Q2, 4 MAY, 2016	Q3, 10 AUGUST, 2016	Q4, 18 NOVEMBER, 2016
	NAME				
1	Edward Njoroge (Chairman)	P	P	P	P
2	Chris Newson	P	P	P	AP
3	Rose Kimotho	P	P	P	P
4	Peter Gethi	P	P	P	P

P = Present; AP = Absent with Apology; N/A = was not a 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. The Committee is mandate to ensure that there are effective procedures and infrastructure in place for appropriate management of risk.

The Committee comprises of four Non-Executive Directors, three of whom are independent, including the Chairman of the Committee.

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

		Q1, 1 MARCH, 2016	Q2, 4 MAY, 2016	Q3, 10 AUGUST, 2016	Q4, 23 NOVEMBER, 2016
	NAME				
1	Peter Gethi (Chairman)	P	P	P	P
2	Chris Newson	P	P	P	P
3	Rose Kimotho	P	P	P	P
4	Ruth Ngobi	P	P	P	P

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

Management committees

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

- Executive Committee
- Asset and Liability Committee
- Operational Risk & Compliance Committee
- Credit Risk Management Committee
- Human Resources Committee and
- Product and Pricing Committee

Fees

Non-executive directors receive fixed fees for service on the Board and on Board Committees. The Board reviews the non-executive directors' fees and makes recommendation to the AGM for approval on a retrospective basis.

The aggregate fee paid to the directors during the year under review was Kshs 26,155,000.

By Order of the Board,

Lillian N. Mbindyo
Company Secretary
23 February 2017

Principles for Corporate Social Investment (CSI)

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

Statement of Compliance with CMA Corporate Governance Code

Company market to book ratio at end of financial year	N/A
No of outstanding shares at end of financial year	Issued shares: 170,577,426 Unissued shares: 16,672,574
Closing price of stock at end of financial year	N/A
Total income as per Income Statement at end of financial year	KShs 16,304,344,000
Net profit as per Income Statement at end of financial year	KShs 4,425,402,000
Total debt (short and long term) as per Balance Sheet at end of financial year	KShs 3,986,138,000
Total equity as per Balance Sheet at end of financial year	KShs 30,237,482,000
Total no. of Board members at end of financial year:	Ten
No. of independent Directors at end of financial year:	Four
No. of non-executive Directors at end of financial year:	Eight

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

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

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

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

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

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

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

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

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

Notes to CMA compliance data

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

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

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

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

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

Report by the Board Audit Committee

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

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

BAC Members attendance in 2016

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

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

Execution of Functions

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

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

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

b) In respect of the financial statements:

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

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

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

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

Independence of the External Auditors

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

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

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

On behalf of the Board Audit Committee

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

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016, which disclose the state of affairs of Stanbic Bank Kenya Ltd (the "Bank" or the "Company").

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

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.

Results

The Bank's results for the year ended 31 December 2016 are shown in the statement of profit or loss on page 74.

Dividends

In the current year, the Directors have paid an interim dividend of KShs 4.10 (2015: KShs 1.17) per ordinary share equivalent to a total sum of KShs 700 million (2015: KShs 2,300 million).

Subject to the approval of the shareholders at the Annual General Meeting, the Directors recommend payment of a final dividend of KShs 8.2 (2015: KShs 11.34) per ordinary share equivalent to a total sum of KShs.1,400 million (2015: KShs 1,935 million). The total dividend for the year, therefore, will be KShs 12.31 (2015: KShs 12.51) for every one ordinary share amounting to KShs 2,100 million (2015: KShs 2,135 million).

The total number of issued shares at year-end was 170,577,426 (2015: 170,577,426).

The results for the year are set out fully on pages 74 to 166 of the financial statements.

Directors

The directors who held office during the year and to the date of this report are set out on page 49.

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

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

Approval of financial statements

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

By Order of the Board,

Lillian N. Mbindyo
Company Secretary
23 February 2017

Statement of Directors' responsibilities

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

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

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. Selecting suitable accounting policies and then apply them consistently; and

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

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

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

Approved by the Board of Directors on 23 February 2017 and signed on its behalf by:

....
Fred Ojiambo, MBS, Sc
Chairman

....
Philip Odera
Chief Executive

....
Peter N, Gethi
Director

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 74 to 166 which comprise the statement of financial position at 31 December 2016 and the statements of 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 a 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 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015.

Basis for opinion

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

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

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

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Credit risk and impairment of loans and advances to customers and other banks As explained in Note 3.2 to the financial statements, the directors make complex and subjective judgements over valuation of loans and advances. Because of the significance of the judgement involved and the size of loans and advances which is approximately 65% of the total assets, the audit of loan impairment provisions is an area of focus. The business is structured into two segments, Corporate and Investment Banking (CIB) and Personal and Business Banking (PBB). For CIB accounts, impairment for non-performing loans and advances is calculated individually for each loan as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the loan. Where no evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment using an unidentified corporate impairment model. The key inputs to the unidentified CIB impairment model are the estimated emergence period and probability of default based on qualitative and quantitative assessment of the portfolio. A standard loss given default rate is also applied across the portfolio.	We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the identification of loans and advances that were impaired and the calculation of the impairment provisions. In addition, we examined a sample of loans and advances which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate by using external evidence in respect of the relevant counterparties. Where impairment was individually calculated, we tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner including, where relevant, how forbearance had been considered. Where impairment is specific, we examined the forecast of future cash flows prepared by management to support the calculation of the impairment, assessing the assumptions and comparing estimates to external evidence where available.

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

Independent auditor's report

Key audit matter	How our audit addressed the Key audit matter
Credit risk and impairment of loans and advances to customers and other banks (continued) For PBB customers, the key inputs to the model are the roll-rates and probability of default (PD) based on the facility category. Each type of facility also carries a varied loss given default factor. When non-performing loans are identified, the specific impairment provisions are calculated based on the individual non-performing facilities. Unidentified impairment provisions at the portfolio level using models which are internally developed.	Where impairment was calculated using a model, we tested the basis and operation of those models and the data and assumptions used. Our audit procedures included the following; • Comparison of the principal assumptions made with our own knowledge of other practices and actual experience. • Testing the operation of the models used to calculate the impairment including, in some cases, developing independent expectations and comparing results. • Considering the potential effect of events which were not captured by management's models and evaluating how management has responded to these events by making further adjustments to the models where appropriate. Overall, we found that management's explanations were consistent with the evidence we obtained.
Hyperinflationary accounting for South Sudan branch As explained in Note 2.21 to the financial statements, the Bank has applied hyperinflationary accounting for the South Sudan branch. Although one of the indicators that an economy is hyperinflationary under IAS 29 is the cumulative inflation rate over a three year period exceeds a rate of 100%, the determination of whether an economy is hyperinflationary is a matter of judgment. The group accounting policy requires the application of hyperinflation accounting where an economy's three-year cumulative inflation rate and the monthly year-on-year inflation exceed a rate of 100%. Based on the policy, the directors have applied hyperinflation accounting for the South Sudan branch for the period ending 31 December 2016. As a result, the group rebased the financial statements of the branch; which has a South Sudanese Pound functional currency for inclusion in the Bank's financial statements for the year ending 31 December 2016. Our audit focused on the appropriateness of the price indices used in rebasing the financial information and the correct application of the requirements of IAS 29 in the financial statements.	We reviewed the bank's accounting policies regarding financial reporting in hyperinflationary economies and assessed whether the policies were in line with the provisions of IAS 29; We tested reasonableness of the price index used by the Bank, together with the related assumptions; We tested the computation including rebasing monetary loss for compliance with the principles of IAS 29; and We evaluated the disclosures in the financial statements for compliance with the requirements of IAS 29.

Independent auditor's report

Key audit matter	How our audit addressed the Key audit matter
Information technology (IT) systems and controls over financial reporting The Company's financial accounting and reporting processes are heavily dependent on complex IT systems and applications. Specifically, the calculation, recording, and financial reporting of transactions and balances related to revenue, interest costs, fees and commissions, loans and advances, investments in securities and customers deposits are significantly dependent on IT automated systems and processes. There is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial accounting and reporting. We examined the framework of governance over the Company's IT organization and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. Where necessary, we also carried out direct tests of certain aspects of the security of the Company's IT systems including access management and segregation of duties. We re-performed the significant automated computations and compared our results with those from the system and the general ledger. We tested the significant system interfaces to ensure the accuracy and completeness of the data transfer. The combination of these tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the continued and proper operation of the Company's IT systems for the purpose of the audit of the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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 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.

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the 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.

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

Independent auditor's report

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 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 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.

Report on other legal requirements

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

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

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

iii) the company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

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

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

24 February 2017

Statement of profit or loss

	Note	For the year ended 31 December 2016 KShs'000	2015 KShs'000
Interest income	7	**19,263,054**	14,665,543
Interest expense	8	**(8,262,713)**	(5,490,683)
Net interest income		**11,000,341**	9,174,860
Impairment losses on loans and advances to customers	26.3	**(1,751,812)**	(907,305)
Net interest income after loan impairment charges		**9,248,529**	8,267,555
Fees and commission income	9	**2,884,881**	2,945,090
Fees and commission expense	10	**(337,539)**	(323,723)
Net fees and commission income		**2,547,342**	2,621,367
Trading income	11	**4,493,278**	4,306,207
Other operating income	12	**15,195**	153,137
Net trading and other income		**4,508,473**	4,459,344
Net operating income		**16,304,344**	15,348,266
Employee benefits expense	13	**(5,238,431)**	(4,851,926)
Administration and general expenses	14	**(3,350,218)**	(2,924,118)
Finance cost	15	**(1,211,840)**	(39,899)
Depreciation of property and equipment	30	**(347,253)**	(344,955)
Amortisation of intangible assets	31	**(120,495)**	(110,349)
Total operating expenses		**(10,268,237)**	(8,271,247)
Profit before income tax		**6,036,107**	7,077,019
Income tax expense	16	**(1,610,705)**	(2,379,983)
Profit for the year		**4,425,402**	4,697,036
Earnings per share	17	**25.94**	27.54

The notes set out on pages 80 to 166 form an integral part of these financial statements.

Statement of other comprehensive income

	Note	For the year ended 31 December 2016 KShs'000	 2015 KShs'000
Profit for the year		**4,425,402**	4,697,036
Other comprehensive income, net of income tax			
Items that may be subsequently re-classified to profit or loss			
Net change in fair value movements on available-for-sale financial assets		**(29,490)**	36,724
Currency translation differences for foreign operations		**224,658**	(1,025,822)
Other comprehensive income for the year, net of income tax		**195,168**	(989,098)
Total comprehensive income for the year		**4,620,570**	3,707,938

The notes set out on pages 80 to 166 form an integral part of these financial statements.

Statement of financial position

	Note	As at 31 December 2016 KShs'000	2015 KShs'000
Assets			
Cash and balances with Central Bank of Kenya	20	8,621,228	11,279,882
Financial assets – held for trading	21 (a)	15,995,195	16,251,044
Financial assets – available-for-sale	22	34,037,537	28,947,969
Pledged assets – available-for-sale	23	2,894,456	3,439,383
Derivative assets	24	2,472,190	4,377,196
Loans and advances to banks	25	16,884,257	23,181,591
Loans and advances to customers	26	115,587,723	104,981,565
Other assets and prepayments	27	3,811,770	2,611,069
Investment in subsidiaries	28	12	12
Property and equipment	30	2,257,646	2,294,821
Intangible assets	31	823,213	413,660
Current income tax	33(a)	33,964	365,574
Deferred income tax	32(a)	1,475,972	434,248
Total assets		**204,895,163**	198,578,014
Liabilities and equity			
Liabilities			
Customer deposits	34	119,903,557	106,493,201
Amounts due to other banks	35	36,506,824	47,964,264
Current income tax	33(b)	1,384,938	80,305
Deferred tax liability	32(b)	7,699	
Derivative liabilities	24	3,061,063	3,361,440
Financial liabilities- held-for-trading	21(b)	3,867,718	521,973
Other liabilities	36	5,939,744	5,424,218
Borrowings	37	3,986,138	6,482,063
Total liabilities		**174,657,681**	170,327,464
Equity			
Share capital	38	3,411,549	3,411,549
Share premium	39	3,444,639	3,444,639
Regulatory credit risk reserve	40.4	65,597	195,697
Foreign currency translation reserve	40.3	(869,567)	(1,094,225)
Retained earnings		22,604,133	20,119,010
Proposed dividend	18	1,400,000	1,934,737
Revaluation of financial assets available-for-sale	40.1	44,672	74,162
Revaluation reserve on buildings	40.2	122,598	122,598
Share based payment reserve	41	13,861	42,383
Total equity		**30,237,482**	28,250,550
Total liabilities and equity		**204,895,163**	198,578,014

The notes set out on pages 80 to 166 form an integral part of these financial statements.

The financial statements on pages 74 to 166 were approved for issue by the Board of Directors on 23 February 2017 and signed on its behalf by:

....
Fred Ojiambo, MBS, Sc
Chairman

....
Philip Odera
Chief Executive

....
Peter N. Gethi
Director

....
Lillian N. Mbindyo
Company Secretary

Statement of changes in equity

Year ended 31 December 2016

	Note	Share capital KShs'000	Share premium KShs'000	Regulatory credit risk reserve KShs'000	Foreign currency translation reserve KShs'000	Revaluation of financial assets available-for-sale KShs'000	Revaluation reserve on buildings KShs'000	Share-based payment reserve KShs'000	Retained earnings KShs'000	Proposed dividend KShs'000	Total equity KShs'000
		Attributable to owners of the Bank									
At 1 January 2016		3,411,549	3,444,639	195,697	(1,094,225)	74,162	122,598	42,383	20,119,010	1,934,737	28,250,550
Profit for the year		-	-	-	-	-	-	-	4,425,402	-	4,425,402
Other comprehensive income, net of tax		-	-	-	224,658	(29,490)	-	-	-	-	195,168
Total comprehensive income for the year		-	-	-	224,658	(29,490)	-	-	4,425,402	-	4,620,570
Transfer to regulatory credit risk reserve	40.4	-	-	(130,100)	-	-	-	-	130,100	-	-
Transactions with owners recorded directly in equity											
Transfer of vested share option from share based payment reserve		-	-	-	-	-	-	(29,621)	29,621	-	-
Equity-settled share-based payment transactions	41	-	-	-	-	-	-	1,099	-	-	1,099
2016 Interim/ 2015 final dividend paid	18	-	-	-	-	-	-	-	(700,000)	(1,934,737)	(2,634,737)
2016 Final dividend proposed	18	-	-	-	-	-	-	-	(1,400,000)	1,400,000	-
Total transactions with owners		-	-	-	-	-	-	(28,522)	(2,070,379)	(534,737)	(2,633,638)
At 31 December 2016		3,411,549	3,444,639	65,597	(869,567)	44,672	122,598	13,861	22,604,133	1,400,000	30,237,482

The notes set out on pages 80 to 166 form an integral part of these financial statements.

Statement of changes in equity (continued)

Year ended 31 December 2015

	Note	Attributable to owners of the Bank									
		Share capital	Share premium	Regulatory credit risk reserve	Foreign currency translation reserve	Revaluation of financial assets available-for-sale	Revaluation reserve on buildings	Share-based payment reserve	Retained earnings	Proposed dividend	Total equity
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2015		3,411,549	3,444,639	129,649	(68,403)	37,438	122,598	130,993	17,520,145	1,915,600	26,644,208
Profit for the year		-	-	-	-	-	-	-	4,697,036	-	4,697,036
Other comprehensive income, net of tax		-	-	-	(1,025,822)	36,724	-	-	-	-	(989,098)
Total comprehensive income for the year		-	-	-	(1,025,822)	36,724	-	-	4,697,036	-	3,707,938
Transfer to regulatory credit risk reserve	40.4	-	-	66,048	-	-	-	-	(66,048)	-	-
Transactions with owners recorded directly in equity											
Transfer of vested share option from share based payment reserve		-	-	-	-	-	-	(102,614)	102,614	-	-
Equity-settled share-based payment transactions	41	-	-	-	-	-	-	14,004	-	-	14,004
2015 Interim/ 2014 final dividend paid	18	-	-	-	-	-	-	-	(200,000)	(1,915,600)	(2,115,600)
2015 Final dividend proposed	18	-	-	-	-	-	-	-	(1,934,737)	1,934,737	-
Total transactions with owners		-	-	-	-	-	-	(88,610)	(2,032,123)	19,137	(2,101,596)
At 31 December 2015		3,411,549	3,444,639	195,697	(1,094,225)	74,162	122,598	42,383	20,119,010	1,934,737	28,250,550

The notes set out on pages 80 to 166 form an integral part of these financial statements.

Statement of cash flows

	Note	For the year ended 31 December 2016 KShs'000	2015 KShs'000
Cash flows from operating activities	44.1	**8,190,749**	6,284,464
Income tax paid	33	**(909,917)**	(1,601,589)
Cash flows from operating activities before changes in operating assets and liabilities		**7,280,832**	4,682,875
Changes in operating assets and liabilities:			
Loans and advances to customers		**(10,606,158)**	(16,634,127)
Loans and advances to banks		**-**	115,685
Financial assets –held for trading		**255,849**	6,116,978
Financial assets -available-for-sale		**(8,456,954)**	(501,970)
Deposits held for regulatory purposes (restricted cash)		**(455,888)**	(887,400)
Other assets and prepayments		**(1,200,701)**	(29,214)
Amounts due to other banks		**(12,840,048)**	17,856,454
Other liabilities		**515,500**	(132,498)
Customer deposits		**13,410,356**	9,662,921
Trading liabilities		**3,345,745**	521,973
Net cash (used in)/generated from operating activities		**(8,751,467)**	20,771,677
Cash flows from investing activities:			
Purchase of property and equipment	30	**(373,581)**	(495,168)
Purchase of intangible assets - software	31	**(539,803)**	(338,374)
Proceeds from disposal of property and equipment		**14,612**	517
Net cash used in investing activities		**(898,772)**	(833,025)
Cash flows from financing activities:			
Dividends paid		**(2,634,737)**	(2,115,600)
Repayment of borrowings	37	**(2,495,899)**	(31,354)
Net cash used in financing activities		**(5,130,636)**	(2,146,954)
Net (decrease) / increase in cash and cash equivalents		**(14,780,875)**	17,791,698
Cash and cash equivalents at start of year	44.2	**39,518,707**	22,568,262
Effect of exchange rate changes		**143,548**	(841,253)
Cash and cash equivalents at end of year	44.2	**24,881,380**	39,518,707

The notes set out on pages 80 to 166 form an integral part of these financial statements.

Notes

1. General information

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

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

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

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 23 February 2017. Neither the entity's owners nor others have the power to amend the financial statements after issue.

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

2. Summary of significant accounting policies

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

a) Basis of preparation

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

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

  The following principle accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies shown in brackets:
- purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 2.5);
- property and equipment and intangible assets are accounted for using the cost model (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 3.2).
- Hyperinflation-The South Sudan economy has been considered to be hyperinflationary. Accordingly, the results, cash flows and financial position of the, have been expressed in terms of the measuring unit current at the reporting date (accounting policy 2.21)

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 thousands of shillings (KShs 000), unless indicated otherwise.

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates which is South Sudan Pound (SSP) for South Sudan operations and Kenya Shillings (KShs) for Kenya operations.

c) Changes in accounting policies and disclosures

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

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

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

Amendment to IAS 7 – Cash flow statements, in January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand

2. Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

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

changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities. The standard is effective for accounting periods beginning on or after 1 January 2017. Early adoption is permitted. The Bank is in the process of determining IAS 7 full impact.

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

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

Key components within IFRS 9's expected credit loss model
Significant increase in credit risk and low credit risk

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

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

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.
The Bank is currently preparing for the adoption of IFRS 9. The IFRS 9's expected loss model will represent an impact to the Bank's financial results, risk metrics and regulatory capital requirements. Other key risk parameters such as economic capital, the Bank's funding and liquidity and stressed earnings are also expected to be impacted by greater earnings volatility. Due to changes in impairment provisions such impact is not expected to be significant. The Bank continues to assess and monitor the impact of IFRS 9 on all key risk and finance dimensions.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Bank is assessing the impact of IFRS 15.

Notes (continued)

2. Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

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

IFRS 16 – Leases, IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The application of the standard is however exempt for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).
IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Bank is assessing the impact of IFRS 15.
There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2.1 Translation of foreign currencies

(i) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Which is also the presentation currency.

(ii) Transactions and balances

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

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

(iii) Foreign operations

The results and financial position of all foreign operations that have a functional currency different from the bank's presentation currency are translated into the bank's presentation currency as follows:

- assets and liabilities are translated at the closing rate at the reporting date
- income and expenses are translated at average exchange rates for the month, to the extent that such average rates approximate actual rates for the transactions, and
- all resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the foreign currency translation reserve.

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

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation are translated at the closing rate .Exchange differences are recognised in OCI.

2. Summary of significant accounting policies (continued)

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. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimates of payments or receipts on financial assets (except those that have been reclassified – refer to accounting policy 2.5 – Financial instruments) or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income.

Where financial assets have been impaired, interest income continues to be recognised as interest in suspense on the impaired value based on the original effective interest rate.

Fair value gains and losses on realised debt financial instruments, including amounts reclassified from OCI in respect of available-for-sale debt financial assets, and excluding those classified as held-for-trading, are included in net interest income.

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

2.3 Non-interest revenue

a) Net fee and commission revenue

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the 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. Gains and losses on equity available-for-sale financial assets are reclassified from OCI to profit or loss on derecognition or impairment of the investments. Dividends on these instruments are recognised in profit or loss.

d) Revenue sharing agreements with related companies

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

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

Notes (continued)

2. Summary of significant accounting policies (continued)

2.4 Cash and cash equivalents

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

2.5 Financial instruments

i) initial recognition and measurement

Financial instruments include all financial assets and liabilities. The bank classifies its financial instruments into financial instruments at fair value through profit and loss, loans and receivables, held to maturity and available for sale financial instruments. The classification is determined at initial recognition.

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

ii) Subsequent measurement

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

a) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intention and ability to hold to maturity.

This excludes:

a) those that the bank upon initial recognition designates at fair value through profit or loss;
b) those the bank designates as available for sale; and
c) those that meet the definition of loans and receivables.

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

b) Held-for-trading assets and liabilities

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

Subsequent to initial recognition, the financial instruments' fair values are remeasured at each reporting date. All gains and losses, including interest and dividends arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue with the exception of derivatives that are designated and effective as hedging instruments (refer to note 2.5(vi))

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

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

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

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

d) Available-for-sale

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

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

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

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

e) Loans and advances

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

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

f) Financial liabilities at amortised cost

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

iii) Reclassification of financial assets

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

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

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

iv) Impairment of financial assets

a) Assets carried at amortised cost

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

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

- known cash flow difficulties experienced by the borrower
- a breach of contract, such as default or delinquency in interest and/or principal payments
- breaches of loan covenants or conditions
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, and
- where the 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.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

iv) Impairment of financial assets (continued)

The bank first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Non-performing loans include those loans for which the 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. The impairment of non-performing loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

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

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

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

Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss trigger events and the date on which the bank identifies the losses). Groups of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

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

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

b) Renegotiated loans

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

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

c) Available-for-sale financial assets

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

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

V) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously.

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

V) Offsetting financial instruments (continued)

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

VI) Derivative financial instruments

A derivative is a financial instrument whose fair value changes in response to an underlying variable, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value as described under accounting policy 2.6 - fair value.

All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative, subject to offsetting principles as described under the heading Offsetting financial instruments (Accounting policy2.5 (v)).

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

All gains and losses from changes in the fair values of derivatives are recognised immediately in profit or loss as trading income

VII) Borrowings

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

VIII) Financial guarantee contracts

A financial guarantee contract is a contract that requires the bank (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

IX) Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the 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 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.

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. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

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

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

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

Securities sold subject to linked repurchase agreements (repurchase agreements) are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is

Notes (continued)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

X) Sale and repurchase agreements and lending of securities (including commodities) (continued)

included under deposit and current accounts or trading liabilities, as appropriate.

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

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

Securities lent to counterparties are retained in the annual financial statements. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability.
Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

2.6 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 is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or determined using valuation models that utilise non-observable market data as inputs. The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Subsequent to initial recognition, fair value is measured based on quoted market prices or dealer price quotations for the assets and liabilities that are traded in active markets and where those quoted prices represent fair value at the measurement date.
If the market for an asset or liability is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

The bank has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the 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. Summary of significant accounting policies (continued)

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 the income statement as incurred.

Owner-occupied properties are held for use in the supply of services or for administrative purposes.

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. Land is not depreciated. Leasehold buildings are depreciated over the shorter of the lease period or its useful life,

The estimated useful lives of tangible assets are typically as follows;

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

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

2.8 Intangible assets – computer software

Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the bank and have a probable future economic benefit beyond one year, are recognised as intangible assets. Capitalisation is further limited to development costs where the bank is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, and the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (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, if necessary.

Notes (continued)

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

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

Property and equipment see note 30, note 2.7
Intangible assets see note 31, note 2.8
Disclosure on significant assumptions see note 3

Non-financial assets are tested annually for impairment and additionally whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (CGUs). Impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.11 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A lease of assets is either classified as a finance lease or operating lease.

I) Bank as lessee

Leases, where the bank assumes substantially all the risks and rewards incidental to ownership, are classified as finance leases. All other leases are classified as operating leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are calculated using the interest rate implicit in the lease, or the bank's incremental borrowing rate to identify the finance cost, which is recognised in profit or loss over the lease period, and the capital repayment, which reduces the liability to the lessor.

Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. Contingent rentals are expensed as they are incurred. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

II) Bank as lessor

Leases, where the bank transfers substantially all the risks and rewards incidental to ownership, are classified as finance leases. All other leases are classified as operating leases.

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

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return. The tax benefits arising from investment allowances on assets leased to clients are accounted for in the direct taxation line.

2. Summary of significant accounting policies (continued)

II) Bank as lessor (continued)

Operating lease income from properties held as investment properties, net of any incentives given to lessees, is recognised on the straight-line basis or a more representative basis where applicable over the lease term. When an operating lease is terminated before the lease period has expired, any payment required by the bank by way of a penalty is recognised as income in the period in which termination takes place.

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 values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised for all taxable temporary differences, except:

- the initial recognition of goodwill
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses, and
- investments in subsidiaries, associates and jointly controlled arrangements (excluding mutual funds) where the bank controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. They are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the

Notes (continued)

2. Summary of significant accounting policies (continued)

2.13 Taxation (continued)

I) Direct tax (continued)

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) Dividends tax

Taxes on dividends declared by the bank are recognised as part of the dividends paid within equity as dividend tax represents a tax on the shareholder and not the bank.

Dividends tax withheld by the bank on dividends paid to its shareholders and payable at the reporting date to the Kenya Revenue Authority (where applicable) is included in trade and other payables in the statement of financial position.

III) Indirect taxation

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.

I) Defined contribution plan

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 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.

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 charged to 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) Distributions on ordinary shares

Distributions are recognised in equity in the period in which they are declared. Distributions declared after the reporting date is disclosed in the distributions note.

2. Summary of significant accounting policies (continued)

2.16 Equity (continued)

Proposed dividends are disclosed 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 shared outstanding for the effects of all dilutive potential shareholders 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 chief operating decision maker.

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 has been classified as hyperinflationary from 1 January 2016. Accordingly, the results, cash flows and financial position of Stanbic South Sudan branch have been expressed in terms of the measuring unit current at the reporting date. The results, cash flows and financial position have also been expressed in terms of the measuring unit current at the reporting date.

As the presentation currency of the Stanbic Bank Kenya is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level or exchange rates in the current year.

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

From the date of initial application and in subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. Items in the statement of financial position not already expressed in terms of the measuring unit current at the reporting period, such as non-monetary items carried at cost or cost less depreciation, are restated by applying a general price index. The restated cost, or cost less depreciation, of each item is determined by applying to its cost and accumulated depreciation the change in the general price index calculated from the later of the beginning of the

Notes (continued)

2. Summary of significant accounting policies (continued)

2.21 Hyperinflation (continued)

reporting period and the date of acquisition up to the end of the reporting period. An impairment loss is recognised in profit or loss if the restated amount of a non-monetary item exceeds its estimated recoverable amount.
Restated retained earnings are derived from all other amounts in the restated statement of financial position.

All items recognised in the income statement are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred.

Gains or losses on the net monetary position are recognised in profit or loss within trading income.

.

All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting period.

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 .the banks recognises a contingent liability for the amount that the issuing bank may be required to pay out to the confirming bank or beneficiary should the terms and conditions underlying the contract be met.

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

The banks recognises a financial asset (at fair value) on balance sheet as part of loans and advances for the contractual right to receive cash from the applicant. Concurrency the bank recognises a financial liability (at fair value) on balance sheet as part of deposits for the contractual obligation to deliver cash to the beneficiary or the confirming bank, depending on the structure of the arrangement.

ii) Confirming Bank

At initial recognition where the bank is the issuing bank .the banks recognises for amount that the confirming bank may be required to pay out to the beneficiary should the terms and conditions underlying the contract be met. The bank concurrently recognizes a contingent asset for the amount that the confirming bank may be entitled to receive from the issuing bank.

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

The banks recognises a financial asset (at fair value) on balance sheet as part of loans and advances for the contractual right to receive cash from the issuing bank and concurrently recognises a financial liability (at fair value) on balance sheet as part of deposits for the contractual obligation to deliver cash to the beneficiary.

3. Critical accounting estimates and judgements in applying accounting policies

In preparing the financial statements, estimates and judgement are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances.
Unless otherwise stated, no material changes to assumptions have occurred during the year.

3.1 Going concern

The 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 Credit impairment losses on loans and advances

I) Portfolio loan impairments

The bank assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio.

Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis.

The impairment for performing and non-performing but not specifically impaired loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date

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

3.2 Credit impairment losses on loans and advances (continued)

I) Portfolio loan impairments (continued)

that correlate with defaults on the portfolio. These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

	Average loss emergence period	
	2016 Kshs 000	2015 Kshs 000
Personal & Business Banking		
Mortgage loans	3	3
Instalment sale and finance leases	3	3
Card debtors	3	3
Other lending	3	3
Corporate & Investment Banking	**12**	**12**

II) Specific loan impairments

Non-performing loans include those loans for which the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Where the net present value of estimated cash flows to differ by +/-1%, the impairment loss is to be estimated at KShs 31,994,000 higher or KShs 31,994,000 lower (2015: KShs 29,091,000 higher or KShs 29,091,000 lower).

3.2 Impairment of available–for–sale investment

The Bank reviews its debt securities classified as available–for–sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

3.3 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 2016 was a profit of KShs nil (2015: KShs nil).

Additional disclosures on fair value measurements of financial instruments are set out in notes 2.6 and 5.

3.4 Development costs

The Bank capitalises development costs for an intangible assets in accordance with the accounting policy detailed in note 2.8. Initial capitalisation of costs is based on management's 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.

3.5 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 note 32 and note 33, respectively, in the period in which such determination is made.

Notes (continued)

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

3.5 Income taxes (continued)

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and on-going developments will determine the recognition of deferred tax. The most significant management assumption is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the entities in the bank in order to utilise the deferred tax assets.

Note 32 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.

3.6 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 SBG share price, which is an observable market input. In determining the expense to be recognised for both the cash and equity-settled share schemes, the 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 36 (b) 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 the income statement.

3.7 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 balance sheet date up to the date of the approval of the financial statements.

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

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

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

Date	Base year	General price index	Inflation rate
31 December 2016	2015	1,219.33	480.19%

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

3.8 Hyperinflation (continued)

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

KShs'000	2016	2015
Net Increase in revenue	427,580	-
Net monetary gain	62,585	-
Decrease in profit after tax	1,150,686	-

4. Financial risk management

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 Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors of the 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 Audit Committees are assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committees.

By their nature, the 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, 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

Notes (continued)

4. Financial risk management (continued)

4.1 Capital management (continued)

- To maintain a strong capital base to support the development of its business.

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 2016;
- A core capital (tier 1) of not less than 10.5 %(2015: 10.5%) of total risk weighted assets plus risk weighted off-statement of financial position items;
- A core capital (tier 1) of not less than 10.5% (2015: 10.5%)of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 14.5% (2015: 14.5%) of its total risk weighted assets plus risk adjusted off statement of financial position items.

Off-balance sheet credit related commitments and forwards are converted to credit risk equivalents using credit conversion factors, designed to convert these items into statement of financial position equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets.

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

The bank has complied with these requirements.

4. Financial risk management (continued)

4.1 Capital management (continued)

The Bank's capital adequacy level was as follows:

	2016 Kshs 000	2015 Kshs 000
Tier 1 capital (Core capital)		
Share capital	3,411,549	3,411,549
Share premium	3,444,639	3,444,639
Foreign currency translation reserve	(869,567)	(1,094,225)
Retained earnings	22,604,133	20,119,010
Total Tier 1 capital (Core capital)	**28,590,754**	**25,880,973**
Tier 2 capital		
Regulatory credit risk reserve	65,597	195,697
Qualifying subordinate liabilities	3,919,701	4,274,558
Total Tier 2 capital	**3,985,298**	**4,470,255**
Total capital (Tier 1 + Tier 2)	**32,576,052**	**30,351,228**
Risk - weighted assets		
Operational risk	30,290,338	28,772,589
Market risk	14,483,350	10,530,868
Credit risk on-statement of financial position	120,424,199	107,210,903
Credit risk off-statement of financial position	14,554,692	15,769,803
Total risk - weighted assets	**179,752,579**	**162,284,163**
Capital adequacy ratios		
Core capital / total deposit liabilities	23.10%	23.50%
Minimum statutory ratio	8.00%	8.00%
Core capital / total risk - weighted assets	15.90%	15.90%
Minimum statutory ratio	10.50%	10.50%
Total capital / total risk - weighted assets	18.10%	18.70%
Minimum statutory ratio	14.50%	14.50%

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk

Credit risk is the risk of loss arising out of failure of client counterparties to meet their financial or contractual obligations when due.

Credit risk is composed of counterparty risk (including primary, pre-settlement risk, issuer and settlement risk) and concentration risk. These risk types are defined as follows:

Counterparty risk: The risk of credit loss to the 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 geography, or a maturity. This concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

4.2.1 Governance committees

The primary governance committees overseeing credit risk are the Board Credit Risk Committee (BCRC) and Credit Risk Management Committee (CRMC). These committees are responsible for credit risk and credit concentration risk decision-making, and delegation thereof to Credit officers and committees within defined parameters.

Credit risk management is governed by the 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 counter-parties 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 wholesale and retail loans and advances, together with the counterparty credit risk arising from derivative contracts entered into with our clients and market counterparties.

The Bank manages credit risk through:

- maintaining strong culture of responsible lending and a robust risk policy and control framework
- identifying, assessing and measuring credit risk clearly and accurately across the 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
- 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 at the statement of financial position date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the 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. Financial risk management (continued)

4.2 Credit risk (continued)

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:

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

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

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 on-going appropriateness as business environments and strategic objectives change, and are recalibrated annually using the most recent internal data

In measuring credit risk of loans and advances to customers and to banks at a counter-party level, the Bank reflects three components:

(i) the 'probability of default' by the client or counter-party on its contractual obligations;
(ii) current exposures to the counter-party and its likely future development, from which the Bank derives the 'exposure at default'; and
(iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

Probability of default

The bank uses a 25-point master rating scale to quantify the credit risk for each borrower as illustrated in the table on the following page. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable portfolio. The bank distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making and in managing credit risk exposures.

Loss given default

Loss given default (LGD) measures are a function of customer type, product type, seniority of loan, country of risk and level of collateralisation. LGDs are estimated based on historic recovery data per category of LGD. A downturn LGD is used in the estimation of the capital charge and reflects the anticipated recovery rates and macroeconomic factors in a downturn period.

Exposure at default

Exposure at default (EAD) captures the impact of potential draw-downs against unutilised facilities and changes in counterparty risk positions due to changes in market prices. By using historical data, it is possible to estimate the average utilisation of limits of an account when default occurs, recognising that customers may use more of their facilities as they approach default.

(b) Debt securities

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

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

Relationship between the bank master rating and external ratings

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

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 sublimit covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(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
- Personal and Business Banking

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

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

Corporate, sovereign and bank borrowers include Kenyan and international companies, sovereigns, local government entities, bank financial institutions, non-bank financial institutions and public sector entities. The entities include large companies as well as small and medium enterprises that are managed on a relationship basis. Creditworthiness is assessed based on a detailed individual assessment

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

of the financial strength of the borrower. Exposure is usually in the form of short and long-term loans and advances but may include exposures arising from derivative contracts. In these sectors, credit risk management is characterised by a close working relationship between the counter-party, the customer relationship team and an independent credit evaluation manager. The credit evaluation manager bases his lending decision on an in-depth knowledge of the counterparty and the industry in which it operates, as well as an assessment of the creditworthiness of the counter-party based on a review of the audited financial statements and underlying risk parameters.

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

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

Personal and Business Banking (PBB) Retail portfolio

Retail mortgage exposures relate to mortgage loans to individuals and are a combination of both drawn and undrawn EADs. Qualifying retail revolving exposure (QRRE) relate to cheque accounts, credit cards and evolving personal loans and products, and include both drawn and undrawn exposures. Retail other covers other branch lending and vehicle finance for retail, retail small and retail medium enterprise portfolios. Branch lending includes both drawn and undrawn exposures, while vehicle and asset finance only has drawn exposures.
Internally developed behavioural scorecards are used to measure the anticipated performance for each account. Mapping of the behaviour score to a PD is performed for each portfolio using a statistical calibration of portfolio-specific historical default experience. The behavioural scorecard PDs are used to determine the portfolio distribution on the master rating scale. Separate LGD models are used for each product portfolio and are based on historical recovery data. EAD is measured as a percentage of the credit facility limit and is based on historical averages. EAD is estimated per portfolio and per portfolio-specific segment, using internal historical data on limit utilisation.

(b) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the 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 of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(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

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

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

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

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

Valuation of collateral

The 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. All the valuers on the panel provide the Bank with professional indemnity to cover the Bank in case of negligence. 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 is revalued.

The table on the following page shows the financial effect that collateral has on the bank's maximum exposure to credit risk. The table includes collateral that management takes into consideration in the management of the bank's exposures to credit risk. All on- and off-balance sheet exposures that are exposed to credit risk, including non-performing loans, have been included.
Collateral includes:

- Financial securities that have a tradable market, such as shares and other securities
- Physical items, such as property, plant and equipment
- Financial guarantees and intangible assets.

Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the bank's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions.

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

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

(e) Collateral (continued)

						Collateral coverage - Total		
31 December 2016	**Total exposure**	**Unsecured exposure**	**Secured exposure**	**Netting agreements**	**Secured exposure after netting**	**Greater than 0% to 50%**	**Greater than 50% to 100%**	**Greater than 100%**
Asset class								
Corporate	94,310,513	8,706,507	85,604,007	-	85,604,007	-	85,604,007	
Sovereign	59,833,277	59,833,277		-	-	-	-	-
Bank	16,884,257	16,884,257		-	-	-	-	-
Retail	58,058,106	11,156,019	46,902,087	-	46,902,087	-	28,765,239	-
-Retail mortgage	18,136,848		18,136,848	-	18,136,848	-		-
-Other retail	39,921,258	11,156,019	28,765,239	-	28,765,239		28,765,239	
Total	229,086,153	96,580,059	132,506,094	-	132,506,094	-	114,369,246	-
Add: Financial assets not exposed to credit risk	5,383,409							
Add: Coins and Bank notes	1,571,639							
Add: Other financial assets	3,811,770							
Less: Impairments for loans and advances	(3,591,243)							
Less: Unrecognised off balance sheet items	(30,573,965)							
Total exposure	200,304,354							
Reconciliation to balance sheet								
Cash and balances with central banks	8,621,228							
Derivative assets	2,472,190							
Financial assets - available-for-sale	34,037,537							
Financial assets - held for trading	15,995,195							
Pledged assets - available-for-sale	2,894,456							
Other financial assets	3,811,770							
Net loans and advances	132,471,978							
Total on – balance sheet exposure	200,304,354							

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

(e) Collateral (continued)

						Collateral coverage - Total		
31 December 2015	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Greater than 0% to 50%	Greater than 50% to 100%	Greater than 100%
Asset class								
Corporate	96,527,969	3,869,097	92,658,872	-	92,658,872	5,666,386	81,892,739	5,099,747
Sovereign	53,111,448	53,111,448	-	-	-	-	-	-
Group	23,114,332	23,114,332	-	-	-	-	-	-
Retail	51,477,884	10,606,843	40,871,041	-	40,871,041	2,280,152	36,538,751	2,052,137
-Retail mortgage	18,032,916	-	18,032,916	-	18,032,916	-	18,032,916	-
-Other retail	33,444,968	10,606,843	22,838,125	-	22,838,125	2,280,152	18,505,835	2,052,137
Total	224,231,633	90,701,720	133,529,913	-	133,529,913	7,946,538	118,431,490	7,151,884
Add: Financial assets not exposed to credit risk	10,630,652							
Add: Coins and Bank notes	9,562,545							
Add: Other financial assets	1,068,107							
Less: Impairments for loans and advances	(2,430,402)							
Less: Unrecognised off balance sheet items	(37,362,184)							
Total exposure	195,069,699							
Reconciliation to balance sheet								
Cash and balances with central banks	11,279,882							
Derivative assets	4,377,196							
Financial assets - available-for-sale	28,947,969							
Financial assets - held for trading	16,251,044							
Pledged assets - available-for-sale	3,439,383							
Other financial assets	2,611,069							
Net loans and advances	128,163,156							
Total on – balance sheet exposure	195,069,699							

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

(e) Collateral (continued)

Repossessed collateral

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

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

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

Renegotiated financial assets

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure. The renegotiations resulted in the continuation of the original financial asset, with no gain or loss recognised as a consequence of the restructuring. The table below show the carrying amount of financial assets whose term have been renegotiated, by class.

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

4.2.6 Impairment and provisioning policy

The internal and external rating systems described above focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment (see accounting policy 2.5 (iv)).The difference in provisions as required by IFRS and the Central Bank prudential guidelines is recognised in statutory reserves

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

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

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.6 Impairment and provisioning policy (continued)

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account. Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

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

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

Criteria for classification of loans and advances

Performing loans

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

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

Non-performing loans

Non-performing loans are those loans for which:

- the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition, or
- instalments are due and unpaid for 90 days or more.

Non-performing specifically impaired loans: are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows.

Specifically impaired loans are further analysed into the following categories:

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

4.2.7 Credit quality

(a) Maximum exposure to credit risk before collateral held or other credit enhancements

Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 4.2.5. The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both the loan and advances portfolio and debt securities based on the following:

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

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 (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:

Year ended 31 December 2016			Performing loans				Non-performing loans										Interest in Suspense KShs'000 2016
			Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans										
							NPL NET OF IIS										
	Total loans and advances to customers KShs'000 2016	Balance sheet impairments for performing loans KShs'000 2016	Normal monitoring KShs'000 2016	Close monitoring KShs'000 2016	Early arrears KShs'000 2016	Non-performing KShs'000 2016	Sub-standard KShs'000 2016	Doubtful KShs'000 2016	Loss KShs'000 2016	Total KShs'000 2016	Securities and expected recoveries on specifically impaired loans KShs'000 2016	Net after securities and expected recoveries on specifically impaired loans KShs'000 2016	Balance sheet impairments for non-performing specifically impaired loans KShs'000 2016	Gross specific impairment coverage %	Total non-performing loans KShs'000 2016	Non-performing loans %	
	N=A+B+C+L		A	B	C	D	E	F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
Personal and Business Banking	54,412,989	557,425	39,123,400	6,804,408	5,289,665	-	2,152,939	577,497	465,081	3,195,516	1,819,197	1,376,319	1,376,319	43%	3,195,516	6%	394,450
- Mortgage lending	18,109,187	91,239	13,191,151	2,727,613	1,539,175		650,992	-	256	651,247	528,532	122,715	122,715	19%	651,247	4%	159,772
- Instalment sales and finance leases	12,338,712	181,505	8,547,258	391,217	2,414,834		445,331	539,097	974	985,402	452,178	533,224	533,224	54%	985,402	8%	115,737
- Card debtors	433,312	10,969	374,556	-	43,337		-	-	15,419	15,419	7,907	7,513	7,513	49%	15,419	4%	-
- Other loans and advances	23,531,779	273,712	17,010,434	3,685,578	1,292,319		1,056,616	38,400	448,432	1,543,447	830,580	712,867	712,867	46%	1,543,447	7%	118,941
Corporate and Investment Banking	64,307,402	921,752	54,344,347	-	7,294,814	57,866	2,602,921	7,454	-	2,610,375	2,707,971	(97,596)	277,172	11%	2,668,241	4%	783,115
- Corporate lending	64,307,402	921,752	54,344,347	-	7,294,814	57,866	2,602,921	7,454	-	2,610,375	2,707,971	(97,596)	277,172	11%	2,668,241	4%	783,115
Gross loans and advances to customers	118,720,391	1,479,177	93,467,747	6,804,408	12,584,479	57,866	4,755,859	584,952	465,081	5,805,891	4,527,169	1,278,723	1,653,491	28%	5,863,757	5%	1,177,565
Percentage of total book (%)	100.00%	1.25%	78.73%	5.73%	10.60%	0.05%	4.01%	0.49%	0.39%	4.89%	3.81%	1.08%	1.39%		4.94%		0.99%
Less:																	
Balance sheet impairment for performing loans and advances	(1,479,177)																
Balance sheet impairment for non-performing loans and advances	(1,653,491)																
Net loans and advances to customers	115,587,723																

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 (b) Credit quality by class (continued)

Year ended 31 December 2015	Total Loans and Advances to Customers (Net of IIS)	Balance sheet impairments for performing loans	Performing loans: Neither past due nor specifically impaired: Normal monitoring	Performing loans: Neither past due nor specifically impaired: Close monitoring	Performing loans: Not specifically impaired: Early arrears	Performing loans: Not specifically impaired: Non-performing	Specifically impaired loans: Non-performing loans: Sub-standard	Specifically impaired loans: Non-performing loans: Doubtful	Specifically impaired loans: Non-performing loans: Loss	Specifically impaired loans: Total	Specifically impaired loans: Securities and expected recoveries on specifically impaired loans	Specifically impaired loans: Net after securities and expected recoveries on specifically impaired loans	Specifically impaired loans: Balance sheet impairments for non-performing specifically impaired loans	Specifically impaired loans: Gross Specific Impairment Coverage	Total non-performing loans	Non-performing loans	Interest in Suspense LCY'000
	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 %	2015 Kshs'000	2015 %	2015 Kshs'000
	N=A+B+C+L-M		A	B	C	D	E	F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
Personal & Business Banking	51,119,213	589,025	36,471,461	5,992,222	6,167,723	-	1,903,928	261,532	620,175	2,785,635	1,404,643	1,380,992	1,083,164	44	2,785,635	5.4	1,642,524
Mortgage lending	17,891,656	102,202	12,705,282	2,846,400	1,644,624	-	832,832	-	3,778	836,610	576,617	259,993	118,733	14.2	836,610	4.7	141,260
Instalment sales and finance leases	10,952,446	211,999	7,070,353	388,864	2,737,022	-	513,542	251,918	47,857	813,317	367,120	446,197	389,087	47.8	813,317	7.4	57,110
Card debtors	286,220	-	227,248		49,298	-	-	-	9,674	9,674	262	9,412	9,412	97.3	9,674	3.4	-
Other Loans and Advances	21,988,891	274,824	16,468,578	2,756,958	1,736,779	-	557,554	9,614	558,866	1,126,034	460,644	665,390	565,932	50.3	1,026,576	4.7	99,458
Overdrafts	763,607	13,209	354,844	183,780	212,204	-	562	1,887	10,866	13,315	-5,882	19,197	18,661	140.2	13,315	1.7	536
Term Loans	9,854,983	159,659	8,345,010	320,153	682,982	-	64,787	3,067	493,355	561,209	49,515	511,694	457,323	81.5	561,209	5.7	54,371
Business Term Loans and Overdrafts	11,370,301	101,956	7,768,724	2,253,025	841,593	-	492,205	4,660	54,645	551,510	417,011	134,499	89,948	16.3	551,510	4.9	44,551
Corporate & Investment Banking	56,292,754	570,224	36,676,994	4,176,834	13,756,292	124,542	1,920,102	28,115	-	1,948,217	1,370,103	578,114	187,989	9.6	2,072,759	3.7	390,125
Corporate loans	56,292,754	570,224	36,676,994	4,176,834	13,756,292	124,542	1,920,102	28,115	-	1,948,217	1,370,103	578,114	187,989	9.6	2,072,759	3.7	390,125
Gross loans and advances	107,411,967	1,159,249	73,148,455	10,169,056	19,924,015	124,542	3,824,030	289,647	620,175	4,733,852	2,774,746	1,959,106	1,271,153	26.9	4,758,936	4.5	2,032,649
Percentage of total book (%)	100%	1.08%	68.10%	9.47%	18.55%	0.12%	3.56%	0.27%	0.58%	4.41%	2.58%	1.82%	1.18%	-	4.52%	-	1.89%
Less: Balance sheet impairment for performing loans and advances	(2,430,402)																
Net loan advances to customers	104,981,565																
Add: Cash bank balances with central bank	11,279,883																
Derivative assets	4,377,196																
Financial assets available for sale	28,947,969																
Financial assets available for trading	16,251,044																
Pledged assets available for sale	3,439,383																
Other financial assets	2,611,069																
Total on balance sheet exposure	171,888,109																
Off balance sheet exposure																	
Letters of credit and bank acceptances	5,439,722																
Guarantees	21,965,002																
Irrevocable unutilised facilities	9,957,460																
Total exposure to credit risk	209,250,293																

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 (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		
31 December 2016	**1 to 29 days KShs'000**	**30 to 59 days KShs'000**	**60 to 89 days KShs'000**	**90 to 180 days KShs'000**	**More than 180 days KShs'000**	**Total KShs'000**
Personal and Business Banking	**3,435,980**	**1,342,009**	**511,677**	**-**	**-**	**5,289,666**
Mortgage lending	**975,673**	**372,007**	**191,496**	**-**	**-**	**1,539,176**
Instalment sales and finance leases	**1,488,613**	**737,579**	**188,642**	**-**	**-**	**2,414,834**
Other loans and advances	**971,694**	**232,423**	**131,539**		**-**	**1,335,656**
						-
Corporate and Investment Banking	**5,882,040**	**5**	**1,412,770**	**-**	**57,866**	**7,352,681**
Corporate lending	**5,882,040**	**5**	**1,412,770**	**-**	**57,866**	**7,352,681**
Total recognised financial instruments	**9,318,020**	**1,342,014**	**1,924,447**	**-**	**57,866**	**12,642,347**
31 December 2015						
Personal and Business Banking	4,184,395	1,368,090	615,238	-	-	6,167,723
Mortgage lending	1,045,668	347,436	251,522	-	-	1,644,626
Instalment sales and finance leases	1,776,396	730,076	230,550	-	-	2,737,022
Other loans and advances	1,362,331	290,578	133,166	-	-	1,786,075
						-
Corporate and Investment Banking	13,034,037	309,417	412,838	-	124,542	13,880,834
Corporate lending	13,034,037	309,417	412,838	-	124,542	13,880,834
	-					-
Total recognised financial instruments	17,218,432	1,677,507	1,028,076		124,542	20,048,557

Notes (continued)

4. Financial risk management (continued)

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 Assets and Liabilities Committee (ALCO).

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

(i) Identification of market risks in the trading and banking books

This process entails checking that all market risks are identified. It includes an analysis of new business plans, new products, new pricing models, new risk models and regular reviews by Market Risk staff of financial and management accounts balance sheets, income statements, and portfolio structure hierarchies, accounting classification and accounting elections, jointly with financial control, Risk Self Assessments jointly with operational risk, price testing reports and profit and loss decomposition reports.

(ii) Measurement of market risk

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

(iii) Management of market risk

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

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

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

4. Financial risk management (continued)

4.3 Market risk (continued)

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 VaR and stressed VaR (SVaR) limits require prior approval from ALCO. The market risk functions have the authority to set limits at a lower level.

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

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

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

b. Stop-loss triggers

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

c. Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical and hypothetical simulations. Daily losses

Notes (continued)

4. Financial risk management (continued)

4.3 Market risk (continued)

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

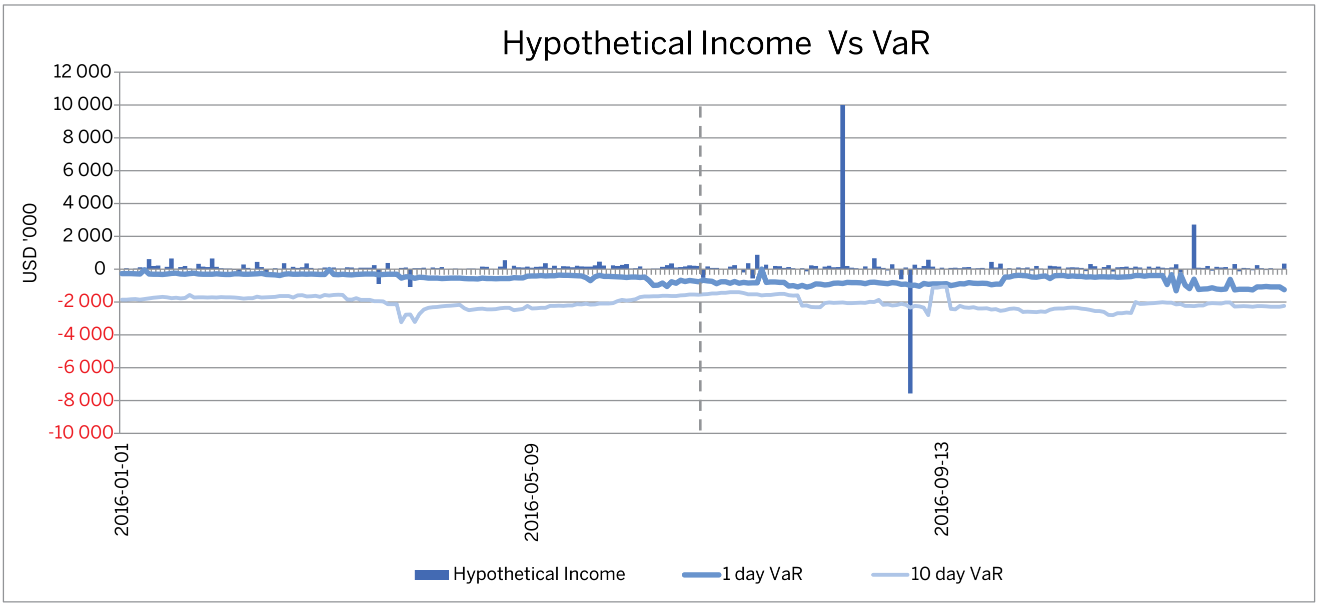
experienced during the year ended 31 December 2016 did not exceed the maximum tolerable losses as represented by the bank's stress scenario limits.

d. Back-testing

The 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.

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

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



e. Specific business unit and product controls

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

f. Trading book portfolio characteristics

VaR for the year under review

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

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

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

4. Financial risk management (continued)

4.3 Market risk (continued)

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

f. Trading book portfolio characteristics (continued)

Derivatives	248	1	24	**23**	-

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

Desk Name	Maximum	Minimum	Average	31-Dec-2015	31-Dec-2014
Bank wide	48,354	12,165	26,682	21,059	27,818
FX Trading	11,654	1,636	4,600	4,498	3,232
Consolidated Interest Rate Trading	49,376	11,654	26,886	20,855	27,882
Money Markets Trading	29,033	11,450	17,890	20,855	13,950
Fixed Income Trading	24,842	-	8,178	-	14,647
Credit Trading	818	307	511	409	724
Derivatives	248	1	24	-	-

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

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

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

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

Notes (continued)

4. Financial risk management (continued)

4.3 Market risk (continued)

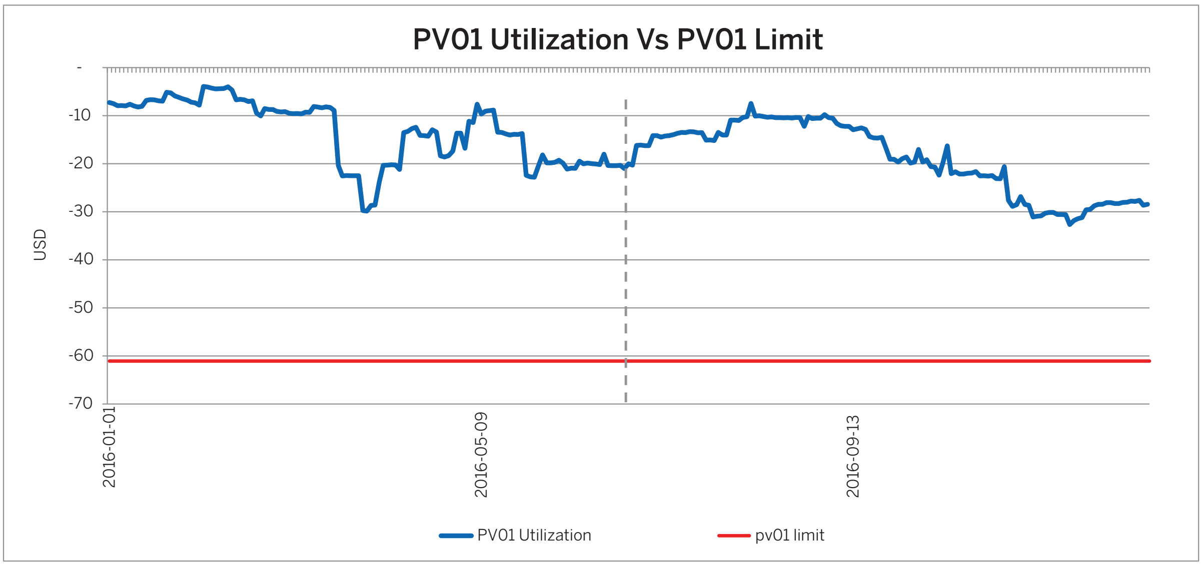
4.3.5 Approach to managing market risk in the trading book (continued)

f. Trading book portfolio characteristics (continued)

Desk Name	LCY*	EUR	GBP	USD	ZAR	Other FCY**	Total FCY	31 December 2016	31 December 2015
Money Markets Trading	5,818	(2,241)	(914)	(3,756)	-	(48)	(6,959)	(1,141)	(3,600)
Fixed Income Trading	14	-	-	(2)	-	-	(2)	12	21
Credit Trading	(184)	-	-	2	-	-	2	(182)	(307)
Derivatives	-	-	-	-	-	-	-	-	-
FX Trading	130	(69)	(16)	1	(5)	(2)	(91)	39	72
Total Trading	5,778	(2,310)	(930)	(3,755)	(5)	(50)	(7,050)	(1,272)	(3,814)
Money Markets Banking	(16,857)	-	-	-	-	-	-	(16,857)	(17,033)
Treasury Capital Management	(19,332)	-	-	-	-	-	-	(19,332)	3
Total Banking	(36,189)	-	-	-	-	-	-	(36,189)	(17,030)
All Desks (Combined)	(30,411)	(2,310)	(930)	(3,755)	(5)	(50)	(7,050)	(37,461)	(20,844)

***LCY** – Local currency

****FCY** – Foreign currency



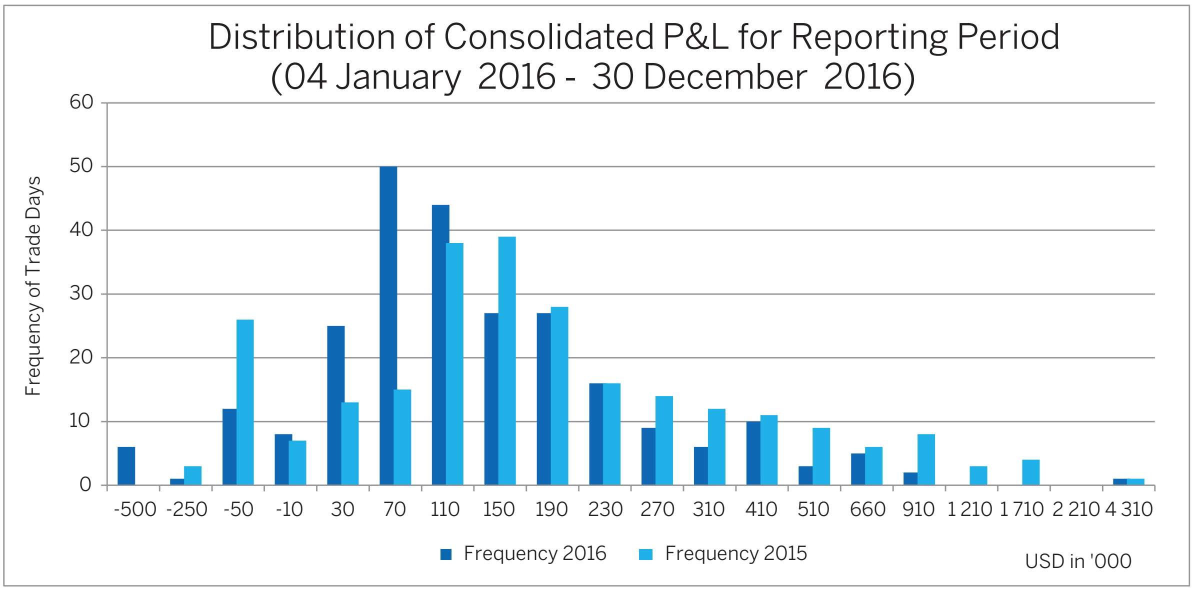
4. Financial risk management (continued)

4.3 Market risk (continued)

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

f. Trading book portfolio characteristics (continued)

Analysis of trading profit



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

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

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 Asset and Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily risk according to existing legislation, and accounting parameters. It takes into account naturally offsetting risk positions and manages the bank's residual risk by means of forward exchange contracts, currency swaps and option contracts.

Hedging is undertaken in such a way that it does not constrain normal operational activities. In particular, the need for capital to fluctuate with risk-weighted assets is taken into account.

The repositioning of the currency profile is a controlled process based on underlying economic views of the relative strength of currencies. The 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 (continued)

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.6 Foreign exchange risk (continued)

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

Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in millions of Kenya Shillings):

At 31 December 2016	USD	GBP	EUR	Others	Total
Assets					
Cash and bank balances	11,441	1,233	535	560	13,769
Loans and advances	59,669	256	4,918	243	65,086
Financial investments	-	-	-	6	6
Other assets and prepayments	3,178	22	422	2,574	6,196
Total financial assets	74,288	1,511	5,875	3,383	85,057
Liabilities					
Deposits from banks	33,148	543	57	323	34,071
Deposits from customers	45,292	2,636	3,318	822	52,068
Other liabilities and accrued expenses	8,618	4	546	2,597	11,765
Total financial liabilities	87,058	3,183	3,921	3,742	97,904
Net on balance sheet financial position	(12,770)	(1,672)	1954	(359)	(12,847)
Off balance sheet net notional position	15,086	1,683	(1,904)	125	14,990
Overall net position	2,316	11	50	(234)	2,143

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

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.6 Foreign exchange risk (continued)

The table below 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. The table shows the sensitivity analysis for each currency to which the Bank has significant exposure and the effect of the change in exchange rate on income statement.

Year ended 31 December 2016	**Increase in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	**Decrease in currency rate in %**	**Effect on profit before tax**	**Effect on equity**
	2016	**2016**	**2016**	**2016**	**2016**	**2016**
		KShs'000	**KShs'000**		**KShs'000**	**KShs'000**
Currency						
USD	**1.07%**	**64,586**	**47,352**	**1.05%**	**63,379**	**46,467**
GBP	**1.72%**	**103,821**	**76,117**	**1.89%**	**114,082**	**83,640**
EUR	**2.83%**	**170,822**	**125,239**	**2.76%**	**166,597**	**122,141**

	2015	2015	2015	2015	2015	2015
Year ended 31 December 2015	Increase in currency rate in %	Effect on profit before tax	Effect on equity	Decrease in currency rate in %	Effect on profit before tax	Effect on equity
Currency		KShs'000	KShs'000		KShs'000	KShs'000
USD	1.09%	7,338	5,137	1.03%	(6,891)	(4,824)
GBP	1.47%	632	443	2.32%	(997)	(698)
EUR	2.74%	(180)	(126)	3.82%	250	175

4.3.7 Interest rate risk

Interest rate risk in the banking book (IRRBB)

Definition

These are risks that have an impact on net interest income that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities.
IRRBB is further divided into the following sub risk types:

- **Repricing risk:** timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities.
- **Yield curve risk:** shifts in the yield curves that have adverse effects on the bank's income or underlying economic value.
- Basis risk: hedge price not moving in line with the price of the hedged position. Examples include bonds/swap basis, futures/underlying basis.
- **Optionality risk:** options embedded in bank asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract.
- **Endowment risk:** exposure arising from the net differential between interest rate insensitive assets such as non-earning assets, interest rate insensitive liabilities such as non-paying liabilities, and equity.

Approach to managing IRRBB

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

The bank's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the bank operates. The bank's TCM team monitors banking book interest rate risk operating under the oversight of ALCO.

Measurement

The analytical techniques used to quantify IRRBB include both earnings- and valuation-based measures. The analysis takes account of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

Notes (continued)

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.7 Interest rate risk (continued)

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.

Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing or maturity profiles, or through derivative overlays.

Limits

Interest rate risk limits are set in relation to changes in forecast banking book earnings and the economic value of equity. Economic value of equity sensitivity is calculated as the net present value of aggregate asset cash flows less the net present value of aggregate liability cash flows.

All assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on behavioural profiling.

Hedging of endowment risk

IRRBB is predominantly the consequence of endowment exposures, being the net effect of non-rate sensitive assets less non-rate sensitive liabilities and equity.

The endowment risk is hedged using liquid instruments as and when it is considered opportune. Where permissible, hedge accounting is adopted using the derivatives. The interest rate view is formulated through ALCO processes, following meetings of the monetary policy committees, or notable market developments.

Non-endowment IRRBB (repricing, yield curve, basis and optionality) is managed within the treasury and the global markets portfolios.

The table below indicates the KShs equivalent sensitivity of the bank's banking book earnings (net interest income and banking book mark-to-market profit or loss) and other comprehensive income (OCI) given a parallel yield curve shock. A floor of 0% is applied to all interest rates under the decreasing interest rate scenario. Hedging transactions are taken into account while other variables are kept constant.

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

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

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

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.7 Interest rate risk (continued)

4.3.8 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 rollover that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The nature of banking and trading activities results in a continuous exposure to liquidity risk. The Bank manages liquidity in accordance with applicable regulations and within 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 balance sheet, a diversified funding base and prudent term funding requirements.
- **Contingent liquidity risk management:** monitoring and managing early warning liquidity indicators while establishing and maintaining contingency funding plans, undertaking regular liquidity stress testing and scenario analysis, and setting liquidity buffers in accordance with anticipated stress events

Governance committees

The primary governance committee overseeing this risk is the Bank Asset Liability Committee (ALCO), which is chaired by the Chief Executive. There is independent risk oversight of all liquidity limits and guidelines by Market Risk, Finance and Central Asset Liability Management units. ALCO reports to the Board Risk Committee.

Approach to managing liquidity risk

There is a sound and robust liquidity management process to measure, monitor and manage liquidity exposures. The following elements are incorporated as part of a cohesive liquidity management process:

a) *Maintaining a structurally sound statement of financial position;*

With actual cash flows typically varying significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments with an indeterminable maturity or drawdown period, as well as to certain liquid assets. Behavioural profiling assigns probable maturities based on historical customer behaviour. This is used to identify significant additional sources of structural liquidity in the form of liquid assets and core deposits, such as current and savings accounts, which exhibit stable behaviour despite being repayable on demand or at short notice.

Structural liquidity mismatch analysis are performed regularly to anticipate the mismatch between payment profiles of balance sheet items, in order to highlight potential risks within the 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 on-going 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-

Notes (continued)

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.8 Liquidity risk (continued)

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 & Business Banking and Corporate & Investment Banking asset classes, capital requirements, the maturity profile of existing wholesale funding and anticipated changes in the retail deposit base. Funding requirements and initiatives are assessed in accordance with ALCO requirements for diversification, tenure and currency exposure, as well as the availability and pricing of alternative liquidity sources.

Liquidity contingency plans are designed to, as far as possible, protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an extensive early warning indicator process supported by a clear and decisive crisis response strategy. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event.

The cumulative impact of the above elements is monitored on a monthly basis by the 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.

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:

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

The tables below present the remaining contractual maturities of the bank's non-derivative financial liabilities; it includes a maturity analysis for financial assets that the banks 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.

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.8 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities

	Carrying value 2016 KShs'000	Gross nominal inflow/ (outflow) 2016 KShs'000	Redeemable on demand 2016 KShs'000	Maturing within 1 month 2016 KShs'000	Maturing after 1 month but within 6 months 2016 KShs'000	Maturing after 6 months but within 12 months 2016 KShs'000	Maturing after 12 months but within 5 years 2016 KShs'000	Maturing After 5 years 2016 KShs'000
Non- derivative financial assets								
Cash and balances to banks	8,621,228	8,621,228	8,082,137	539,091	-	-	-	-
Financial assets held for trading	15,995,195	16,272,449	-	2,500,000	13,588,724	8,724	174,042	959
Pledged assets – available –for-sale	2,894,456	3,269,088	-	-	1,583,330	338,818	1,346,940	-
Financial assets- available-for-sale	34,037,537	40,919,356	-	500,000	23,534,302	5,699,289	2,992,491	8,193,275
Loans and advances to banks	16,884,257	17,383,148	6,929,429	10,453,720	-	-	-	-
Loans and advances to customers	115,587,723	149,678,289	18,010,452	2,492,451	12,895,566	14,954,705	86,822,797	14,502,319
Other assets	3,811,770	3,811,770	3,811,770	-	-	-	-	-
	197,832,166	239,955,328	36,833,788	16,485,262	51,601,922	21,001,536	91,336,270	22,696,553
Derivative assets:	2,472,190	-	-	-	-	-	-	-
- Inflows	-	3,703,176	-	542,895	1,194,008	418,351	930,716	617,206
- Outflows	-	(516,992)	-	(32,452)	(74,667)	(188,259)	(189,150)	(32,463)
	2,472,190	3,186,184	-	510,443	1,119,341	230,092	741,566	584,743
Non- derivative financial liabilities								
Amounts due to other banks	(36,506,824)	(37,551,425)	(545,947)	(1,912,698)	(906,905)	(10,974,540)	(21,995,087)	(1,216,248)
Customers deposits	(119,903,557)	(119,707,938)	(100,743,959)	(7,692,769)	(7,539,296)	(3,548,683)	(183,231)	-
Trading liabilities	(3,867,718)	(3,950,391)	-	(1,821,997)	(2,128,394)	-	-	-
Borrowings	(3,986,138)	(6,590,000)	-	-	(259,000)	(259,000)	(6,072,000)	-
Other liabilities	(5,939,718)	(5,939,718)	(5,939,718)	-	-	-	-	-
Contingent liabilities	-	-	-	-	-	-	-	-
Capital commitments	-	-	-	-	-	-	-	-
Operating leases	-	-	-	-	-	-	-	-
	(170,203,955)	(173,739,472)	(107,229,624)	(11,427,464)	(10,833,595)	(14,782,223)	(28,250,318)	(1,216,248)
Derivative liabilities:	(3,061,063)	-	-	-	-	-	-	-
- Inflows	-	140,853	-	15,677	50,809	4,638	37,266	32,463
- Outflows	-	(4,185,754)	-	(645,470)	(1,468,054)	(491,263)	(963,760)	(617,206)
	(3 061 063)	(4,044,901)	-	(629,793)	(1,417,245)	(486,625)	(926,494)	(584,743)

Notes (continued)

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.8 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities (continued)

	Carrying value	Gross nominal inflow/ (outflow)	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing After 5 years
	2015	2015	2015	2015	2015	2015	2015	2015
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Non- derivative financial assets								
Cash and balances to banks	11,279,882	11,279,882	11,279,882	-	-	-	-	-
Financial assets held for trading	16,251,044	16,725,301	-	-	8,035,571	6,368,002	2,321,587	141
Pledged assets – available –for-sale	3,439,383	3,961,032	-	-	487,005	1,681,155	1,792,872	-
Financial assets-available-for-sale	28,947,969	31,056,445	-	3,248,750	16,740,460	7,022,453	1,685,006	2,359,776
Loans and advances to banks	23,181,591	23,181,591	10,671,838	12,509,753	-	-	-	-
Loans and advances to customers	104,981,565	149,083,610	22,670,917	4,938,685	20,103,386	12,696,293	52,983,658	35,690,671
Other assets	2,611,069	2,611,069	2,611,069	-	-	-	-	-
	190,692,503	237,898,930	47,233,706	20,697,188	45,366,422	27,767,903	58,783,123	38,050,588
Derivative assets:	4,377,196	-	-	-	-	-	-	-
- Inflows	-	1,909,870	-	332,264	1,033,097	503,841	38,004	2,665
- Outflows	-	(235,147)	-	(989)	(40,299)	(28,180)	(165,599)	(81)
	4,377,196	1,674,723	-	331,275	992,798	475,661	(127,595)	2,584
Non- derivative financial liabilities								
Amounts due to other banks	(47,964,264)	(52,280,891)	-	(80,750)	(3,646,759)	(22,883,779)	(21,650,824)	(4,018,779)
Customers deposits	(106,493,201)	(108,444,210)	(62,349,335)	(26,955,982)	(8,467,818)	(9,397,904)	(1,273,171)	-
Trading liabilities	(521,973)	(585,000)	-	(585,000)	-	-	-	-
Borrowings	(6,482,063)	(9,783,304)	-	-	(413,260)	(2,785,113)	(2,326,438)	(4,258,493)
Other liabilities	(5,424,218)	(5,424,218)	(5,424,218)	-	-	-	-	-
Contingent liabilities	(37,362,184)	(37,362,182)	(9,957,460)	(3,321,072)	(10,943,432)	(6,564,897)	(4,910,399)	(1,664,922)
Capital commitments	(208,424)	(208,424)	-	(208,424)	-	-	-	-
Operating leases	(5,118,541)	(5,118,541)	-	-	-	(445,575)	(1,237,280)	(3,435,686)
	(209,574,868)	(176,726,050)	(56,925,117)	(31,151,228)	(23,471,269)	(42,077,268)	(31,398,112)	(13,377,880)
Derivative liabilities:	(3,361,440)	-	-	-	-	-	-	-
- Inflows	-	896,493	-	107,514	535,408	232,671	18,235	2,665
- Outflows	-	(920,251)	-	(103,692)	(298,232)	(282,614)	(235,632)	(81)
	(3,361,440)	(23,758)	-	3,822	237,176	(49,943)	(217,397)	2,584

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.8 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities (continued)

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

Type of financial instrument	Basis on which amounts are compiled
None-derivative financial liabilities and financial assets	Undiscounted cash flows which include interest payments
Issued financial guarantee contracts, and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
Derivative financial liabilities and financial assets held for risk management purpose	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) and the net amounts for derivatives that are net settled.

As part of the management of liquidity risk arising from financial liabilities, the bank holds liquid assets comprises cash and cash equivalents and debt securities issued by sovereigns which can be readily sold to meet liquidity requirements. In addition the bank maintains lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central banks.

4.4 Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

The following table sets out the impact of offset, as well as financial assets and financial liabilities that are subject to enforceable master netting arrangement or similar agreement, irrespective of whether they have been offset in accordance with IAS 32, as required by IFRS 7R disclosure requirements. The gross amounts of financial asset and financial liabilities and their net amounts disclosed in the table below have been measured in the statement of financial position on the following bases:

- Derivative asset and liabilities – fair value;
- Loans and advances – amortised cost and
- Customer deposits – amortised cost

	Gross amount of recognised financial assets 2016 KShs'000	Gross amounts of recognised financial liabilities offset in statement of financial position 2016 KShs'000	Net amounts of financial assets presented in the statement of financial position 2016 KShs'000	Financial instruments, financial collateral and cash collateral received 2016 KShs'000	Net amount 2016 KShs'000
Assets					
Loans and advances	137,776,862	-	132,471,978	2,583,216	129,888,762
Derivative assets	2,472,190	-	2,472,190	2,472,190	-
	140,249,052	-	134,944,168	5,055,406	129,888,762

	Gross amount of recognised financial liabilities 2016 KShs'000	Gross amounts of recognised financial assets offset in statement of financial position 2016 KShs'000	Net amounts of financial assets presented in the statement of financial position 2016 KShs'000	Financial instruments, financial collateral and cash collateral pledged 2016 KShs'000	Net amount 2016 KShs'000
Liabilities					
Deposits	119,903,557	-	119,903,557	2,583,216	117,320,341
Derivative liabilities	3,061,063	-	3,061,063	-	3,061,063
	122,964,620	-	122,964,620	2,583,216	120,381,404

Notes (continued)

4. Financial risk management (continued)

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

	Gross amount of recognised financial assets 2015 KShs'000	Gross amounts of recognised financial liabilities offset in statement of financial position 2015 KShs'000	Net amounts of financial assets presented in the statement of financial position 2015 KShs'000	Financial instruments, financial collateral and cash collateral received 2015 KShs'000	Net amount 2015 KShs'000
Assets					
Loans and advances	104,981,565	-	104,981,565	(5,208,794)	99,772,771
Derivative assets	4,377,196	-	4,377,196	(2,422,497)	1,954,699
	109,358,761	-	109,358,761	(7,631,291)	101,727,470

	Gross amount of recognised financial liabilities 2015 KShs'000	Gross amounts of recognised financial assets offset in statement of financial position 2015 KShs'000	Net amounts of financial assets presented in the statement of financial position 2015 KShs'000	Financial instruments, financial collateral and cash collateral pledged 2015 KShs'000	Net amount 2015 KShs'000
Liabilities					
Deposits	106,493,201	-	106,493,201	(5,208,794)	101,284,407
Derivative liabilities	3,361,440	-	3,361,440	-	3,361,440
	109,854,641	-	109,854,641	(5,208,794)	104,645,847

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

IAS 32 Financial Instruments: Presentation (IAS 32) requires financial assets and financial liabilities to be offset and the net amount presented in the statement of financial position when, and only when, the 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.

* An ISDA master agreement is a standard agreement used in over-the-counter derivatives transactions. The ISDA Master Agreement, published by the International Swaps and Derivatives Association (ISDA), is a document that outlines the terms applied to a derivatives transaction between two parties.

5. 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.

Level hierarchy

The table that follows analyses financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that available market data is used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the assets and liabilities.

Significant unobservable inputs

The fair value of level 3 assets and liabilities is determined using valuation techniques that include reference to recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants. However, such techniques typically have unobservable inputs that are subject to management judgement. These inputs include credit spreads on illiquid issuers, implied volatilities on thinly traded stocks, correlation between risk factors, prepayment rates and other illiquid risk drivers. Exposure to such illiquid risk drivers is typically managed by:

- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver
- raising day one profit provisions in accordance with IFRS
- quantifying and reporting the sensitivity to each risk driver
- limiting exposure to such risk drivers and analysing this exposure on a regular basis.

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:

Assets measured at fair value on a recurring basis

	Note	Level 2 KShs'000	Total KShs'000
At 31 December 2016			
Assets			
Financial assets – fair value through profit and loss	21	**15,995,195**	**15,995,195**
Financial assets – available-for-sale	22	**34,037,537**	**34,037,537**
Pledged assets - available-for-sale	23	**2,894,456**	**2,894,456**
Derivative assets	24	**2,472,190**	**2,472,190**
		55,399,378	**55,399,378**
Comprising:			
Held-for-trading		**18,467,385**	**18,467,385**
Available-for-sale		**36,931,993**	**36,931,993**
		55,399,378	**55,399,378**
Liabilities		**-**	**-**
Trading liabilities	21	**3,867,718**	**3,867,718**
Derivative liabilities	24	**3,061,063**	**3,061,063**
		6,928,781	**6,928,781**
Comprising:			
Held-for-trading		**6,928,781**	**6,928,781**

Notes (continued)

5. Assets and liabilities at fair value (continued)

5.2 Assets and liabilities measured at fair value on a recurring basis (continued)

Assets measured at fair value on a recurring basis

	Note	Level 2 KShs'000	Total KShs'000
At 31 December 2015			
Assets			
Financial assets – fair value through profit and loss	21	16,251,044	16,251,044
Financial assets – available-for-sale	22	28,947,969	28,947,969
Pledged assets - available-for-sale	23	3,439,383	3,439,383
Derivative assets	24	4,377,196	4,377,196
		53,015,592	53,015,592
Comprising:			
Held-for-trading		20,628,240	20,628,240
Available-for-sale		32,387,352	32,387,352
		53,015,592	53,015,592
Liabilities			
Trading liabilities	21	521,973	521,973
Derivative liabilities	24	3,361,440	3,361,440
		3,883,413	3,883,413
Comprising:			
Held-for-trading		3,883,413	3,883,413

There were no financial assets measured at fair value in level 1 and 3 as at 31 December 2016 and 31 December 2015.

There were no transfers between levels in 2016 and 2015.

Sensitivity of fair value of level 2 financial instruments

The fair value of level 2 financial instruments is determined using valuation techniques which incorporate assumptions that are 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	Discount rate
	Black-Scholes model	Risk-free rate, volatility rate
	Multiple valuation technique	Valuation multiples
Trading assets	Discounted cash flow model	Discount rate, liquidity discount rate
	Black-Scholes model	Risk-free rate, volatility rate
Pledged assets	Discounted cash flow model	Discount rate, liquidity discount rate
Financial investments	Discounted cash flow model	Discount rate, liquidity discount rate
	Multiple valuation technique	Valuation multiples
	Quoted exit price adjusted for notice period	Discount rate

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

5. Assets and liabilities at fair value (continued)

5.3 Assets and liabilities not measured at fair value

Level 2 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'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 31 December 2016					
Assets					
Cash and balances with CBK	**8,621,228**	-	-	-	**8,621,228**
Loans and advances to banks	**6,929,429**	-	**10,443,277**	**17,372,706**	**16,884,257**
Loans and advances to customers	**18,010,452**	-	**97,345,584**	**115,356,036**	**115,587,723**
	33,561,109	-	**107,788,861**	**132,728,742**	**141,093,208**
Liabilities					
Deposits from banks	**(545,947)**	-	**(28,318,134)**	**(28,864,081)**	**36,506,824**
Deposits from customers	**(100,743,959)**	-	**(10,295,199)**	**(111,039,158)**	**(119,903,557)**
Subordinated debt	-	**(6,095,080)**	-	**(6,095,080)**	**(3,986,138)**
	(101,289,906)	**(6,095,080)**	**(38,613,333)**	**(145,998,319)**	**(87,382,871)**

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 31 December 2015					
Assets					
Cash and balances with CBK	11,279,882	-	-	11,279,882	11,279,882
Loans and advances to banks	10,671,838	-	15,600,084	26,271,922	23,181,591
Loans and advances to customers	-	-	113,740,365	113,740,365	104,981,565
	21,951,720	-	129,340,449	151,292,169	139,443,038
Liabilities					
Deposits from banks	-	-	(44,113,497)	(44,113,497)	(47,964,264)
Deposits from customers	(62,349,335)	-	(35,285,467)	(97,634,802)	(106,493,201)
Subordinated debt	-	(8,657,793)	-	(8,657,793)	(6,482,063)
	(62,349,335)	(8,657,793)	(79,398,964)	(150,406,092)	(160,939,528)

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:

2016	Valuation basis/technique	Main assumptions
Loans and advances to banks	Discounted cash flow model	Discount rate, liquidity discount rate
Loans and advances to customers	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from banks	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from customers	Discounted cash flow model	Discount rate, liquidity discount rate
Subordinated debt	Discounted cash flow model	Discount rate, liquidity discount rate

Notes (continued)

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 officer with the assistance of the Executive Committee (EXCO) and the Asset and Liability Committee (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).

Personal and Business Banking (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.
- Instalment sales and finance leases – comprises two areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.
- Card products – provides card facilities to individuals and businesses.
- Transactional and lending products – transactions in products associated with the various points of contact channels such as ATMs, Internet, and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.
- Bancassurance and wealth management.

Corporate and Investment Banking (CIB)

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

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

Major Customers

The Bank does not have any one major customer that contributes more than 10% of the Bank's revenues. However, the Bank has one major customer whose deposits contribute 5.8% of total deposits as at December 2016 (2015: 8.22%). The interest expense paid to this customer is reported under the Corporate and Investment Banking segment.

6. Segment information (continued)

The segment financial results are as follows:

Income statement

	Total 2016 KShs'000	Total 2015 KShs'000	CIB 2016 KShs'000	CIB 2015 KShs'000	PBB 2016 KShs'000	PBB 2015 KShs'000
Interest income	19,263,054	14,665,543	12,094,144	8,753,986	7,168,910	5,911,557
Interest expense	(8,262,713)	(5,490,683)	(6,387,088)	(3,752,224)	(1,875,625)	(1,738,459)
Net interest income	11,000,341	9,174,860	5,707,056	5,001,762	5,293,285	4,173,098
Impairment losses on loans and advances	(2,028,235)	(907,305)	(1,189,709)	(240,239)	(838,526)	(667,066)
Net interest income after loan impairment charges	8,972,106	8,267,555	4,517,347	4,761,523	4,454,759	3,506,032
Fees and commission income	2,884,882	2,945,090	1,289,397	1,279,746	1,595,485	1,665,344
Fees and commission expense	(337,539)	(323,723)	(155,852)	(111,767)	(181,687)	(211,956)
Net fees and commission income	2,547,343	2,621,367	1,133,545	1,167,979	1,413,798	1,453,388
Trading income	4,493,278	4,306,207	4,370,645	3,980,190	122,633	326,017
Net other operating income	15,195	153,137	8,131	20,072	7,064	133,065
Net trading and other income	4,508,473	4,459,344	4,378,776	4,000,262	129,697	459,082
Total income	16,027,922	15,348,266	10,029,668	9,929,764	5,998,254	5,418,502
Employee benefits expense	(5,238,430)	(4,851,926)	(2,277,414)	(2,167,700)	(2,961,016)	(2,684,226)
Depreciation and amortisation expense	(467,748)	(455,304)	(96,755)	(150,631)	(370,993)	(304,673)
Administrative expenses	(4,285,636)	(2,964,017)	(2,538,474)	(1,394,615)	(1,747,162)	(1,569,402)
Profit before income tax	6,036,108	7,077,019	5,117,025	6,216,818	919,083	860,201
Income tax expense	(1,610,705)	(2,379,983)	(1,246,212)	(2,098,232)	(364,493)	(281,751)
Profit for the year	4,425,403	4,697,036	3,870,813	4,118,586	554,590	578,450

Notes (continued)

6. Segment information (continued)

Statement of financial position

	Total 2016 KShs'000	Total 2015 KShs'000	CIB 2016 KShs'000	CIB 2015 KShs'000	PBB 2016 KShs'000	PBB 2015 KShs'000
Assets						
Cash and balances with Central Bank of Kenya	8,621,228	11,279,882	7,871,308	10,239,328	749,920	1,040,554
Financial investments	52,927,189	48,638,396	51,190,443	48,638,396	1,736,746	-
Derivative assets	2,472,191	4,377,196	2,472,191	4,377,196	-	-
Loans and advances to banks	16,884,257	23,181,591	16,341,002	23,181,591	543,255	-
Loans and advances to customers	115,587,723	104,981,565	63,122,632	55,495,189	52,465,091	49,486,376
Investment in subsidiary	10	12	7	2	3	10
Property, equipment and intangibles	3,080,860	2,708,481	1,022,727	799,633	2,058,133	1,908,848
Deferred income tax	1,475,972	434,248	977,062	286,135	498,910	148,113
Current income tax	33,965	365,574	33,965	241,293	-	124,281
Other assets	3,811,769	2,611,069	1,063,476	921,220	2,748,293	1,689,849
Total assets	204,895,164	198,578,014	144,094,813	144,179,983	60,800,351	54,398,031
Liabilities						
Customer deposits	119,903,557	106,493,201	62,647,677	52,855,249	57,255,880	53,637,952
Amounts due to other banks	36,506,824	47,964,264	36,517,365	47,910,844	(10,541)	53,420
Current income tax	1,392,638	80,305	811,553	63,273	581,085	17,032
Trading liabilities	3,867,718	521,973	3,867,718	521,973	-	-
Derivative liabilities	3,061,063	3,361,440	3,061,063	3,361,440	-	-
Borrowings	3,986,138	6,482,063	2,733,649	4,145,719	1,252,489	2,336,344
Other liabilities	5,939,744	5,424,218	4,550,343	3,249,515	1,389,401	2,174,703
Total liabilities	174,657,682	170,327,464	114,189,368	112,108,013	60,468,314	58,219,451
Shareholders' equity	30,237,482	28,250,550	17,425,516	18,055,195	12,811,966	10,195,355
Total equity and liabilities	204,895,164	198,578,014	144,094,813	144,179,983	60,800,351	54,398,031
Additions to property and equipment	373,581	495,168	147,264	132,954	226,317	362,214
Additions to intangible assets	539,803	338,374	201,480	71,879	338,323	266,495
Impairment losses on property and equipment	76,853	25,584	19,601	1,032	57,252	24,552

6. Segment information (continued)

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

Income statement

	Total 2016 KShs'000	Total 2015 KShs'000	Kenya 2016 KShs'000	Kenya 2015 KShs'000	South Sudan 2016 KShs'000	South Sudan 2015 KShs'000
Interest income	19,263,054	14,665,543	19,259,217	14,653,278	3,837	12,265
Interest expense	(8,262,713)	(5,490,683)	(8,262,711)	(5,490,683)	(2)	-
Net interest income	11,000,341	9,174,860	10,996,506	9,162,595	3,835	12,265
Impairment losses on loans and advances	(2,028,235)	(907,305)	(1,342,006)	(907,305)	(686,229)	-
Net interest income after loan impairment charges	8,972,106	8,267,555	9,654,500	8,255,290	(682,394)	12,265
Fees and commission income	2,884,882	2,945,090	2,649,345	2,661,848	391,147	270,739
Fees and commission expense	(337,539)	(323,723)	(320,881)	(308,378)	(24,154)	(2,842)
Net fees and commission income	2,547,342	2,621,367	2,180,349	2,353,470	366,993	267,897
Trading income	4,493,278	4,306,207	3,069,388	3,537,860	1,423,890	768,347
Net other operating income	15,195	153,137	15,195	32,934	-	120,203
Net trading and other income	4,508,473	4,459,344	3,084,583	3,570,794	1,423,890	888,550
Total income	16,027,921	15,348,266	14,919,432	14,179,554	1,108,489	1,168,712
Employee benefits expense	(5,238,430)	(4,851,926)	(4,908,598)	(4,523,645)	(329,833)	(328,281)
Depreciation and amortisation expense	(467,748)	(455,304)	(460,448)	(413,191)	(7,300)	(42,113)
Administrative expenses	(4,285,636)	(2,964,017)	(3,000,017)	(2,630,836)	(1,285,618)	(333,181)
Profit before income tax	6,036,108	7,077,019	6,550,369	6,611,882	(514,262)	465,137
Income tax expense	(1,610,705)	(2,379,983)	(1,598,678)	(2,290,835)	(12,027)	(89,148)
Profit for the year	4,425,403	4,697,036	4,951,691	4,321,047	(526,289)	375,989

Notes (continued)

6. Segment information (continued)

Statement of financial position

	Total 2016 KShs'000	Total 2015 KShs'000	**Kenya 2016 KShs'000**	Kenya 2015 KShs'000	**South Sudan 2016 KShs'000**	South Sudan 2015 KShs'000
Assets						
Cash and balances with Central Bank of Kenya	**8,621,228**	11,279,883	**8,467,161**	10,512,095	**1,658,560**	767,788
Financial investments	**52,927,189**	48,638,396	**52,920,801**	48,579,644	**6,387**	58,752
Derivative assets	**2,472,191**	4,377,196	**2,472,186**	4,377,196	**4**	-
Loans and advances to banks	**16,884,257**	23,181,590	**13,056,320**	13,970,754	**6,405,533**	9,210,836
Loans and advances to customers	**115,587,723**	104,981,565	**115,573,560**	104,957,511	**14,159**	24,054
Investment in subsidiary	**10**	12	**10**	12	**-**	-
Property, equipment and intangibles	**3,080,860**	2,708,481	**3,006,624**	2,656,805	**74,235**	51,676
Deferred income tax asset	**1,475,972**	434,248	**1,475,972**	431,215	**-**	3,033
Current income tax	**33,965**	365,574	**-**	365,574	**33,965**	-
Other assets	**3,811,769**	2,611,069	**5,822,302**	2,583,286	**167,747**	27,783
Total assets	**204,895,164**	198,578,014	**202,794,936**	188,434,092	**8,360,590**	10,143,922
Liabilities						
Customer deposits	**119,903,557**	106,493,201	**115,030,879**	99,433,407	**4,872,678**	7,059,794
Amounts due to other banks	**36,506,824**	47,964,264	**40,000,223**	47,213,019	**587,222**	751,245
Current income tax	**1,392,637**	80,305	**1,384,938**	-	**7,699**	80,305
Trading liabilities	**3,867,718**	521,973	**3,059,755**	521,973	**1,308**	-
Derivative liabilities	**3,061,063**	3,361,440	**3,867,718**	3,361,440	**-**	-
Borrowings	**3,986,138**	6,482,063	**5,580,141**	6,482,063	**2,539,325**	-
Other liabilities	**5,939,744**	5,424,218	**3,986,138**	3,825,459	**-**	1,598,759
Total liabilities	**174,657,682**	170,327,464	**172,909,792**	160,837,361	**8,008,232**	9,490,103
Shareholders' equity	**30,237,482**	28,250,554	**29,885,146**	27,596,727	**352,357**	653,823
Total equity and liabilities	**204,895,163**	198,578,014	**202,794,938**	188,434,088	**8,360,589**	10,143,922
Additions to property and equipment	**373,581**	495,168	**102,065**	132,954	**271,516**	362,214
Additions to intangible assets	**539,803**	338,374	**471,097**	71,879	**68,706**	266,495
Impairment losses on property and equipment	**76,853**	25,584	**76,853**	25,584	**-**	-

6. Segment information (continued)

Reconciliation of reportable assets and liabilities

	2016 Kshs 000	2015 Kshs 000
Assets		
Total assets for reportable segments	211,155,526	203,354,863
Elimination of inter-branch balances	(6,260,363)	(4,776,849)
Entity's total assets	204,895,163	198,578,014
Liabilities		
Total liabilities for reportable segments	211,155,526	203,354,861
Elimination of inter-branch balances	(6,260,363)	(4,776,847)
Entity's total liabilities	204,895,163	198,578,014

7. Interest income

	2016 KShs'000	2015 KShs'000
Loans and advances to customers	12,097,303	10,486,033
Net income - financial assets - available-for-sale	4,682,207	2,842,722
Loans and advances to banks	2,483,544	1,336,788
	19,263,054	14,665,543

All interest income reported above relates to financial assets not carried at fair value through profit or loss.

8. Interest expense

	2016 KShs'000	2015 KShs'000
Current accounts	160,664	127,528
Savings and term deposit accounts	3,538,639	3,173,015
Deposits and loans from other banks	3,878,361	1,351,727
Interest on borrowed funds	685,049	838,413
	8,262,713	5,490,683

All interest expense reported above relates to financial liabilities not carried at fair value through profit or loss.

Notes (continued)

9. Fees and commission income

	2016 KShs'000	2015 KShs'000
Points of representation transaction fees	1,088,630	1,165,185
Documentation and administration fees	299,101	175,346
Electronic banking fees	289,805	227,231
Knowledge based fees and commission	760,128	810,405
Card based commission	100,105	67,402
Foreign service fees	325,880	244,275
Other bank related fees and commission	21,232	255,246
	2,884,881	2,945,090

10. Fees and commission expense

Points of representation transaction fees	111,358	125,125
Card based commission	60,728	59,232
Other bank related fees and commission	165,453	139,366
	337,539	323,723

Other bank related fees and commission includes direct sales agent commissions and card courier fees.

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 256,760,000 (2015: KShs 290,659,000).

All net fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss.

11. Trading income

	2016 KShs'000	2015 KShs'000
Net foreign exchange income	3,361,113	3,098,093
Other income – financial assets – held for trading	99,871	140,445
Fixed income – financial assets – held for trading	1,032,294	1,067,669
	4,493,278	4,306,207

12. Other operating income

Other income	15,195	153,137
	15,195	153,137

13. Employee benefits expense

	2016 KShs'000	2015 KShs'000
Salaries and wages	4,888,817	4,531,083
Retirement benefit costs	349,614	320,843
	5,238,431	4,851,926
Included in retirement benefit costs are;		
Defined contribution scheme	343,567	315,301
National Social Security Fund	6,047	5,542
	349,614	320,843

14. Administration and general expenses

	2016 KShs'000	2015 KShs'000
Audit fees	13,585	12,937
Directors' fees	26,155	18,634
Information technology	321,570	319,020
Communication expenses	169,242	168,756
Premises costs	652,258	607,370
Professional fees	656,954	373,100
Stationery and printing costs	45,508	53,255
Marketing and advertising costs	325,008	207,946
Insurance costs	106,409	103,000
Administration and membership fees	36,037	38,953
Training expenses	114,771	106,373
Security expenses	158,414	127,695
Deposit Protection Scheme contribution	171,762	163,724
Leased equipment rental	2,295	1,990
Loss on disposal of fixed assets	75,958	643
Absorbed VAT	312,311	399,277
Impairment of property and equipment	76,853	25,584
Other operating costs	85,128	195,861
	3,350,218	2,924,118

Other operating costs relates mainly to travel and entertainment costs incurred in the ordinary course of business.

15. Finance cost

	2016 KShs'000	2015 KShs'000
Bank charges	61,153	39,899
Loss in monetary value	1,150,687	-
	1,211,840	39,899

Notes (continued)

16. Income tax expense

	2016 KShs'000	2015 KShs'000
Current income tax	2,604,749	1,360,980
Current year charge	2,608,422	1,358,821
Previous year's charge credit/ debit	(3,673)	2,159
Deferred income tax	(994,044)	1,019,003
Current year charge asset (credit)/ debit	(1,006,951)	1,023,486
Current year charge liability	7,699	-
Previous year's debit/ (credit)	5,208	(4,483)
Income tax expense for the year	1,610,705	2,379,983

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:

	2016 KShs'000	2015 KShs'000
Profit before income tax	6,036,107	7,077,019
Tax at statutory tax rate of 30% (2015: 30%)	1,810,832	2,123,106
Tax effect of:		
Income not subjected to tax	(471,698)	90,162
Expenses not deductible for tax purposes	87,445	84,209
Previous year current income tax over provision /(under provision)	15,643	(2,159)
Previous year deferred income tax under provision	(35,356)	(4,483)
Effect of different tax rate in South Sudan	203,839	89,148
Income tax expense	1,610,705	2,379,983

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.

	2016 KShs'000	2015 KShs'000
Earnings (Profit after tax)		
Earnings for the purposes of basic earnings per share (KShs' 000)	4,425,402	4,697,036
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	170,577	170,577
Earnings per share (KShs) basic and diluted	25.94	27.54

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

18. Dividend per share

	2016 KShs'000	2015 KShs'000
Dividend		
The calculation of dividends per share is based on: Dividends for the year attributable to ordinary shareholders:		
Interim dividend paid (KShs '000)	700,000	200,000
Final dividend proposed (KShs '000)	1,400,000	1,934,737
	2,100,000	2,134,737
Number of ordinary shares at issue date (thousands)	170,577	170,577
Dividends per share – KShs	12.31	12.51

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting.

At the Annual General Meeting to be held on 5 May 2017, a final dividend per share in respect of the year ended 31 December 2016 of KShs 8.21 (2015:KShs 11.34) per share amounting to a total of KShs 1,400,000,000 (2015: KShs 1,934,737,000) is to be proposed. These financial statements do not reflect this dividend payable, the proposed dividend has however been transferred to a separate category of equity.

During the year an interim dividend per share of KShs 4.10 (2015: KShs 1.17) per share, amounting to a total of KShs 700,000,000 (2015: KShs 200,000,000) was paid. The total dividend for the year is therefore KShs 12.31 (2015: KShs 12.51) amounting to a total of KShs 2,100,000,000 (2015: KShs 2,134,737,000).

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

Notes (continued)

19. 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 2016 between that which is financial and non-financial. All financial assets and liabilities have been classified according to their measurement category with disclosure of the fair value being provided for those items.

2016	Held for Trading KShs'000	Loans and receivables KShs'000	Available-for-sale KShs'000	Other amortised cost KShs'000	Other non-financial assets/ (liabilities) KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	8,621,228	-	-	-	8,621,228	8,621,228
Financial assets – held for trading	15,995,195	-	-	-	-	15,995,195	15,995,195
Financial assets – available-for-sale	-	-	34,037,537	-	-	34,037,537	34,037,537
Pledged assets– available-for-sale	-	-	2,894,456	-	-	2,894,456	2,894,456
Derivative assets	2,472,190	-	-	-	-	2,472,190	2,472,190
Loans and advances to banks	-	17,111,212	-	-	-	17,111,212	17,372,706
Loans and advances to customers	-	115,360,766	-	-	-	115,360,766	115,356,036
Other financial assets	-	3,811,770	-	-	-	3,811,770	3,811,770
Other non - financial assets	-	-	-	-	4,584,668	4,584,668	-
	18,467,385	144,904,976	36,931,993	-	4,584,668	204,889,022	200,561,118
Liabilities							
Customer deposits	-	-	-	(119,903,557)	-	(119,903,557)	(111,039,158)
Amounts due to other banks	-	-	-	(36,506,824)	-	(36,506,824)	(28,864,081)
Derivative liabilities	(3,061,063)	-	-	-	-	(3,061,063)	(3,061,063)
Trading liabilities	(3,867,718)	-	-	-	-	(3,867,718)	(3,867,718)
Borrowings	-	-	-	(3,986,138)	-	(3,986,138)	(6,095,080)
Other financial liabilities	-	-	-	(5,939,718)	-	(5,939,718)	(5,939,718)
Other non - financial liabilities	-	-	-	-	(1,391,102)	(1,391,102)	(1,391,102)
	(6,928,781)	-	-	(166,336,237)	(1,391,102)	(174,656,120)	(160,257,920)

19. Classification of assets and liabilities (continued)

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

2015	Held for Trading KShs'000	Loans and receivables KShs'000	Available-for-sale KShs'000	Other amortised cost KShs'000	Other non-financial assets/ (liabilities) KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	11,279,882	-	-	-	11,279,882	11,279,882
Financial assets – held for trading	16,251,044	-	-	-	-	16,251,044	16,251,044
Financial assets – available-for-sale	-	-	28,947,969	-	-	28,947,969	28,947,969
Pledged assets– available-for-sale	-	-	3,439,383	-	-	3,439,383	3,439,383
Derivative assets	4,377,196	-	-	-	-	4,377,196	4,377,196
Loans and advances to banks	-	27,177,339	-	-	-	27,177,339	26,271,922
Loans and advances to customers	-	104,981,565	-	-	-	104,981,565	113,740,365
Other financial assets	-	2,611,069	-	-	-	2,611,069	-
Other non - financial assets	-	-	-	-	3,508,315	3,508,315	-
	20,628,240	146,049,855	32,387,352	-	3,508,315	202,573,762	204,307,761
Liabilities							
Customer deposits	-	-	-	(106,493,201)	-	(106,493,201)	(97,634,802)
Amounts due to other banks	-	-	-	(47,964,264)	-	(47,964,264)	(44,113,497)
Derivative liabilities	(3,361,440)	-	-	-	-	(3,361,440)	(3,361,440)
Trading liabilities	(521,973)	-	-	-	-	(521,973)	(521,973)
Borrowings	-	-	-	(6,482,063)	-	(6,482,063)	(8,657,793)
Other financial liabilities	-	-	-	(5,424,218)	-	(5,424,218)	-
Other non - financial liabilities	-	-	-	-	(80,305)	80,305	-
	(3,883,413)	-	-	(166,363,746)	(80,305)	(170,166,854)	(154,289,505)

Notes (continued)

20. Cash and balances with Central Bank of Kenya

	2016 KShs'000	2015 KShs'000
Cash in hand	**1,571,641**	2,626,011
Balances with Central Bank of Kenya	**7,049,587**	8,653,871
	8,621,228	11,279,882

Banks are required to maintain a prescribed minimum cash reserve 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 by Central Bank of Kenya requirements. At 31 December 2016, the cash reserve requirement was 5.25% of the eligible deposits (2015: 5.25%). The cash reserve requirement balance for the year ended 31 December 2016 is KShs 6,059,435,235 (2015: KShs 5,603,547,000).

21. Financial assets and liabilities held for trading

(a) Financial assets – held for trading

	2016 KShs'000	2015 KShs'000
Government treasury bills and bonds	**15,851,697**	16,065,972
Corporate bonds	**143,498**	185,072
	15,995,195	16,251,044
Maturity analysis		
Maturing within 1 month	**2,493,499**	-
Maturing after 1 month but within 6 months	**4,955,950**	7,693,657
Maturing after 6 months but within 12 months	**8,442,723**	6,431,989
Maturing after 12 months	**103,023**	2,125,398
	15,995,195	16,251,044

The maturities represent periods to contractual redemption of trading assets recorded. Dated trading assets had a redemption value at 31 December 2016 of KShs 16,219,650,000 (2015: KShs 16,915,433,000). The weighted average effective interest yield on debt securities held for trading at 31 December 2016 was 12.4% (2015:13.47%).

(b) Financial liabilities – held for trading

	2016 KShs'000	2015 KShs'000
Unlisted	**3,867,718**	521,973
	3,867,718	521,973
Maturity analysis		
Maturing within 1 month	**1,787,216**	521,973
Maturing after 1 month but within 6 months	**2,080,502**	-
	3,867,718	521,973

The maturities represent periods to contractual redemption of trading liabilities recorded. Dated trading liabilities had a redemption value at 31 December 2016 of KShs 3,804,511,000 (2015: KShs 500,000,000). The weighted average effective interest cost on debt securities held for trading at 31 December 2016 was 4.24% (2015: 17.00%)

22. Financial assets – available-for-sale

	2016 KShs'000	2015 KShs'000
Debt securities – at fair value:		
Listed	**34,037,537**	28,947,969
	34,037,537	28,947,969
Comprising:		
Government bonds	**6,639,183**	6,434,015
Government treasury bills	**27,398,354**	22,513,954
	34,037,537	28,947,969

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

The weighted average effective interest yield on available-for-sale investment securities at 31 December 2016 was 12.24% (2015:12.31%). A fair value loss of KShs 69,471,000 (2015: Loss of KShs 121,528,000) has been recognised in the statement of other comprehensive income on page 75. A realised gain of KShs 13,444,000 (2015: KShs 228,971,000) has been transferred to the statement of profit or loss.

	2016 KShs'000	2015 KShs'000
Maturity analysis		
Maturing within 1 month	**499,133**	3,475,545
Maturing after 1 month but within 6 months	**22,651,717**	16,525,911
Maturing after 6 months but within 12 months	**4,952,972**	7,285,469
Maturing after 12 months but within 5 years	**284,460**	688,030
Maturing after 5 years	**5,649,255**	973,014
	34,037,537	28,947,969

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

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

22. Pledged assets - available-for-sale

Available-for-sale debt securities	**2,894,456**	3,439,383
Maturity analysis		
Maturing within 6 months	**1,569,523**	-
Maturing after 6 months but within 12 months	**276,247**	1,638,184
Maturing after 12 months but within 5 years	**511,277**	1,801,199
Maturing after 5 years	**537,409**	-
	2,894,456	3,439,383

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

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

Notes (continued)

24. Derivative assets and derivative liabilities

All derivatives are classified as derivatives 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 commodities and 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 OTC or on a regulated exchange.

Forwards and futures are contractual obligations to buy or sell financial instruments or commodities 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:

24.2.1 Foreign exchange derivatives

Foreign exchange derivatives are primarily used to economically hedge foreign currency risks on behalf of clients and for the bank's own positions. Foreign exchange derivatives primarily consist of foreign exchange forwards and swaps, foreign exchange futures and foreign exchange options.

24.2.2 Interest rate derivatives

Interest rate derivatives are primarily used to modify the volatility and interest rate characteristics of interest-earning assets and interest-bearing liabilities on behalf of clients and for the bank's own positions. Interest rate derivatives primarily consist of bond options, caps and floors, forwards, options, swaps and swap options.

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 is not able to be evidenced by comparison with other observable current market transactions in the same instrument or non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the valuation model is deferred and subsequently recognised in accordance with the 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.

24. Derivative assets and derivative liabilities (continued)

24.5 Notional amount (continued)

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

Notes (continued)

25. Loans and advances to banks

25.1 Net loans and advances to banks

	2016 KShs'000	2015 KShs'000
Balances with banks	7,518,832	9,395,335
Balances due from Group companies (Note 43.1)	9,759,069	6,850,229
Balances with Bank of South Sudan	-	6,936,027
Gross loans and advances to banks	**17,277,901**	23,181,591
Impairment for performing loans	(330,271)	-
Impairment for non-performing loans	(63,373)	-
Credit impairment allowances	**(393,644)**	-
Net loans and advances to banks	**16,884,257**	23,181,591
Maturity analysis		
Redeemable on demand	6,126,210	8,878,406
Maturing within 1 month	10,758,047	14,303,185
Net loans and advances to banks	**16,884,257**	23,181,591

25.2 Impairment reserve

Year ended 31 December 2016	Specific impairment KShs'000	Portfolio impairment KShs'000	Total KShs'000
At start of year	-	-	-
Amounts written off during the year as uncollectible	-	-	-
Amounts recovered during the year	-	-	-
Provision for loans impairment (Note 26.3)	63,373	330,271	393,644
At end of year	**63,373**	**330,271**	**393,644**

Year ended 31 December 2015	Specific impairment KShs'000	Portfolio impairment KShs'000	Total KShs'000
At start of year	-	-	-
Amounts written off during the year as uncollectible	-	-	-
Amounts recovered during the year	-	-	-
Provision for loans impairment (Note 26.3)	-	-	-
At end of year	-	-	-

The provision arises from exposures held with banks which were placed under statutory management in Kenya and the lack of foreign currency in the South Sudan operating environment.

26. Loans and advances to customers

26.1 Net loans and advances

	2016 KShs'000	2015 KShs'000
Mortgage lending	**15,349,065**	12,926,721
Instalment sale	**13,166,542**	11,947,118
Overdraft and other demand lending	**18,010,452**	23,167,699
Term lending	**71,761,018**	59,084,209
Card lending	**433,314**	286,220
Gross loans and advances to customers	**118,720,391**	107,411,967
Allowances for impairments		
Impairment for non-performing loans	**(1,653,491)**	(1,271,153)
Impairment for performing loans	**(1,479,177)**	(1,159,249)
Credit impairment allowances	**(3,132,668)**	(2,430,402)
Net loans and advances	**115,587,723**	104,981,565
Maturity analysis:		
Redeemable on demand	**15,027,772**	21,383,715
Maturing within 1 month	**10,226,706**	3,343,504
Maturing after 1 month but within 6 months	**10,619,831**	13,577,063
Maturing after 6 months but within 12 months	**9,354,099**	5,460,166
Maturing after 12 months but within 5 years	**36,917,927**	32,577,385
Maturing after 5 years	**33,441,388**	28,639,732
Net loans and advances	**115,587,723**	104,981,565

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

Notes (continued)

26. Loans and advances to customers (continued)

26.2 Impairment reserve

Year ended 31 December 2016	Specific impairment KShs'000	Portfolio impairment KShs'000	Total KShs'000
At start of year	**1,271,153**	**1,159,249**	**2,430,402**
Amounts written off during the year as uncollectible	**(733,208)**	**-**	**(733,208)**
Amounts recovered during the year (Note 26.3)	**(591,867)**	**-**	**(591,867)**
Provision for loans impairment (Note 26.3)	**1,708,600**	**324,395**	**2,032,995**
Exchange difference	**(1,187)**	**(4,467)**	**(5,654)**
At end of year	**1,653,491**	**1,479,177**	**3,132,668**

Year ended 31 December 2015	Specific impairment KShs'000	Portfolio impairment KShs'000	Total KShs'000
At start of year	1,103,066	888,912	1,991,978
Amounts written off during the year as uncollectible	(562,319)	-	(562,319)
Amounts recovered during the year (Note 26.3)	(506,657)	-	(506,657)
Provision for loans impairment (Note 26.3)	1,237,063	270,337	1,507,400
At end of year	1,271,153	1,159,249	2,430,402

26.3 Loans impairment charge

	2016 KShs'000	2015 KShs'000
Loans impairment for non-performing customer loans (Note 26.2)	**1,708,600**	1,237,063
Loans impairment for performing customer loans (Note 26.2)	**324,395**	270,337
Loans impairment for non-performing bank loans (Note 25.2)	**63,373**	-
Loans impairment for performing bank loans (Note 25.2)	**331,271**	-
Amounts recovered during the year (Note 26.2)	**(591,867)**	(506,657)
Recoveries of amounts previously written off	**(83,960)**	(93,438)
Net impairment charge on loans and advances	**1,751,812**	907,305

26.4 Impaired loans and advances

	2016	2015
Impaired loans and advances	**7,013,116**	4,858,394
Provision for impairment losses to customers (Note 26.2)	**(1,653,491)**	(1,271,153)
Provision for impairment losses to banks (Note 25.2)	**(63,373)**	-
Recoverable amount of impaired loans and advances	**5,296,252**	3,587,241
Interest in suspense	**1,178,514**	687,954

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

26. Loans and advances to customers (continued)

26.5 Industry analysis

Total on-balance sheet economic sector credit risk concentrations for loans and advances are presented in the table below:

	2016 KShs'000	**%**	2015 KShs'000	%
Agriculture	**13,780,097**	**12%**	15,865,976	15%
Electricity and water	**4,664,183**	**4%**	3,068,322	3%
Manufacturing	**17,232,690**	**15%**	19,630,417	19%
Building and construction	**2,198,175**	**2%**	1,590,273	2%
Wholesale, retail trade and restaurants	**31,951,378**	**28%**	23,444,691	22%
Transport and communication	**13,630,463**	**12%**	5,686,427	5%
Finance and insurance	**539,889**	**0%**	3,708,618	4%
Real estate and business services	**5,304,451**	**5%**	6,820,535	6%
Other activities and social services	**26,286,397**	**22%**	25,166,306	24%
	115,587,723	**100%**	104,981,565	100%

26.6 Segmental analysis of non-performing loans and advances – industry

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

26.7 Instalment sale and finance leases

The Bank holds instalment sales 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 lease payments and sets off the payments against the principal loan and interest repayments. While in principal the Bank only finances the purchase of the assets, the agreements that are necessary to execute the arrangement confer a lessor status on the Bank.

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

Notes (continued)

26. Loans and advances to customers (continued)

26.7 Instalment sale and finance leases (contnued)

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

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

26.8 Loans and advances to employees

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

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

27. Other assets and prepayments

	2016 KShs'000	2015 KShs'000
Uncleared effects	1,203,516	894,482
Prepayments	529,277	335,445
Off market loan adjustment	901,192	624,333
Due from group companies (Note 43.6)	1,075,279	654,102
Other receivables	102,506	102,707
	3,811,770	2,611,069

The off-market adjustment relates to the prepaid benefit granted to staff, being the difference between the fair value of the loan and the initial cash outflow. The fair value of future cash flows are discounted at a market related rate. The asset represents the Bank's right to receive future service from employees.

28. Investment in subsidiaries

	2016 KShs'000	2015 KShs'000
Stanbic Nominees Limited - 100% ownership	2	2
Stanbic Insurance Agency Limited - 100% ownership	10	10
	12	12

Stanbic Nominees Limited (formerly CfC Stanbic Nominees Limited) was dormant during the two financial years, Stanbic Insurance Agency was incorporated in April 2015 and started its operations in August 2015. The Bank has not prepared consolidated financial statements as it is a wholly owned subsidiary of Stanbic Holdings Plc (formerly CfC Stanbic Holdings Limited) a company incorporated in Kenya, which prepares consolidated financial statements available to the public. The consolidated financial statements can be found on http://www.stanbicbank.co.ke/kenya/About-Us/Investor-relations

The principal place of business for both subsidiaries is Stanbic Centre, Chiromo Road.
There were no significant restrictions on the Bank's ability to access the assets and settle liabilities of the subsidiaries. The total amount disclosed as investment in subsidiaries is a non-current asset.

29. Other investments

	2016 KShs'000	2015 KShs'000
Unquoted:		
Equity investment at cost	17,500	17,500
Impairment of equity investment	(17,500)	(17,500)
	-	-

The investment is in Anglo African Property Holding Limited where the Bank holds a beneficial interest of 1%.

30. Property and equipment

Year ended 31 December 2016	Land & premises KShs'000	Equipment furniture & fittings KShs'000	Motor vehicles KShs'000	Work in progress (WIP) KShs'000	Total KShs'000
Opening net book amount	**361,857**	**1,806,181**	**35,450**	**91,333**	**2,294,821**
Additions	**-**	**259,599**	**16,848**	**97,134**	**373,581**
Transfer from work in progress	**-**	**83,441**	**-**	**(83,441)**	**-**
Transfer to intangible work in progress	**-**	**10,689**	**-**	**-**	**10,689**
Disposals	**-**	**(16,005)**	**(32,788)**	**-**	**(48,793)**
Depreciation charge on disposal	**-**	**8,278**	**18,504**	**-**	**26,782**
Translation differences	**-**	**(38,911)**	**(608)**	**-**	**(39,519)**
Depreciation charge	**(15,666)**	**(320,291)**	**(11,296)**	**-**	**(347,253)**
Impairment	**-**	**(76,853)**	**-**	**-**	**(76,853)**
Hyper inflation adjustment	**-**	**64,191**	**-**	**-**	**64,191**
Closing net book value	**346,191**	**1,780,319**	**26,110**	**105,026**	**2,257,646**
As at 31 December 2016					
Cost	**473,907**	**3,488,478**	**155,101**	**105,026**	**4,222,512**
Accumulated depreciation	**(127,716)**	**(1,708,159)**	**(128,991)**	**-**	**(1,964,866)**
Net book amount	**346,191**	**1,780,319**	**26,110**	**105,026**	**2,257,646**

Year ended 31 December 2015	Land and premises KShs'000	Equipment furniture & fittings KShs'000	Motor vehicles KShs'000	Work in progress (WIP) KShs'000	Total KShs'000
Opening net book amount	377,523	1,652,570	28,775	346,870	2,405,738
Additions	-	392,344	33,969	68,855	495,168
Transfer from work in progress	-	104,733	-	(104,733)	-
Transfer to intangible work in progress	-	-	-	(78,180)	(78,180)
Disposals	-	(1,003)	-	-	(1,003)
Depreciation charge on disposal	-	328	-	-	328
Translation differences	-	(30,614)	(2,809)	(123,268)	(156,691)
Depreciation charge	(15,666)	(304,804)	(24,485)	-	(344,955)
Impairment	-	(7,373)	-	(18,211)	(25,584)
Closing net book value	361,857	1,806,181	35,450	91,333	2,294,821
As at 31 December 2015					
Cost	473,907	3,337,632	173,893	91,333	4,076,765
Accumulated depreciation	(112,050)	(1,531,451)	(138,443)	-	(1,781,944)
Net book amount	361,857	1,806,181	35,450	91,333	2,294,821

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 2016 and 31 December 2015, there were no items of property and equipment pledged by the bank to secure liabilities.

The impairment loss relates to assets written off during the rebranding exercise and those which can no longer be used by the bank due to refurbishments.

As the functional currency of Stanbic South Sudan is the currency of a hyperinflationary economy, property, plant and equipment relating to this branch is restated by applying the change in the general price indices from the date of acquisition to the current reporting date.

Depreciation relating to the property, plant and equipment of Stanbic South Sudan is based on the restated amounts, which have been adjusted for the effects of hyperinflation.

Notes (continued)

31. Intangible assets

Year ended 31 December 2016	Work in progress KShs'000	Computer Software KShs'000	Total KShs'000
Cost			
As at 1 January	48,973	1,901,854	1,950,827
Transfer from property and equipment	(10,689)	-	(10,689)
Transfer from work in progress	(24,115)	24,115	-
Additions	87,996	451,807	539,803
Translation Differences	(545)	-	(545)
Effects of Hyperinflation	-	1,479	1,479
As at 31 December	101,620	2,379,255	2,480,875
Amortisation			
As at 1 January	-	(1,537,167)	(1,537,167)
Amortisation charge for year	-	(120,495)	(120,495)
At 31 December	-	(1,657,662)	(1,657,662)
Net book value as at 31 December	101,620	721,593	823,213

Year ended 31 December 2015	Work in progress KShs'000	Computer Software KShs'000	Total KShs'000
Cost			
As at 1 January	-	1,534,273	1,534,273
Transfer from property and equipment	78,180	-	78,180
Transfer from work in progress	(38,987)	38,987	-
Additions	9,780	328,594	338 374
As at 31 December	48,973	1,901,854	1,950,827
Amortisation			
As at 1 January	-	(1,426,818)	(1,426,818)
Amortisation charge for year	-	(110,349)	(110,349)
As at 31 December	-	(1,537,167)	(1,537,167)
Net book value at 31 December	48,973	364,687	413,660

As the functional currency of Stanbic South Sudan is the currency of a hyperinflationary economy, intangible assets 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.

Amortisation relating to intangible assets of Stanbic South Sudan is based on the restated amounts, which have been adjusted for the effects of hyperinflation.

The total amount disclosed as intangible assets is non-current and relates to computer software.
Work in progress relates to computer software for upgrades in mobile banking and telephone system which had not been completed as at year end.

As at 31 December 2016, the intangible assets had a remaining useful life of 10 years.

32. (a) (i) Deferred income tax asset

	2016 KShs'000	2015 KShs'000
At start of year	**(434,248)**	(1,523,970)
(Credit) /debit to statement of profit or loss (Note 16)	**(1,001,743)**	1,019,003
(Credit) /debit to other comprehensive income	**(39,981)**	70,719
At end of year	**(1,475,972)**	(434,248)

The total amount disclosed as deferred income tax asset is a non-current asset. Included in the total amount is a deferred income tax asset for Kenya of KShs 1,475,972,000 (2015: Kshs 431,000,000) and the branch in South Sudan of nil in 2016 (2015: KShs 3,000,000). Deferred income tax (assets)/liabilities and deferred income tax (credit)/charge in the income statement and other comprehensive income are attributable to the following items:-

32. (a) (ii) Deferred income tax asset

Year ended 31 December 2016	**1.1.2016 KShs'000**	**(Credited)/ charged to statement of profit or loss KShs'000**	**Credited to other comprehensive income KShs'000**	**31.12.2016 KShs'000**
Arising from:				
Property and equipment	**56,875**	**(11,279)**	**-**	**45,596**
Impairment charges on loans and advances	**(586,009)**	**(355,489)**	**-**	**(941,498)**
Leasing	**(21,487)**	**-**	**-**	**(21,487)**
Unrealised gain on South Sudan paid up capital	**181,053**	**(89,049)**	**-**	**92,004**
Unrealised gain on bonds – Available-For-Sale	**80,146**	**12,890**	**(39,981)**	**53,055**
Unrealised gain on bonds – Held For Trading	**316,252**	**(143,317)**	**-**	**172,935**
Other provisions	**(458,294)**	**(415,499)**	**-**	**(873,793)**
Exchange difference on translation	**(2,784)**	**-**	**-**	**(2,784)**
Net deferred income tax asset	**(434,248)**	**(1,001,743)**	**(39,981)**	**(1,475,972)**

Year ended 31 December 2015	1.1.2015 KShs'000	(Credited)/ charged to statement of profit or loss KShs'000	Credited to other comprehensive income KShs'000	31.12.2015 KShs'000
Arising from:				
Property and equipment	40,907	15,968	-	56,875
Impairment charges on loans and advances	(465,684)	(120,325)	-	(586,009)
Leasing	(319,763)	298,276	-	(21,487)
Unrealised gain on South Sudan paid up capital	-	181,053	-	181,053
Unrealised gain on bonds – Available-For-Sale	9,427	-	70,719	80,146
Unrealised gain on bonds – Held For Trading	(66,800)	383,052	-	316,252
Other provisions	(715,681)	257,387	-	(458,294)
Exchange difference on translation	(6,376)	3,592	-	(2,784)
Net deferred income tax asset	(1,523,970)	1,019,003	70,719	(434,248)

Notes (continued)

32. (b) (i) Deferred income tax liability

	2016 KShs'000	2015 KShs'000
At start of year	-	-
Debit to statement of profit or loss (Note 16)	7,699	-
Debit to other comprehensive income	-	-
At end of year	**7,699**	-

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

As the functional currency of CfC Stanbic South Sudan is the currency of a hyperinflationary economies, deferred tax relating to this branch is recognised using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their restated carrying amounts.

Included in the total amount is a deferred income tax liability for Kenya of nil (2015: nil) and the branch in South Sudan of KShs 7,699,000 in 2016 (2015: nil).

Year ended 31 December 2016	1.1.2016 KShs'000	(Credited)/ charged to statement of profit or loss KShs'000	Credited to other comprehensive income KShs'000	31.12.2016 KShs'000
Arising from:				
Property and equipment	-	7,699	-	7,699
Net deferred income tax asset	-	7,699	-	7,699

33. (a) Current income tax (recoverable) /payable

	2016 KShs'000	2015 KShs'000
As at 1 January	(365,574)	(34,594)
Current tax charge (Note 16)	2,603,458	1,270,609
Income tax paid	(852,946)	(1,601,589)
As at 31 December	**1,384,938**	(365,574)

The amount above relates to current income tax recoverable in Kenya and is current.

33. (b) Current income tax payable / (recoverable)

	2016 KShs'000	2015 KShs'000
As at 1 January	80,305	(37,954)
Exchange difference on translation	(62,262)	27,888
Current tax charge (Note 16)	-	90,371
Income tax paid	(52,007)	-
As at 31 December	**(33,964)**	80,305

The amount above relates to current income tax payable in South Sudan and is current.

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.

34. Customer deposits

	2016 KShs'000	2015 KShs'000
Current accounts	**69,465,779**	61,808,911
Call deposits	**6,430,155**	6,108,105
Savings accounts	**23,177,470**	11,165,430
Term deposits	**18,584,682**	27,410,755
Letters of credit acceptances	**2,245,471**	-
Total customer deposits	**119,903,557**	106,493,201
Maturity analysis:		
Redeemable on demand	**92,217,992**	78,710,434
Maturing within 1 month	**14,969,648**	9,565,257
Maturing after 1 month but within 6 months	**8,988,477**	5,871,655
Maturing after 6 months but within 12 months	**3,581,089**	2,038,793
Maturing after 12 months	**146,351**	10,307,062
	119,903,557	106,493,201

Organisation analysis:

Deposit products include current accounts, savings accounts, call deposits, and fixed deposits. The weighted average effective interest rate on customer deposits as at 31 December 2016 was 3% (2015: 4.03%)

	2016 KShs'000	%	2015 KShs'000	%
Central government	**15,489,804**	**13%**	10,103,071	9%
Non-financial public enterprises	**774,459**	**1%**	1,561,691	1%
Non-bank financial institutions	**284,299**	**0%**	1,068,124	1%
Insurance companies	**1,327,366**	**1%**	933,221	1%
Hire purchase companies	**7**	**0%**	93	0%
Private enterprises	**60,952,248**	**51%**	84,265,599	79%
Non-profit institutions and individuals	**41,075,374**	**34%**	8,561,402	8%
	119,903,557	**100%**	106,493,201	100%

35. Amounts due to other banks

	2016 KShs'000	2015 KShs'000
Deposits from banks	**32,365,282**	33,150,815
Balances due to Group banks (43.2)	**4,141,542**	14,813,449
	36,506,824	47,964,264
Maturity analysis:		
Redeemable on demand	**1,535,806**	2,116,494
Maturing within 1 month	**1,963,295**	-
Maturing after 1 month but within 6 months	**641,687**	1,666,529
Maturing after 6 months but within 12 months	**10,767,756**	21,383,857
Maturing after 12 months	**21,598,280**	22,797,384
	36,506,824	47,964,264

Notes (continued)

36. (a) Other liabilities

	2016 KShs'000	2015 KShs'000
Accruals	**1,589,806**	1,784,722
Deferred bonus scheme (Note 36(b))	**171,515**	181,296
Unpresented bank drafts	**105,509**	93,367
Margin on guarantees and letters of credit	**1,267,408**	469,742
Items in transit	**152,513**	79,435
Due to group companies (Note 43.7)	**991,684**	987,109
Sundry creditors	**1,661,309**	1,828,547
	5,939,744	5,424,218

36. (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, its subsidiaries 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 as at 31 December 2016 amounts to KShs 171,515,000 (2015: KShs 181,296,000) and the amount charged for the year was KShs 132,015,000 (2015: KShs 92,200,000).

	Units	
Reconciliation	**2016 KShs'000**	2015 KShs'000
Units outstanding at beginning of the year	**246,954**	255,987
Granted	**180,604**	128,753
Exercised	**(129,014)**	(121,730)
Lapsed	**(36,004)**	(16,056)
Transfers	**(128,564)**	-
Units outstanding at end of the year	**133,976**	246,954

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

*South African Rand

37. Borrowings

At 31 December 2016

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

At 31 December 2015

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

There were no charges placed on any of the Bank's assets in relation to these borrowings.

The Bank has not had any defaults of principal, interest or other breaches with regard to any borrowings during 2016 and 2015. The Bonds are payable on their maturity dates at the notional value.

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 518,000,000(2015: KShs 838,412,000). The weighted average effective interest rate on borrowings as at 31 December 2016 was 12.95% (2015: 12.51%).

The borrowings are unsecured subordinated debt instruments.

Notes (continued)

38. Share capital

Authorised share capital

	2016		2015	
	Number of shares (thousands)	**Share capital KShs'000**	Number of shares (thousands)	Share capital KShs'000
Authorised share capital of KShs 20 each	**187,250**	**3,745,000**	187,250	3,745,000
At 31 December	**187,250**	**3,745,000**	187,250	3,745,000

Issued share capital

	2016		2015	
	Number of shares (thousands)	**Share capital KShs'000**	Number of shares (thousands)	Share capital KShs'000
Balance as at 1 January	**170,577**	**3,411,549**	170,577	3,411,549
At 31 December	**170,577**	**3,411,549**	170,577	3,411,549
Unissued shares	**16,673**	**333,451**	16,673	333,451

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.

39. Share premium

	2016 KShs'000	2015 KShs'000
At 1 January	**3,444,639**	3,444,639
At 31 December	**3,444,639**	3,444,639

40. Nature and purpose of reserves

40.1 Revaluation reserve on available-for-sale financial assets

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised or impaired.

40.2 Revaluation reserve on 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.

40.3 Foreign currency translation reserve

Currency translation reserve comprises all the foreign exchange differences arising from the translation of the financial statements of foreign operations.

40.4 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.

41. Share-based payment reserve

	2016 KShs'000	2015 KShs'000
At end of year	**13,861**	42,383

The Bank's share incentive scheme enables key management personnel and senior employees of the Bank to benefit from the performance of SBG (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 2016, the total amount included in staff costs for Group Share Incentive Scheme was KShs. 739,000 (2015: KShs 13,947,000) and for Equity Growth Scheme was KShs 360 000 (2015: KShs 57,000).

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

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

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

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

The weighted average SBG share price for the year to 31 December 2016 was ZAR 151.63 (2015: ZAR 147.88).

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

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

Notes (continued)

41. Share-based payment reserve (continued)

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

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5,000	98,00	98,00	Year to 31 December 2017
17,875	92,00	92,00	Year to 31 December 2018
26,875	62,39	62,39	Year to 31 December 2019
128,063	104,53 - 111.94	109,41	Year to 31 December 2020
169,970	97,80 - 107,55	99,70	Year to 31 December 2021
347,783			

Equity Growth Scheme	Appreciation right price range (ZAR) 2016	Number of rights 2016	2015
Rights outstanding at beginning of the year		26,200	37,200
Transfers	62.39-111.94	72,725	-
Exercised[1]	62.39-105.60	-	(11,000)
Lapsed		(77,550)	-
Rights outstanding at end of the year[2]		21,375	26,200

[1] *During the year 31,003 (2015: 5,255) SBG shares were issued to settle the appreciated rights value.*

[2] *At 31 December 2016 the Bank would need to issue 8,146 (2015:3,578) SBG shares to settle the outstanding appreciated rights value.*

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

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

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

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

42. Contingent liabilities

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

42.1 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.

42.2 Segmental analysis of off-balance sheet liabilities

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

42.3 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 eventuating, that the bank has adequate insurance programmes and provisions in place to meet such claims. The amounts provided for in other liabilities are KShs 32,500,000 (2015: KShs 32,500,000).

Notes (continued)

43. Related party transactions

The Bank is a wholly owned subsidiary of Stanbic Holdings Plc (formerly CfC Stanbic Holdings Limited), which is in turn a subsidiary of Stanbic Africa Holdings Limited (SAHL), incorporated in the United Kingdom. The ultimate parent of the Bank is Standard Bank Group Limited, which is incorporated in South Africa.
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 2016, the Bank has made provision for doubtful debts relating to long outstanding amounts owed by related parties KShs 276,159,000 (2015: KShs 281,379,000) as indicated on Note 43.6.

The relevant balances are as shown below;

43.1 Loans and advances to Group banks

	2016 KShs'000	2015 KShs'000
Stanbic Bank Uganda Limited	**4,628**	99,260
Stanbic Bank Tanzania Limited	**52,699**	27,145
Standard Bank (Mauritius) Limited	**3**	2
Standard Bank of South Africa Limited	**1,925,295**	6,723,822
Standard Bank Isle of Man	**7,776,444**	-
	9,759,069	6,850,229
Interest income earned on the above is:	**58,996**	5,141

43.2 Deposits due to Group banks

	2016 KShs'000	2015 KShs'000
Standard Bank of South Africa Limited	**218,062**	143,793
Standard Bank Namibia Limited	**556**	460
Stanbic Bank Uganda Limited	**311,888**	463,722
Stanbic Bank Zambia Limited	**321**	22
Stanbic Bank Zimbabwe Limited	**147**	139
Stanbic Bank Botswana Limited	**1,632**	844
Standard Bank (Mauritius) Limited	**1,689,123**	1,674,994
Stanbic Bank Malawi Limited	**1,703**	759
Standard Bank Isle of Man	**1,909,587**	12,118,331
Stanbic Bank Tanzania Limited	**7,822**	5,290
Standard Bank PLC	**-**	404,912
Standard Bank Swaziland	**701**	25
Stanbic Bank Ghana	**-**	158
	4,141,542	14,813,449
Interest expense incurred on the above is:	**382,682**	509,999

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

43. Related party transactions (continued)

43.3 Deposits due to Group companies non-bank

	2016 KShs'000	2015 KShs'000
Stanbic Holdings Plc	120,774	145,701
SBG Securities Limited	-	515,247
Heritage	110,147	195,073
STANLIB Kenya Limited	-	88,236
Liberty Life	2,015	123,636
Stanbic Insurance Agency Limited	106,712	6,101
	339,648	1,073,994
Interest expense incurred on the above is:	5,711	20,701

43.4 Due to subsidiary

Stanbic Nominees Limited	2	2
Stanbic Insurance Agency Limited	10	10
	12	12

43.5 Key management compensation

Key management personnel include the members of the Stanbic Bank Kenya Limited board of directors and prescribed officers effective for 2015 and 2014. 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.

Key management have transacted with the Bank as indicated in note 43.5.1 and 43.5.2;

43.5.1 Loans and advances to key management

The aggregate amount of loans to directors, affiliates and their families on the statement of financial position is:

	2016 KShs'000	2015 KShs'000
Loans outstanding at the beginning of the year	33,816	39,107
Loans granted during the year	-	31,685
Accrued interest	(2,751)	2,800
Loans repaid during the year	(2,453)	(39,776)
Loans outstanding at the end of the year	28,612	33,816

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

Notes (continued)

43. Related party transactions (continued)

43.5.2 Key management remuneration

	2016 KShs'000	2015 KShs'000
Fees for services as a director	**26,155**	18,634
Salaries and other short term employment benefits	**233,158**	269,155
Post-employment pension	**2,748**	2,292
Share-based payments	**31,811**	18,956
	293,872	309,037

43.6 Other receivable from related companies

	2016	2015
SBG Securities Limited	**42,018**	49,523
CfC Life Assurance Limited	**1,580**	1,515
The Heritage Insurance Company Limited	**175**	1,281
Stanbic Holdings Plc	**1,550**	3,401
Stanbic Bank Uganda Limited	**9,394**	7,581
Stanbic Bank Tanzania Limited	**297,920**	301,336
Standard Bank of South Africa Limited	**925,228**	535,155
Stanbic Bank Zambia Limited	**1,265**	704
Stanbic Bank Malawi Limited	**630**	139
Standard Bank s.a.r.l. (Mozambique)	**-**	10
STANLIB Kenya Limited	**-**	22,286
Standard Bank Swaziland Limited	**332**	425
Standard Bank RDC s.a.r.l	**412**	26
Standard Bank de Angola S.A.	**23,156**	513
Stanbic Insurance Agency Limited	**42,637**	11,345
Standard Advisory London Limited	**98**	241
Standard Bank Jersey Limited	**4,543**	-
Standard Bank Isle of Man Limited	**500**	-
	1,351,438	935,481
Provisions on regional costs balances	**(276,159)**	(281,379)
	1,075,279	654,102

Movement analysis

	2016	2015
At 1 January	**935,481**	768,546
Additions	**1,397,033**	731,643
Receipts	**(981,076)**	(564,708)
Closing Balance	**1,351,438**	935,481
Provisions on regional costs balances	**(276,159)**	(281 379)
At 31 December	**1,075,279**	654,102

43. Related party transactions (continued)

43.7 Other payables due to related companies

	2016 KShs'000	2015 KShs'000
Standard Bank Malawi Limited	3,185	1,079
Standard Bank of South Africa Limited	986,659	949,220
Stanbic Bank Uganda Limited	1,025	50
SBG Securities Limited	815	2,609
Stanbic Insurance Agency Limited	-	34,151
	991,684	987,109

There is no interest accruing for these outstanding liabilities.

43.8 Related party expenses

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

	2016 KShs'000	2015 KShs'000
Franchise fees	540,690	450,791
Information technology	27,771	81,629
Other operating costs	3,627	508
	572,088	532,928

44. Notes to the cash flow statement

44.1 Cash flows from operating activities

Reconciliation of profit before income tax to cash flow from operating activities:

	2016 KShs'000	2015 KShs'000
Net income before income tax	6,036,107	7,077,019
Adjusted for:		
- Amortisation of intangible assets (Note 31)	120,324	110,349
- Depreciation - property and equipment (Note 30)	344,338	344,955
- Impairment - property and equipment (Note 30)	76,853	25,584
- Change in fair value of derivatives	1,604,629	(1,287,605)
- Share based payment expense	1,099	14,004
- Loss/(gain) on disposal of property and equipment	7,399	158
Cash flow from operating activities	8,190,749	6,284,464

Notes (continued)

44.2 Analysis of cash and cash equivalents

	2016 KShs'000	2015 KShs'000
Cash and balances with CBK	2,561,792	5,676,335
Treasury bills	8,934,432	12,777,274
Loans and advances to banks	16,884,257	23,181,591
Amounts due to other banks	(3,499,101)	(2,116,493)
Cash and cash equivalents at year end	24,881,380	39,518,707

For the purpose of presentation of cash flows in the financial statements, the cash and cash equivalents include balances with Central Bank of Kenya (CBK) 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.

45. Capital commitments

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

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

46. 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 between six years with a renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases such as those concerning dividends or additional debt.

At 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows:

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

47. Fiduciary activities

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

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

48. Comparatives

Where necessary, comparative figures within notes have been adjusted to either conform to changes in presentation in the current year or for the adoption of new IFRS requirements.

Notice of Annual General Meeting

Notice is hereby given that the Twenty-Fourth Annual General Meeting of the Members of Stanbic Bank Kenya Limited (the Company) will be held on 5 May 2017, in the Boardroom, 2nd Floor, Purshottam Place, Nairobi, at 10.00 a.m. to transact the following business:

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

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

3. To consider and approve the recommendation by the Directors for a final dividend of KShs 8.21 per share for the year ended 31 December 2016.

4. To elect Directors:

    i) In accordance with Article 72 and 74 of the Company's Articles of Association, Ms Ruth T Ngobi retires by rotation and being eligible, offers herself for re-election.

    ii) In accordance with Article 72 and 74 of the Company's Articles of Association, Mr Fred N Ojiambo, MBS, SC, retires by rotation and being eligible, offers himself for re-election.

    iii) In accordance with Article 72 and 74 of the Company's Articles of Association, Mr Christopher B Newson retires by rotation and being eligible, offers himself for re-election.

5. To pass an ordinary resolution approving the Directors' remuneration for the year ended 31 December 2016 as provided in the Audited Financial Statements.

6. To pass an ordinary resolution to appoint Messrs PricewaterhouseCoopers as auditors of the Company pursuant to Section 717(2) of the Companies Act, 2015, taking note that the auditors have indicated their willingness to continue in office.

7. To pass an ordinary resolution authorising the Directors to fix the remuneration and terms of appointment for the appointed auditors pursuant to Section 719(1) of the Companies Act, 2015.

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

BY ORDER OF THE BOARD

Lillian Mbindyo
Company Secretary

23 February 2017

NOTE:

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

Proxy form

To The Company Secretary
Stanbic Bank Kenya Limited
P O Box 30550 – 00100
NAIROBI

I/We,____

of ____

being a member of STANBIC BANK KENYA LIMITED hereby appoint ______________________________

____

of ____

or failing him ____

of ____

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

Dated this ____________________________ day of ________________________ 2017

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

Notes

www.stanbicbank.co.ke