STANBIC HOLDINGS PLC

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

Stanbic *IT CAN BE*™

A member of Standard Bank Group

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Chairman:	Kitili Mbathi
Chief Executive:	Patrick Mweheire**
Chief Executive of Stanbic Bank Kenya Limited:	Charles Mudiwa***
Non-Executive Directors:	Rose W. Kimotho (Retired on 20 May 2021) Ruth T. Ngobi Peter N. Gethi Rose B. Osoro Dorcas Kombo Samuel N. Gikandi Wambui K. Mbesa (Appointed on 8 September 2021) Joe Muganda (Appointed on 12 October 2021) ** Ugandan *** Zimbabwean
Ag. Company Secretary:	Janet Kabiru P.O. Box 72833 00200 Nairobi
Auditor:	KPMG Kenya 8th Floor, ABC Towers Waiyaki Way P.O. Box 40612 00100 Nairobi, Kenya
Registered Office:	Stanbic Bank Centre Chiromo Road, Westlands P.O. Box 72833 00200 Nairobi
Principal Bankers:	Stanbic Bank Kenya Limited Chiromo Road, Westlands P.O. Box 72833 00200 Nairobi, GPO

The Directors submit their report together with the audited financial statements for the year ended 31 December 2021, which disclose the state of affairs of Stanbic Holdings Plc (the "Group" or the "Company").

Principal activities

The Group is engaged in the business of banking, bancassurance intermediary and stock broking and is licensed under the Banking Act, Capital Markets Act and Insurance Act. The Company's shares are listed on the Nairobi Securities Exchange.

Principal risks and uncertainties

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

a) Credit risk
b) Liquidity risk
c) Market risk
d) Operational risk (encompasses systems, people and processes)

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

Business review and financial performance

In 2021, Kenya experienced three waves of COVID-19. The first wave (March) saw the government imposing strict restrictions. However less stringent measures were imposed during the second wave (August) after which the government started lifting the public health restrictions which culminated in the removal of the last significant public health restriction, the 10pm to 4am curfew in late October. As at the end of the year, about 15.3% of the adult population had been vaccinated.

GDP growth over the first three quarters of 2021 was on the upside averaging 7.9% y/y. Cumulative growth over the first three quarters of 2021 was 6.5%. This is evidence that the post-pandemic recovery was much stronger than anticipated. The fastest growing sectors were the ones that were most impacted by the pandemic i.e., transport, trade, manufacturing, education and tourism. Agriculture witnessed subdued growth due to adverse base effects and lower than average rainfall.

Inflation averaged 6.2% in 2021 from 5.4% in 2020. The higher inflation was on account of base effects from lapping a low inflationary period in 2020, higher energy prices driven by rising global oil prices, rising food prices due to adverse weather and global supply chain issues which affected local firms.

Despite the challenges presented by COVID-19 to the operating environment, banks continued to demonstrate resilience with increase in profitability, strong liquidity and capital adequacy ratios. Gross NPLs were on a downward trend with the banking sector NPL ratio having declined to 13.6% in October from 13.9% in August and 14.2% in April. As at Q4 2021, listed banks interest income grew at a higher rate compared to the growth recorded in Q4 2020 while average loan growth was lower than the growth recorded in Q4 2020. Notably, the loan growth outpaced the growth in government securities, an indication that banks' increased their lending to the private sector due to decrease in credit risk on the back of economic recovery.

Banks commenced integration of climate-related risks into their strategy, governance, risk management and disclosure frameworks. This follows the issuance of guidance on climate-related risk management in October by the Central Bank of Kenya. The guidance is intended to enhance the consideration of climate-related risks by banks while leveraging on the business opportunities in the transition to a low-carbon, climate resilient economy. Banks also begun raising additional capital with the intention of supporting lending in 2022, and financing emerging opportunities in Kenya and the region.

Business review and financial performance (continued)

The Group reported a profit after tax of KES 7.2Bn.This represents 39% increase from the year ended 31 December 2020. The Group reported strong results in 2021 despite a challenging operating environment. The economic recovery was gradual characterized by interruptions relating to re-introduction of COVID-19 restrictions. The interest rates benchmark rate was maintained at 7% throughout the year. Inflation rate also remained within the government target range of between 2.5% and 7.5% despite increase in fuel prices.

The group's performance has been supported by an improved credit risk portfolio and double digit growth in net interest income. Balance sheet efficiency improved, and key performance drivers demonstrated decent growth. Lending book expanded by 17% bolstered by rebound of economic activities. Net interest margins continue to recover albeit a low interest rate environment. Deposits from customers grew by 11% from last year providing the much needed liquidity to cost effectively fund balance sheet growth. The increased book quality has led to a 48% reduction in impairment charges. Total operating expenses grew by a single digit despite efforts to enhance the technology infrastructure, improve client experience and onboard skilled personnel.

Summary results for the year are as follows:

	2021 Kshs. billion	2020 Kshs. billion	Change
Total income	25.0	23.2	7.54%
Credit impairment charge	2.5	4.9	(48.24%)
Total operating expenses	12.7	12.1	4.74%
Profit for the year	7.2	5.2	38.83%
Loans and advances to customers	185.3	158.2	17.15%
Non performing loans	22.5	25.0	(9.84%)
Total assets	328.9	328.6	0.08%
Deposits from customers	242.3	217.4	11.45%
Total equity	56.5	51.7	9.13%
Cost to income ratio	51%	52%	(1.36%)

Dividends

During the year, the directors' paid an interim dividend of KShs 1.70 (2020: nil) per ordinary share amounting to KShs 672,046,000 (2020: KShs nil)

Subject to the approval of the shareholders at the next Annual General Meeting to be held on 19 May 2022, the directors' recommend payment of a final dividend of KShs 7.30 (2020: KShs 3.80) per ordinary share equivalent to a total sum of KShs 2,885,848,000 (2020: KShs 1,502,224,000). The total dividend for the year, therefore, will be KShs 9.00 (2020: KShs 3.80) for every ordinary share amounting to KShs 3,557,895,000 (2020: KShs 1,502,224,000).

Share capital

The total number of authorised shares as at 31 December 2021 was 473,684,211 (2020: 473,684,211), ordinary shares of KShs 5 each, with 395,321,638 shares being issued and fully paid up (2020: 395,321,638).

Directors

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

Events subsequent to the end of the reporting period

There are no material events that have occurred between the end of the reporting period and the date of this report that would require adjusting or disclosure in the financial statements.

Management by third parties

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

Disclosures to auditor

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

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

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

Terms of appointment of auditor

The term of audit engagement of KPMG Kenya began in the current financial year's audit work following their appointment by the Shareholders at the annual general meeting held on 20th May 2021 as the Group's auditor in accordance with the provisions of Section 721 of the Kenyan Companies Act, 2015.

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

Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 02 March 2022.

By Order of the Board,

Janet Kabiru
Ag. Company Secretary
02 March 2022

Stanbic Holdings Plc
Statement of Directors' responsibilities
For the year ended 31 December 2021

The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of its profit or loss for that year. The financial statement comprises the Group and Company statements of financial position as at 31 December 2021, and the Group and Company statements of profit or loss, the Group and Company statements of other comprehensive income, the Group and Company statements of changes in equity and the Group and Company statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies and other explanatory information. It also requires the directors to ensure that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Group and the Company; that disclose, with reasonable accuracy, the financial position of the Group and Company and that enable them to prepare financial statements of the Group and the Company that comply with the International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The directors 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 Kenyan Companies Act, 2015. They also accept responsibility for:

i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

ii) selecting suitable accounting policies and applying them consistently; and

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

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

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

Approved and authorised for issue by the Board of Directors on 02 March 2022 and signed on its behalf by:

Kitili Mbathi	**Patrick Mweheire**
Chairman	**Chief Executive**

Dorcas Kombo
Director

Date: 02 March 2022

Information not subject to audit

The Company’s board remuneration policy

The Company’s Board remuneration policy is designed to create value for shareholders, clients, our employees and communities while retaining and motivating an effective Board of Directors.

In determining the remuneration fee for Non-Executive Directors, the Board will ensure that regular surveys are conducted on the remuneration of Non-Executive Directors on the boards of peer listed companies. The level of remuneration and compensation for Non-Executive Directors (NEDs) must be set to attract independent NEDs who, together with the Board as a whole, encompass a varied range of relevant skills and experience to determine the Company’s strategy and oversee implementation. The NEDs are paid an annual fee and sitting allowance for meetings attended. The remuneration for NEDs is reviewed on an annual basis for approval by the shareholders of the Company at the annual general meeting. A schedule of the remuneration to be paid is submitted to the Remuneration Committee for Standard Bank Group on annual basis. The NEDs are to be appropriately reimbursed for expenses such as travel and subsistence incurred in the performance of their duties.

Disclosure of the Board’s remuneration is made in the annual financial report of the Company in the Board Remuneration Report as guided by law.

The chairman of the Board is paid a taxable retainer of KShs 100,000 per quarter and a sitting allowance of KShs 180,000. The other members of the Board are paid a taxable retainer of KShs 75,000 per quarter and a sitting allowance of KShs 120,000. The Board's retainer is paid quarterly while the sitting allowances are paid for every meeting attended.

The chairman of the Board Audit Committee is paid KShs 150,000 and the committee members are paid KShs 120,000 for every meeting attended.

The members of the Board can access loans and guarantees at the prevailing market rates.

Contract of service

In accordance with the Kenyan Companies Act, 2015, the Company’s Articles of Association and as outlined in the letters of appointment for Directors, a third of Non-Executive Directors retire by rotation at every annual general meeting, and if eligible, may offer themselves for re-election by shareholders.

The Chief Executive was appointed in accordance to the Company’s Articles of Association, paragraph 144, which states that;

- The Board may from time to time appoint one or more of its body to any executive office in the management of the Company as the Board shall determine, for such period and upon such terms as it thinks fit and, subject to the provisions of any agreement entered into in any particular case, may revoke such appointment.

Statement of voting on the directors' remuneration report at the previous Annual General Meeting

During the Annual General Meeting held on 20 May 2021, the shareholders approved the payments of directors' fees for the year ended 31 December 2020.

At the Annual General Meeting to be held on 19 May 2022, approval will be sought from shareholders for the directors' fees for the financial year ended 31 December 2021.

Stanbic Holdings Plc
Directors' renumeration report
For the year ended 31 December 2021

Information subject to audit

Year ended 31 December 2021 (KShs '000')

Name	Category	Basic pay	Bonus	Pension	Non-cash benefits	Retainer	Sitting allowance	Total Company	Total Group subsidiaries	Total Group
Kitili Mbathi	Chairman	-	-	-	-	400	900	1,300	7,314	8,614
Patrick Mweheire*	Chief Executive	19,305	4,945	6,153	2,142	-	-	32,545	1,578	34,123
Rose Kimotho	Non Executive	-	-	-	-	150	360	510	2,511	3,021
Ruth T. Ngobi	Non Executive	-	-	-	-	300	600	900	5,936	6,836
Peter Gethi	Non Executive	-	-	-	-	300	720	1,020	7,678	8,698
Rose Osoro	Non Executive	-	-	-	-	300	840	1,140	6,087	7,227
Dorcas Kombo	Non Executive	-	-	-	-	300	900	1,200	4,634	5,834
Samuel Gikandi	Non Executive	-	-	-	-	300	600	900	5,673	6,573
Joseph Muganda	Non Executive	-	-	-	-	75	120	195	695	890
Wambui Mbesa	Non Executive	-	-	-	-	75	120	195	695	890
Total		**19,305**	**4,945**	**6,153**	**2,142**	**2,200**	**5,160**	**39,905**	**42,801**	**82,706**

*The Chief Executive also has an oversight role over the region and therefore his costs are borne by Stanbic Holdings Plc and the Standard Bank of South Africa. The costs disclosed above relate to the share of Stanbic Holdings Plc.

Year ended 31 December 2020 (KShs '000')

Name	Category	Basic pay	Bonus	Pension	Non-cash benefits	Retainer	Sitting allowance	Total Company	Total Group subsidiaries	Total Group
Kitili Mbathi	Chairman	-	-	-	-	400	900	1,300	9,024	10,324
Patrick Mweheire	Chief Executive	-	-	-	-	-	-	-	1,841	1,841
Christopher Newson	Non Executive	-	-	-	-	75	240	315	1,553	1,868
Rose Kimotho	Non Executive	-	-	-	-	300	600	900	6,143	7,043
Greg Brackenridge	Non Executive	-	-	-	-	150	360	510	3,088	3,598
Ruth T. Ngobi	Non Executive	-	-	-	-	300	600	900	6,005	6,905
Peter Gethi	Non Executive	-	-	-	-	300	600	900	5,893	6,793
Rose Osoro	Non Executive	-	-	-	-	300	840	1,140	6,074	7,214
Dorcas Kombo	Non Executive	-	-	-	-	300	900	1,200	4,703	5,903
Ory Okolloh	Non Executive	-	-	-	-	225	600	825	3,520	4,345
Samuel Gikandi	Non Executive	-	-	-	-	150	240	390	2,442	2,832
Total		**-**	**-**	**-**	**-**	**2,500**	**5,880**	**8,380**	**50,286**	**58,666**

Approval of Remuneration Report by the Board of directors

This remuneration report was approved by the Board of Directors on 02 March 2022

Rose Osoro
Chairperson Board Nominations Committee

02 March 2022

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF STANBIC HOLDINGS PLC

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Stanbic Holdings Plc (the "Group" and "Company") set out on pages 13 to 166 which comprise the group and company statements of financial position as at 31 December 2021, and the group and company statements of profit or loss, the group and company statements of other comprehensive income, the group and company statements of changes in equity and the group and company statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Stanbic Holdings Plc as at 31 December 2021, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required 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 Consolidated and Separate Financial Statements* section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Kenya, and we have fulfilled our other 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 and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses on loans and advances at amortised cost in the consolidated financial statements
The disclosure associated with credit risk is set out in the financial statements in the following notes: — Note 2.6 – Significant accounting policies, *Impairment of financial assets* — Note 3.10 – Expected credit loss (ECL) on financial assets – IFRS 9 drivers — Note 4.3 – Financial risk management, *Credit risk* — Note 23 (c) – Allowances for impairment

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF STANBIC HOLDINGS PLC (CONTINUED)

Report on the audit of the consolidated and separate financial statements (Continued)

Key audit matters (continued)

Expected credit losses on loans and advances at amortised cost in the consolidated financial statements (Continued)	
The key audit matter	**How the matter was addressed in our audit**
Subjective estimate The estimation of expected credit losses ("ECL") on loans and advances and off balance sheet elements, involves significant judgement and estimates. The key areas where we identified greater levels of management judgement in the Group's financial statements and therefore increased levels of audit focus in the estimation of ECLs are: — Forward looking Information – IFRS 9 *Financial Instruments* requires the Group to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the macroeconomic information used and the probability weightings applied especially when considering the current uncertain economic environment as a result of COVID-19. — Significant increase in credit risk ("SICR") – the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. — Model estimations – inherently judgemental modelling is used to estimate ECL which involves determining probabilities of default ("PD"), loss given default ("LGD"), and exposures at default ("EAD"). The PD model is a key driver of complexity in the Group's and Bank's ECL modelling approach. The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers to be a key audit matter due to the high degree of estimation uncertainty and significant judgement applied by management in determination of ECL.	Our procedures in this area included: — Performing process walk-throughs to identify the key systems, and evaluate the design and operating effectiveness of applications and controls used in the ECL processes. — Evaluating key aspects of the ECL model by: ▪ Selecting a sample of outstanding loans from the Group's loan book and comparing these to the details in the customers' credit files in order to establish whether facilities are correctly staged/classified and valued based on IFRS 9 *Financial Instruments*. ▪ Evaluating the appropriateness of the modelling principles implemented in the framework, including the definition of significant increase in credit risk, the use of contractual/ behavioural lifetime, consideration of off-balance sheet exposures, use of a contractual/ effective interest rate and allowances for forward-looking macroeconomic information in the estimation of risk parameters used in the expected credit loss calculation; ▪ Assessing the various probability of default ("PD") and loss given default ("LGD") models performance based on work performed by Group's internal validation unit and performance of additional substantive testing on some of these models; ▪ Assessing the Group's approach to incorporating the economic strain induced by the COVID-19 pandemic through the use of an indicative independent impact assessment thereof; ▪ Assessing the IFRS 9 exposure at default ("EAD") calculation, including the use of term structures and the inclusion of off-balance sheet exposures through a Credit Conversion Factor ("CCF"); ▪ Evaluating management's basis for establishing Stage 3 impairment amounts. This includes challenging reasonability of management assumptions on cashflow projections and time to realization for a sample of facilities; and ▪ Assessing the inclusion of the approved macroeconomic scenarios and their probabilities in the counterparty rating during the rating process. — Evaluating the adequacy of the financial statements' disclosures, including disclosures of key assumptions and judgements in accordance with IFRS 9 *Financial Instruments*.

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF STANBIC HOLDINGS PLC (CONTINUED)

Report on the audit of the consolidated and separate financial statements (Continued)

Key audit matters (continued)

<table>
<tr><th colspan="2">Impairment of goodwill in the consolidated financial statements</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed</th></tr>
<tr><td colspan="2">The disclosure associated with goodwill is set out in the financial statements in the following notes:
— Note 2.9 – Significant accounting policies, Intangible assets - goodwill
— Note 3.12 – Impairment of goodwill
— Note 29 – Intangible assets – goodwill</td></tr>
<tr><td>Impairment of goodwill is considered a key audit matter because:
— The sectors in which the Group operates are highly regulated and continues to experience competitive market conditions with uncertainty of forecast cash flows used in the valuation models.
— A significant level of judgment is applied on key inputs such as forecast cash flows, discount rates applied, forecast growth rates and terminal growth rates when considering management's assessment of goodwill impairment.
The preparation of the estimate of the recoverable amount using the value in use ('VIU') involves subjective judgement and uncertainties and hence was considered as a key audit matter.</td><td>Our audit procedures in this area included:
— Using valuation specialists to evaluate the methodology used to determine recoverable value and assess whether it is appropriate by assessing its compliance with the approach under IAS 36 Impairment of Assets;
— Evaluated the forecasting process and assessed whether the forecasts used in the value in use calculation are consistent with the most up-to-date budgets and business plans that have been formally approved by management;
— Challenging the Group's valuation methodology, discount rates and growth rates by comparing the Group's input to external data such as economic growth projections and interest rates; and
— Assessing the adequacy of the financial statements disclosures, including disclosures of key assumptions and judgements in accordance with IAS 36 Impairment of Assets.</td></tr>
</table>

Other matter

The consolidated and separate financial statements of Stanbic Holdings Plc as at and for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 4 March 2021.

Other information

The Directors are responsible for the other information. The other information comprises the *Corporate information, Report of the directors, Statement of Directors' responsibilities and directors' remuneration report,* but does not include the consolidated and separate financial statements, and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the additional other information to be included in the *Stanbic Holdings Plc Annual Integrated Report and Financial Statements for the year ended 31 December 2021*, which is expected to be made available to us after that date.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, other than that prescribed by the Kenya Companies Act, 2015, as set out below.

In connection with our audit of the consolidated and separate 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 consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF STANBIC HOLDINGS PLC (CONTINUED)

Report on the audit of the consolidated and separate financial statements (Continued)

Other information (continued)

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

Directors' responsibilities for the consolidated and separate financial statements

The Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with IFRSs, and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, Directors are responsible for assessing the Group's and 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 Group and/or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF STANBIC HOLDINGS PLC (CONTINUED)

Report on the audit of the consolidated and separate financial statements (Continued)

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

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

(i) The information given in the *Report of the Directors* on pages 2 and 4 is consistent with the consolidated and separate financial statements; and

(ii) The auditable part of the directors' remuneration report on page 7 has been prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Jacob Gathecha, Practicing Certificate No P/1610.

For and on behalf of:

KPMG Kenya
Certified Public Accountants
PO Box 40612 - 00100
Nairobi

Date: 02 March 2022.

Group and Company statement of profit or loss

		GROUP		COMPANY	
		Year ended 31 December		Year ended 31 December	
	Note	2021 KShs. Million	2020 KShs. Million	2021 KShs. Million	2020 KShs. Million
Interest income	6	20,567	20,302	4	1
Interest expense	7	(6,194)	(7,507)	-	-
Net interest income		**14,373**	**12,795**	**4**	**1**
Fees and commission revenue	8	4,872	4,642	-	-
Fees and commission expense	9	(740)	(582)	-	-
Net fees and commission income		**4,132**	**4,060**	**-**	**-**
Trading revenue	10	5,988	6,234	-	-
Net income from financial instruments at fair value through profit or loss	11 (a)	592	93	-	-
Other income	12	47	38	2,235	2,320
Other (losses)/gains on financial instruments	11 (b)	(143)	17	-	-
Trading and other income		**6,484**	**6,382**	**2,235**	**2,320**
Total income		**24,989**	**23,237**	**2,239**	**2,321**
Credit impairment losses	23 (d)	(2,524)	(4,876)	-	-
Net income before operating expenses		**22,465**	**18,361**	**2,239**	**2,321**
Employee benefits expense	13	(6,519)	(5,929)	(36)	-
Depreciation and amortisation expense	26,27, 28	(813)	(804)	-	-
Depreciation on right-of use assets	30	(352)	(458)	-	-
Other operating expenses		(5,016)	(4,895)	(26)	(46)
Finance costs	15	(9)	(48)	(1)	-
Total operating expenses		**(12,709)**	**(12,134)**	**(63)**	**(46)**
Profit before income tax		**9,756**	**6,227**	**2,176**	**2,275**
Income tax expense	16	(2,548)	(1,035)	(7)	-
Profit for the year		**7,208**	**5,192**	**2,169**	**2,275**
Earnings per share					
Basic and diluted (KShs per share)	17	18.23	13.13	5.49	5.75

Group and Company statement of other comprehensive income

		GROUP		COMPANY	
		Year ended 31 December		Year ended 31 December	
	Note	2021 KShs. Million	2020 KShs. Million	2021 KShs. Million	2020 KShs. Million
Profit for the year		**7,208**	**5,192**	**2,169**	**2,275**
Other comprehensive income for the year, net of income tax					
Items that may be reclassified to profit or loss					
Currency translation differences for foreign operations		(324)	(170)	-	-
Net gains in debt financial assets measured at fair value through other comprehensive income (FVOCI)*	21.2	13	1	-	-
Net loss on financial assets reclassified to profit or loss	21.2	(1)	(34)	-	-
Total other comprehensive income for the year, net of income tax		**(312)**	**(203)**	**-**	**-**
Total comprehensive income for the year		**6,896**	**4,989**	**2,169**	**2,275**

* Income tax relating to each component of other comprehensive income is disclosed in note 38

Group and Company statement of financial position

		GROUP		COMPANY	
		As at 31 December		As at 31 December	
		2021	2020	2021	2020
	Note	KShs. Million	KShs. Million	KShs. Million	KShs Million
Assets					
Cash and balances with Central Bank of Kenya	19	15,403	18,077	-	-
Financial assets – (FVTPL)	20 (a)	18,535	33,729	-	-
Financial assets – (FVOCI)	21	19,227	30,664	-	-
Financial assets – (amortised cost)	22	21,773	23,191	-	-
Derivative assets	33	1,881	2,956	-	-
Loans and advances to banks	23 (a)	44,008	38,119	117	132
Loans and advances to customers	23 (b)	185,313	158,180	-	-
Other assets and prepayments	24	3,704	4,759	21	20
Investment in subsidiaries and other investments	25	18	18	18,218	18,218
Property and equipment	26	1,915	2,242	-	-
Right-of-use assets (leasehold land)	27	39	42	-	-
Other intangible assets	28	1,021	864	-	-
Intangible assets - goodwill	29	9,350	9,350	-	-
Right-of-use assets (buildings)	30	1,037	1,479	-	-
Current tax asset	37	-	-	9	16
Deferred tax asset	38	5,648	4,847	-	-
Asset classified as held-for-sale	49	-	76	-	-
Total assets		**328,872**	**328,593**	**18,365**	**18,386**
Equity and liabilities					
Liabilities					
Derivative liabilities	33	1,743	2,601	-	-
Financial liabilities – FVTPL	20 (b)	357	418	-	-
Deposits from banks	34 (a)	12,243	42,526	-	-
Deposits from customers	34 (b)	242,345	217,444	-	-
Borrowings	35	5,700	5,504	-	-
Other liabilities and accrued expenses	36	7,149	6,581	129	144
Current tax liability	37	1,751	395	-	-
Deferred tax liability	38	-	1	-	-
Lease liabilities	31	1,132	1,386	-	-
Liabilities directly associated with assets classified as held-for-sale	49	-	7	-	-
Total liabilities		**272,420**	**276,863**	**129**	**144**
Equity					
Ordinary share capital	32 (b)	1,977	1,977	1,977	1,977
Ordinary share premium	32 (c)	16,897	16,897	16,897	16,897
Other reserves	44	(1,664)	(1,349)	-	-
Retained earnings		36,356	32,703	(3,524)	(2,134)
Proposed dividend	18	2,886	1,502	2,886	1,502
Total shareholders' equity		**56,452**	**51,730**	**18,236**	**18,242**
Total equity and liabilities		**328,872**	**328,593**	**18,365**	**18,386**

The financial statements on pages 13 to 166 were approved and authorised for issue by the Board of Directors on 02 March 2022 and signed on its behalf by:

Chairman ....
Kitili Mbathi

Chief Executive ....
Patrick Mweheire

Director ....
Dorcas Kombo

Ag. Company Secretary ....
Janet Kabiru

Group statement of changes in equity

For the year ended 31 December 2021	Note	Share Capital KShs Million	Share Premium KShs Million	Other Reserves KShs Million	Retained earnings KShs Million	Proposed Dividend KShs Million	Total Equity KShs Million
At 1 January 2021		**1,977**	**16,897**	**(1,349)**	**32,703**	**1,502**	**51,730**
Profit for the year		-	-	-	7,208	-	**7,208**
Other comprehensive income, net of tax		-	-	(312)	-	-	**(312)**
Transfer of statutory reserve		-	-	5	(5)	-	-
Transfer of excess depreciation		-	-	(8)	8	-	-
Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group							
Dividend payment	18	-	-	-	(672)	(1,502)	(2,174)
Proposed dividend	18	-	-	-	(2,886)	2,886	-
Total transactions with owners of the Group		-	-	-	**(3,558)**	**1,384**	**(2,174)**
At 31 December 2021		**1,977**	**16,897**	**(1,664)**	**36,356**	**2,886**	**56,452**

Group Statement of changes in equity (continued)

For the year ended 31 December 2020	Note	Share Capital KShs Million	Share Premium KShs Million	Other Reserves KShs Million	Retained earnings KShs Million	Proposed Dividend KShs Million	Total Equity KShs Million
At 1 January 2020		**1,977**	**16,897**	**(163)**	**28,030**	**2,293**	**49,034**
Profit for the year		-	-	-	5,192	-	5,192
Other comprehensive income, net of tax		-	-	(212)	9	-	(203)
Transfer of statutory credit risk reserve		-	-	(938)	938	-	-
Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group							
Dividend payment	18	-	-	-	-	(2,293)	(2,293)
Proposed dividend	18	-	-	-	(1,502)	1,502	-
Equity-settled share-based payment transactions	45	-	-	(36)	36	-	-
Total transactions with owners of the Group		**-**	**-**	**(36)**	**(1,466)**	**(791)**	**(2,293)**
At 31 December 2020		**1,977**	**16,897**	**(1,349)**	**32,703**	**1,502**	**51,730**

Company statement of changes in equity

Year ended 31 December 2021	Note	Share Capital KShs Million	Share Premium KShs Million	Retained earnings KShs Million	Proposed Dividend KShs Million	Total Equity KShs Million
		Attributable to equity holders				
At 1 January 2021		**1,977**	**16,897**	**(2,135)**	**1,502**	**18,242**
Profit for the year		**-**	**-**	2,169	**-**	**2,169**
Contribution and distributions to owners						
Dividends to equity holders - dividend paid	18	-	-	(672)	(1,502)	**(2,174)**
Dividends to equity holders - proposed dividend	18	-	-	(2,886)	2,886	**-**
Total contributions by and distributions to owners		**-**	**-**	**(3,558)**	**1,384**	**(2,174)**
At 31 December 2021		**1,977**	**16,897**	**(3,524)**	**2,886**	**18,236**

Year ended 31 December 2020	Note	Share Capital KShs Million	Share Premium KShs Million	Retained earnings KShs Million	Proposed Dividend KShs Million	Total Equity KShs Million
		Attributable to equity holders				
At 1 January 2020		**1,977**	**16,897**	**(2,908)**	**2,293**	**18,260**
Profit for the year		**-**	**-**	2,275	**-**	**2,275**
Contribution and distributions to owners						
Dividends to equity holders - dividend paid	18	-	-	-	(2,293)	**(2,293)**
Dividends to equity holders - proposed dividend	18	-	-	(1,502)	1,502	**-**
Total contributions by and distributions to owners		**-**	**-**	**(1,502)**	**(791)**	**(2,293)**
At 31 December 2020		**1,977**	**16,897**	**(2,135)**	**1,502**	**18,242**

Group and Company statement of cashflows

	Note	Group 2021 KShs Million	Group 2020 KShs Million	Company 2021 KShs. Million	Company 2020 KShs Million
Cash flows from operating activities	39 (a)	11,449	6,420	2,176	2,275
Interest paid on borrowings	35	(243)	(558)	-	-
Income tax paid	37 (a)	(2,012)	(1,374)	-	-
Cash flows from operating activities before changes in operating assets and liabilities		**9,194**	**4,488**	**2,176**	**2,275**
Changes in operating assets and liabilities:					
Loans and advances to customers		(27,133)	(5,363)	-	-
Financial assets – FVOCI		(10,498)	(699)	-	-
Financial assets – FVTPL		(1,224)	3,655	-	-
Deposits held for regulatory purposes (restricted cash)		471	(134)	-	-
Other assets and prepayments		1,055	151	(2)	-
Deposits from banks		(28,419)	9,691	-	-
Other liabilities and accrued expenses		568	(8,144)	(15)	13
Deposits from customers		24,901	23,221	-	-
Financial liabilities – FVTPL		(61)	(1,069)	-	-
Net cash (used in)/generated from operating activities		**(31,146)**	**25,797**	**2,159**	**2,288**
Cash flows from investing activities:					
Financial assets – at amortised cost		1,418	(8,301)	-	-
Additions to property and equipment	26	(264)	(408)	-	-
Additions to intangible assets	28	(474)	(166)	-	-
Net cash generated from/(used in) investing activities		**680**	**(8,875)**	**-**	**-**
Cash flows from financing activities:					
Dividends paid		(2,174)	(2,293)	(2,174)	(2,293)
Repayment of borrowings	35	-	(3,998)	-	-
Payment of lease liabilities	31	(377)	(325)		
Net cash (used in) financing activities		**(2,551)**	**(6,616)**	**(2,174)**	**(2,293)**
Net (decrease)/increase in cash and cash equivalents		**(33,017)**	**10,306**	**(15)**	**(5)**
Effect of exchange rate changes		180	(81)	-	-
Cash and cash equivalents at start of year		95,436	85,211	132	137
Cash and cash equivalents at end of year	39 (b)	**62,599**	**95,436**	**117**	**132**

Notes

1 General information

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

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

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

Principal activities of the Group are providing financial services including banking, insurance agency and stock brokerage. The group is licensed under the Kenyan Banking, Capital Markets, retirement benefit and insurance Acts to provide these services.

The financial statements for the year ended 31 December 2021 were approved and authorised for issue by the Board of Directors on 2 March 2022. The financial statements comprise the Group and Company statements of financial position as at 31 December 2021, and the group and company statements of profit or loss, the Group and Company statements of other comprehensive income, the Group and Company statements of changes in equity and the Group and Company statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies and other explanatory information. Neither the entity's owners nor others have the power to amend the financial statements after issue. For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss, in these financial statements.

2 Summary of significant accounting policies

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

a) Basis of preparation

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

- Fair value through other comprehensive income (FVOCI) 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 2.6).

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

- purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 2.6);
- property and equipment and intangible assets are accounted for using the cost model except for revaluation of buildings that arose from the merger between the former CfC Bank and Stanbic Bank in 2008 (accounting policy 2.8 and 2.9);
- the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy 2.6); and
- hyperinflation - the South Sudan economy has been considered to be hyperinflationary. Accordingly, the results, cash flows and financial position of the South Sudan Branch, have been expressed in terms of the measuring unit prevailing at the reporting date (accounting policy 2.22).

Notes (Continued)

2 Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Use of estimates

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

b) Functional and presentation currency

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

c) Changes in accounting policies and disclosures

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

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

Standards and amendments	Key requirements	Effective date
Definition of Accounting Estimates - Amendments to IAS 8 (issued in February 2021)	The amendments introduce the definition of accounting estimates and include amendments to assist entities to distinguish changes in accounting estimates from changes in accounting policies. The amendments are not expected to have a material impact on the Group.	01 January 2023
IFRS 17 (issued in May 2017)	IFRS 17 'Insurance Contracts' establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Group does not issue insurance contracts.	01 January 2023
IAS 1 (issued in January 2020)	Amendments to IAS 1 'Classification of Liabilities as Current or Non-current, clarify a criterion for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement for at least 12 months after the reporting date. The amendments are not expected to have a material impact on the Group.	Effective date deferred and to be decided after exposure draft is finalised, but no earlier than 1 January 2024.

Notes (Continued)

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

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

Standards and amendments	Key requirements	Effective date
IFRS 3 (issued in May 2020)	Amendments to IFRS 3 'Business Combinations' - Reference to the Conceptual Framework are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. The amendments also clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments are not expected to have a material impact on the Group.	01 January 2022
IAS 16 (issued in May 2020)	Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use' prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments are not expected to have a material impact on the Group.	01 January 2022
IAS 37 (issued in May 2020)	Amendments to IAS 37 'Onerous Contracts – Costs of Fulfilling a Contract' specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments are not expected to have a material impact on the Group.	01 January 2022
IFRS 1 (issued in May 2020)	Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards 'Subsidiary as a first-time adopter' permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendments are not expected to have a material impact on the Group.	01 January 2022
Amendment to IFRS 9 (issued in May 2020)	Amendment to IFRS 9 Financial Instruments 'Fees in the '10 per cent' test for derecognition of financial liabilities' clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The amendments are not expected to have a material impact on the Group.	01 January 2022

Notes (Continued)

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

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

Standards and amendments	Key requirements	Effective date
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (Issued in February 2021)	In response to the IASB's Disclosure Initiative – Principles of Disclosure, the amendments introduce a requirement on entities to disclose their material accounting policy information rather than significant accounting policies. To support this amendment the IASB also amended its IFRS Materiality Practice Statement to explain and demonstrate the application of the materiality process to accounting policy disclosures. The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.	01 January 2023
IFRS 16 (amendment) - (Issued in May 2020)	The amendment extends the availability of the practical expedient so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The group elected not to apply this practical expedient.	01 January 2022

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

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 4 Insurance Contracts (IFRS 4), IFRS 7 Financial Instruments: Disclosures (IFRS 7), IFRS 9 Financial Instruments (IFRS 9), IFRS 16 Leases (IFRS 16), IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) (amendments). - The second phase of Interest Rate Benchmark Reform (IBOR) resulted in amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 requirements to enable companies to deal with its effect on financial instruments and to continue providing useful information to investors. The amendments require entities to update the effective interest rate to reflect the change to the alternative risk-free rates (ARRs), instead of derecognising or adjusting the carrying amount of financial instruments, for changes required by the reform if the transition from the IBOR rate to the ARR is as a direct consequence of the reform and on an economically equivalent basis. The amendment also provides specific hedge accounting relief, including that an entity will not have to discontinue hedge accounting solely because it makes changes required by the reform to hedge designations and hedge documentation, if the hedge meets the other hedge accounting criteria. The amendments also require companies to provide additional information about new risks arising from the reform and how it manages the transition to ARRs. There was no impact for phase 2 hedge accounting relief. The group will transition to ARRs as each interest rate benchmark is replaced.

The practical expedient to update the effective interest rate to reflect the change to the ARR was applied to loans and advances. Any other changes to the conceptual cash flows that are as a result of the interest rate benchmark reform are accounted for in terms of the group's modifications policy (refer to note 2.6 for further information relating to the modification policy).

Notes (Continued)

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

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

IFRS 16 (amendment) (issued on 28 May 2020) - In light of the recent Covid-19 pandemic and resultant rent concessions to be granted by lessors, the amendment permits lessees, as a practical expedient, not to assess whether particular Covid-19 related rent concessions are lease modifications and instead account for those rent concessions as if they were not lease modifications. The amendment permits lessees to apply the practical expedient as an accounting policy choice to rent concessions for which any reduction in lease payments affects payments originally due on or before 30 June 2021. The group elected not to apply this practical expedient.

Interest rate benchmarks and reference interest rate reform

The Financial Stability Board has initiated a fundamental review and reform of the major interest rate benchmarks used globally by financial market participants. This review seeks to replace existing interbank offered rates (IBORs) with alternative risk-free rates (ARRs) to improve market efficiency and mitigate systemic risk across financial markets.

During the 2021 financial year, the LIBOR’s administrator, the Intercontinental Exchange Benchmark Administration Limited, announced it would no longer publish EUR, CHF, JPY and GBP related LIBOR rates for all tenors after 31 December 2021. The IBA has adopted a two-stage approach for the cession of the USD LIBOR rates with the 1 week and 2 month USD LIBOR rates no longer being published after 31 December 2021 and the remaining being the overnight, 1 month, 3 month, 6 month and 12 month rates no longer being published after 30 June 2023. The LIBOR rates which the bank is exposed to will be replaced by Secured Overnight Financing Rate (SOFR), Sterling Overnight Index Average (SONIA), Euro Short Term Rate (ESTR), Tokyo Overnight Average (TONA) and Swiss Average Rate Overnight (SARON). Whilst there are plans to replace JIBAR, there is currently no indication of when the designated successor rate will be made available.

Given that the LIBOR rates and ARRs are calculated on a different basis, adjustments may be made to contracts that that are transitioned from LIBOR to ARRs, to ensure economic equivalence.

The group has several LIBOR linked contracts that extend beyond 2021. The group ceased booking new LIBOR linked exposures from 1 October 2021, apart from in limited circumstances to align with industry guidance and best practice. From this date, new exposure will be booked using the ARRs being SOFR, SONIA, ESTR, TONA and SARON. In certain instances, other suitable rates may be used, such as Central Bank Policy Rates.

The group's treasury and capital management (TCM) unit manages the transition to ARRs. The unit evaluates the extent to which loans advanced and liabilities reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The unit works closely with business teams across the group to establish pricing for new lending products indexed to the ARR in impacted jurisdictions.

Notes (Continued)

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

Interest rate benchmarks and reference interest rate reform (continued)

The group's derivative instruments are governed by International Swaps and Derivatives Association (ISDA) 2006 definitions. ISDA published its IBOR fallback protocol, which will apply following a permanent cessation of an IBOR and ensures an orderly transition for IBOR linked contracts in the event that renegotiated contracts are not in place at the time of the cessation of LIBOR. Following a series of public consultations, ISDA launched its IBOR Fallbacks Protocol (the Protocol) and IBOR Fallbacks Supplement (the Supplement) in October 2020. Together, they focus on strengthening existing and new derivatives contracts with durable fallback language. The Protocol and Supplement both took effect in January 2021. The Protocol going into effect means that existing derivatives contracts will now incorporate ISDA's new fallbacks if both counterparties have adhered to the Protocol or otherwise bilaterally agreed to include the new fallbacks in their contracts. The Supplement going into effect means that new derivatives contracts that incorporate the 2006 ISDA Definitions and reference a relevant IBOR will also incorporate the new fallbacks.

The 5 March 2021 Financial Conduct Authority (FCA) statement around the timing for the cessation or loss of representativeness of all LIBOR settings represented an index cessation event under the IBOR Fallbacks Supplement and protocol, triggering a fixing of the fallback spread adjustment at the point of the announcement. This spread adjustment is an important part of the overall fallback rate, and reflects a portion of the structural differences between IBORs and the ARRs used as a basis for the fallbacks – IBORs incorporate a credit risk premium and other factors, while ARRs are risk free or nearly risk free. Following multiple industry consultations by ISDA, it was determined that the fallback for each IBOR setting will be based on the relevant ARR compounded in arrears to address differences in tenor, plus a spread adjustment to account for the credit risk premium and other factors, calculated using a historical median approach over a five-year lookback period from the announcement date.

This spread has now been fixed for all euro, sterling, Swiss franc, US dollar and yen LIBOR tenors, giving firms more information about the exact fallback rate that will be used in the event they do not complete their transition efforts before cessation or non-representativeness occurs.
The above introduces a number of risks to the group including, but not limited to:

- market risk – risk of not aligning to market regulations such as the ISDA, not meeting the market transition timelines and liquidity risk associated with the ARR.
- model risk – risk of the valuation models used within the group not being able to cater for the changes in the intended manner.
- legal risk – risk of being non-compliant to the agreements previously agreed with clients.
- operational risk – risk of the group's systems not being able to accommodate for the changes to the interest rates as agreed with the clients.
- financial risk – risk of not appropriately pricing the deals which will result in a transfer of value between the group and clients.
- compliance/regulatory risk – risk that the bank is exposed regulatory sanctions due to failing to meet the regulatory expectations in relation to the transition.
- reputational risk – the risk to the bank's reputation from failing to adequately prepare for the transition.
- conduct risk – risk that arises when transitioning existing contracts linked to IBORs as value-transfer may occur, or clients may be transitioned to inferior rates or on unfair contractual terms, or in circumstances where they do not fully appreciate the impact of the transition or the alternatives available to them.

The steering committee has set up a risk management transition plan which details the transition process for each product in the relevant Business Units (BUs). Pricing is being managed centrally by TCM using the recommendations from the main industry bodies, namely ISDA for derivatives, Loan Markets Association for Loans and ICMA for Bonds Markets. We are also tracking updates and incorporating best practice recommendations emanating from official sector working groups established to catalyse transition in the relevant jurisdiction.

Notes (Continued)

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

Interest rate benchmarks and reference interest rate reform (continued)

By way of policy, all new contracts or exposures referencing IBORs include robust fallback language, and work is underway in some areas to actively transition legacy exposures away from LIBOR. Changes in impacted systems are being implemented and ready to book at new rates. Communications to clients are underway via multiple platforms along with one-to-one conversations. The group is also ensuring that the staff have attended educational webinars and received the required updates and communication.

Financial instruments impacted by the reform which are yet to transition

	USD LIBOR 2021 KShs million
Total assets subject to IBOR reform	37,767
Derivative Assets[1]	559
Financial Investments	
Loans and Advances	37,208
Trading Assets	
Total liabilities subject to IBOR reform	(12,922)
Derivative Liabilities[1]	(559)
Deposits and debt funding	(6,663)
Borrowings	(5,700)
Trading Liabilities	-
Total off balance sheet exposures subject to IBOR reform	-
Off balance sheet items	-

[1] These balances represent the notional amount directly impacted by the IBOR reform.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.1 Consolidation

(i) Subsidiaries

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to its fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability that is a financial instrument and within the scope of IFRS 9 'Financial Instruments' are recognised in profit or loss in accordance with is are recognised in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.1 Consolidation (continued)

(i) Subsidiaries (continued)

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is measured to its fair value at the date when control is lost, with any resulting gain or loss recognised in profit or loss.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2 Translation of foreign currencies

(i) Transactions and balances

Foreign currency transactions are translated into the respective Functional Currencies of group 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 other comprehensive income (OCI) as part of qualifying cash flow hedges and net investment hedges).

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.2 Translation of foreign currencies (continued)

(ii) Foreign operations

On consolidation, the assets and liabilities of foreign operations are translated into Kenya Shillings at the rate of exchange prevailing at the reporting date and their statements of profit or loss and other comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI.

On the partial disposal of a subsidiary that includes 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.

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.

Branch in hyperinflationary economies

The financial statements of the group entities whose functional currencies are the currencies of hyperinflationary economies are adjusted in terms of the measuring unit at the end of the reporting year following the historic cost approach.

However, as the presentation currency of the group is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the index in the current year. Differences between these comparative amounts and current year hyperinflation adjusted are recognised directly in equity.

The carrying amounts of non-monetary assets and liabilities are adjusted to reflect the change in the general price index from the date of acquisition to the end of the reporting year. On initial application of hyperinflation, prior year gains and losses are recognised directly in equity. Gains or losses on the net monetary position are recognised in profit or loss. 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.

At the beginning of the first year of application, the components of equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. These restatements are recognised directly in equity as an adjustment to opening retained earnings. Restated retained earnings are derived from all other amounts in the restated statement of financial position. At the end of the first year and in subsequent years, all components of equity are restated by applying a general price index from the beginning of the year or the date of contribution, if later. All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting year.

Results, cash flows and the financial position of the group's subsidiaries which have been classified as hyperinflationary have been expressed in terms of the measuring unit current at the reporting date.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.3 Net interest income

Interest income and expense (with the exception of those borrowing costs that are capitalised – refer to accounting policy 2.10 – Capitalisation of borrowing costs) are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss which are included under trading income and:

a) purchased or originated credit impaired (POCI) for which the original credit adjusted effective interest rate is applied to the amortised cost of the financial asset; and

b) financial assets that are not "POCI" that have subsequently become impaired for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of expected credit losses) in subsequent reporting periods.

Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial assets or, where appropriate,a shorter period to the net carrying amount of the financial asset or liability.

Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

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

2.4 Non-interest revenue

a) Net fee and commission revenue

Fee and commission revenue, including transaction fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the Group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income.

The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

Fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.

b) Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.4 Non-interest revenue (continued)

c) Other income

Other income 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. Other income also includes proceeds on sale of property, plant and equipment

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 statement of profit or loss as follows:

- The service payer in the agreement recognises, to the extent the charge is less than revenue from the agreement, the charge to the service sellers within the statement of profit or loss line item revenue sharing agreements with related companies. To the extent that the revenue allocation to service sellers within the group is greater than the available revenue from the agreement, the charge above the available revenue is recognised within other operating expenses.

- The service seller in the agreement recognises, to the extent the allocation is made out of available revenue of the service payer, the revenue from the service payer within the statement of profit or loss line item revenue sharing agreements with related companies. To the extent the revenue is not received from the service payer's available revenue, such revenue is recognised as a fee and commission revenue.

2.5 Cash and cash equivalents

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

2.6 Financial instruments

(i) Initial recognition and measurement

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the group commits to purchase (sell) the instruments (trade date accounting).

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial assets

Financial assets are classified under each of the categories below and their carrying amounts are disclosed in Note 40.

Nature	
Amortised cost	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): ● held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and ● The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.
Fair value through OCI	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): ● Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and ● The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default. Equity financial assets which are not held for trading and are irrevocably elected (on an instrument-by-instrument basis) to be presented at fair value through OCI.
Fair value through profit or loss (FVTPL)	Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial assets are designated to be measured at fair value to eliminate or significantly reduce an accounting mismatch that would otherwise arise.
Fair value through profit or loss - default	Financial assets that are not classified into one of the above mentioned financial asset categories.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial assets (continued)

(ii) Subsequent measurement

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

Amortised cost	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges.
	Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through OCI (FVOCI)	Debt instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other gains and losses on financial instruments within non-interest revenue. Expected credit impairments losses are recognised as part of credit impairment charges. However, for these FVOCI debt instruments the expected credit loss is recognised in OCI and does not reduce the carrying amount of the financial asset in the statement of financial position. Interest income on a debt financial asset is recognised in interest income in terms of the effective interest rate method.
	Dividends received are recognised in interest income within profit or loss.
	Equity instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When equity financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified within reserves to retained earnings.
	Dividends received on equity instruments are recognised in other revenue within noninterest
Fair value through profit or loss (FVTPL)	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.
Fair value through profit or loss - default	Debt instruments – Fair value gains and losses (including interest and dividends) on the financial asset recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue. Equity instruments – Fair value gains and losses on the financial asset recognised in the income statement as part of other gains and losses on financial instruments. Dividends received on equity instruments are recognised in other revenue within non-interest revenue.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Expected credit losses (ECL) are recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a Significant Increase in Credit Risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: ● default (as defined below) ● significant financial difficulty of borrower and/or modification ● probability of bankruptcy or financial reorganisation ● disappearance of an active market due to financial difficulties.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

The key components of the impairment methodology are described as follows:

Significant increase in credit risk	At each reporting date the Group assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. Credit risk of exposures which are overdue for more than 30 days are also considered to have increased significantly.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.
Default	The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets: ● significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower); ● a breach of contract, such as default or delinquency in interest and/or principal ● disappearance of active market due to financial difficulties; ● it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; ● where the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise consider; ● Exposures which are overdue for more than 90 days are also considered to be in default.
Forward-looking information	Forward-looking information is incorporated into the Group's impairment methodology calculations and in the Group's assessment of SICR. The Group includes all forward looking information which is reasonable and available without undue cost or effort. The information will typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.
Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial assets (continued)

ECLs are recognised within the statement of financial position as follows:

Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.
Off-balance sheet exposures (excluding loan commitments)	Recognised as a provision within other liabilities.
Financial assets measured at fair value through OCI	Recognised in the fair value reserve within equity. The carrying amount of the financial asset is recognised in the statement of financial position at fair value.

Reclassification

Reclassifications of debt financial assets are permitted when, and only when, the Group changes its business model or managing financial assets, in which case all affected financial assets are reclassified. Reclassifications are accounted for prospectively from the date of reclassification as follows:

- Financial assets that are reclassified from amortised cost to fair value are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments;

- The fair value of a financial asset that is reclassified from fair value to amortised cost becomes the financial asset's new carrying amount;

- Financial assets that are reclassified from amortised cost to fair value through OCI are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in OCI;

- The fair value of a financial asset that is reclassified from fair value through OCI to amortised cost becomes the financial asset's new carrying amount with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying amount;

- The carrying amount of financial assets that are reclassified from fair value through profit or loss to fair value through OCI remains at fair value;

- The carrying amount of financial assets that are reclassified from fair value through OCI to fair value through profit or loss remains at fair value, with the cumulative fair value adjustment in OCI being recognised in the statement of profit or loss at the date of reclassification.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial liabilities

Nature	
Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial liabilities are designated to be measured at fair value in the following instances to eliminate or significantly reduce an accounting mismatch that would otherwise arise where; ● the financial liabilities are managed and their performance evaluated and reported on a fair value basis ● the financial liability contains one or more embedded derivatives that significantly modify the financial liability's cash flows.
Amortised cost	All other financial liabilities not included in the above categories.

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in the other gains and losses on financial instruments as part of non-interest revenue. Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue.
Amortised cost	Amortised cost using the effective interest method recognised in interest expense.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

<table>
<tr><th></th><th>DERECOGNITION</th><th>MODIFICATION</th></tr>
<tr><td rowspan="4">Financial assets</td><td>Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.</td><td rowspan="2">Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes.</td></tr>
<tr><td>The Group enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.</td></tr>
<tr><td>When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.</td><td rowspan="2">If the terms are not substantially different for financial assets or financial liabilities, the Group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).</td></tr>
<tr><td>In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.</td></tr>
<tr><td>Financial liabilities</td><td>Financial liabilities are derecognised when the financial liabilities’ obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.</td><td>See modification for financial assets in the previous page.</td></tr>
</table>

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial guarantee contracts and loan commitments below market interest rate

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee.

A loan commitment is described in IFRS 9 as a firm commitment to provide credit under specified terms and conditions. It is a binding promise from a lender that a specified amount of loan or line of credit will be made available to the named borrower at a certain interest rate, during a certain period and, usually, for a certain purpose. Loan commitments at a below market interest rate are initially recognised when the group and company become party to the irrevocable commitment at fair value.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of the:

- ECL calculated for the financial guarantee or loan commitment; or
- unamortised premium

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set-off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the counterparties to the transaction.

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.

Derivative and embedded derivatives

A derivative is a financial instrument whose fair value changes in response to an underlying variable provided in the case if the underlying is not specific to a party to the contract, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date.

In the normal course of business, the Group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation, credit, commodity and equity exposures. Derivative instruments used by the Group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held-for-trading with all changes in fair value being recognised within trading revenue. This includes forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial guarantee contracts (continued)

Derivative and embedded derivatives (continued)

In terms of IFRS 9, embedded derivatives included in hybrid instruments, where the host is a financial asset, are assessed in terms of the accounting policy on financial assets. In all other instances (being non-financial host contracts and financial liabilities), the embedded derivatives are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant Group accounting policy. The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedging relationship.

Sale and repurchase agreements and lending of securities

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

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

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

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

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

2.7 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions.

When a price for an identical asset or liability is not observable, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at measurement date.

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.7 Fair value (continued)

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

Subsequent to initial recognition, fair value is measured based on quoted market prices or dealer price quotations for the assets and liabilities that are traded in active markets and where those quoted prices represent fair value at the measurement date.

If the market for an asset or liability is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

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

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

The Group has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits a group of financial assets and financial liabilities to be measured at fair value on a net basis. This election is applied where the Group:

- manages the group of financial assets and financial liabilities on the basis of the Group's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Group's documented risk management or investment strategy;
- provides information on that basis about the group of financial assets and financial liabilities to the Group's key management personnel; and
- is required to or has elected to measure those financial assets and financial liabilities at fair value at the end of each reporting period.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

2.8 Property and equipment

Equipment and owner-occupied properties, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised the statement of profit or loss as incurred.

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

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

The revaluation reserve in equity arose from revaluation of the Stanbic Bank Centre, Chiromo Road office at the point where CfC Bank and Stanbic Bank merged.

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.8 Property and equipment (continued)

Class	Depreciation period
Buildings	40 years
Motor vehicles	4-5 years
Computer equipment	3-5 years
Office equipment	5-10 years
Furniture and fittings	5-13 years

Work in progress is not depreciated.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the item is included in the statement of profit or loss in the year the asset is derecognised.

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

2.9 Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's Cash-generating Units (CGU), or groups of CGUs that are expected to benefit from the synergies of the combination.

Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.9 Intangible assets (continued)

Computer software

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

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

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (2 to 10 years) from the date that the assets are available for use, and are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if necessary.

2.10 Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss. Borrowing costs consist of interest and other costs that an entity incurred in connection with the borrowing of funds.

2.11 Impairment of non-financial assets

Non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Fair value less costs of disposal 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 of disposal or the value in use can be determined reliably. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

- Property and equipment see note 26, note 2.8
- Intangible assets see note 28, note 2.9
- Disclosure on significant assumptions see note 3
- Right-of-use assets (leasehold land) see note 27
- Right-of-use assets (buildings) see note 30

Notes (continued)

2 Summary of significant accounting policies (continued)

2.12 Accounting for leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee

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

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

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

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

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

Right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the Group at the end of the lease term, the estimated useful life would not exceed the lease term.

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

Termination of leases

When the group or lessor terminates or cancels a lease, the right of use asset and lease liability are derecognised. On derecognition of the right of use asset and lease liability, any difference is recognised as a derecognition gain or loss in profit or loss.

Reassessment and modification of leases

When the group reassesses the terms of any lease (i.e. it re-assesses the probability of exercising an extension or termination option) or modifies the terms of a lease without increasing the scope of the lease or where the increased scope is not commensurate with the stand-alone price, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the applicable rate at the date of reassessment or modification. The carrying amount of lease liability is similarly revised when the variable element of future lease payments dependent on a rate or index is revised.

For reassessments to the lease terms, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, if the carrying amount of the right of use asset is reduced to zero any further reduction in the measurement of the lease liability is recognised in profit or loss.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.12 Accounting for leases (continued)

Group as lessee (continued)

Reassessment and modification of leases

For lease modifications that are not accounted for as a separate lease, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, for lease modifications that decrease the scope of the lease the carrying amount of the right of use asset is decreased to reflect the partial or full termination of the lease, with any resulting difference being recognised in profit or loss as a gain or loss relating to the partial or full termination of the lease.

When the group modifies the terms of a lease resulting in an increase in scope and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in scope, the group accounts for these modifications as a separate new lease.
This accounting treatment equally applies to leases which the group elected the short-term lease exemption and the lease term is subsequently modified.

2.13 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in provision due to passage of time is recognised as an expense.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole.

Provisions for legal claims are recognised on a prudent basis for the estimated cost for all legal claims that have not been settled or reached conclusion at the reporting date. In determining the provision management considers the probability and likely settlement (if any). Reimbursements of expenditure to settle the provision are recognised when and only when it is virtually certain that the reimbursement will be received.

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.13 Provisions, contingent assets and contingent liabilities (continued)

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the Group, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group's

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit.

Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote.

2.14 Taxation

(i) Direct tax

Current tax includes all domestic and foreign taxes based on taxable profits and capital gains tax. Current tax is determined for current period transactions and events and deferred tax is determined for future tax consequences. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI.

Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

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

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

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

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.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.14 Taxation (continued)

(ii) Indirect tax

Indirect taxes, including non-recoverable VAT, skills development levies and other duties for banking activities, are recognised in profit or loss and included in administrative expenses.

2.15 Employee benefits

(i) Defined contribution plans

The Group operates a number of defined contribution plans, based on a percentage of pensionable earnings funded by both employer companies and employees, the assets of which are generally held in separate trustee-administered funds.

Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

The Group and its employees also contribute to the National Social Security Fund, these contributions are determined by local statutes and the Group's contributions are charged to profit or loss in the year which they relate to. Refer to note 13.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(ii) Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.16 Dividends

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

2.17 Equity

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(i) Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.17 Equity (continued)

(ii) Dividends on ordinary shares

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

Proposed dividends are presented separately within equity until declared.

2.18 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary share shareholders and the weighted average number of ordinary shared outstanding for the effects of all dilutive potential shares, if any.

2.19 Equity-linked transactions

Equity compensation plans

The Group operates both equity-settled and cash-settled share-based compensation plans.

The fair value of equity-settled share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. Non-market vesting conditions, such as the resignation of employees and retrenchment of staff, are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against profit or loss and equity over the remaining vesting period.

On vesting of share options, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of equity-settled share options, proceeds received are credited to share capital and premium.

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every reporting date and on settlement. Any changes in the liability are recognised in profit or loss.

2.20 Segment reporting

An operating segment is a component of the Group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The group’s identification of segments and the measurement of segment results is based on the group’s internal reporting to the chief operating decision makers, comprising of the executive committee.

Transactions between segments are priced at market-related rates.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.21 Fiduciary activities

The Group commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the Group. However, fee income earned and fee expenses incurred by the Group relating to the Group's responsibilities from fiduciary activities are recognised in profit or loss.

2.22 Hyperinflation

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

As the presentation currency of the Group is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level or exchange rates in the current year. The prior period adjustments related to non-monetary items and differences arising on translation of comparative amounts are accounted for directly in retained earnings.

The carrying amounts of non-monetary assets and liabilities are adjusted to reflect the change in the general price index from the date of acquisition to the end of the reporting year. On initial application of hyperinflation, prior year gains and losses are recognised directly in equity. Gains or losses on the net monetary position are recognised in profit or loss. 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.

At the beginning of the first year of application, the components of equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. These restatements are recognised directly in equity as an adjustment to opening retained earnings. Restated retained earnings are derived from all other amounts in the restated statement of financial position. At the end of the first year and in subsequent years, all components of equity are restated by applying a general price index from the beginning of the year or the date of contribution, if later. All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting year.

Gains or losses on the net monetary position are recognised in profit or loss within trading revenue (Note 10).

Notes (continued)

2 Summary of significant accounting policies (continued)

2.23 Letters of Credit Acceptances

Letters of credit acceptances arise in two ways:

(i) Issuing Bank

At initial recognition where the Group is the issuing bank, it recognises a contingent liability for the amount that it may be required to pay out to the confirming bank or beneficiary should the terms and conditions underlying the contract be met.

On the date that all terms and conditions underlying the contract are met, the Group recognises a financial asset (at fair value) on the statement of financial position as part of loans and advances for the contractual right to receive cash from the applicant. Concurrently, the Group recognises a financial liability (at fair value) on the statement of financial position as part of deposits for the contractual obligation to deliver cash to the beneficiary or the confirming bank, depending on the structure of the arrangement.

(ii) Confirming Bank

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

On the date that all terms and conditions underlying the contract are met the Group recognises a financial asset (at fair value) on the statement of financial position as part of loans and advances for the contractual right to receive cash from the issuing bank and concurrently recognises a financial liability (at fair value) on balance sheet as part of deposits for the contractual obligation to deliver cash to the beneficiary.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies

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

Unless otherwise stated, no material changes to assumptions have occurred during the year.

3.1 Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3.2 Impairment of financial assets carried at fair value through OCI (FVOCI)

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

3.3 Impairment of financial assets at amortised cost

The Group reviews its debt securities classified as amortised cost investments at each reporting date to assess whether they are impaired. This requires similar judgements as applied to the individual assessment of loans and advances.

3.4 Fair value of financial instruments

In terms of IFRS, the group is either required to or elects to measure a number of its financial assets and financial liabilities at fair value, being the price that would, respectively, 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. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the group and, in particular, provides assurance that the risk and return measures that the group has taken are accurate and complete.

Valuation process

The group's valuation control framework governs internal control standards, methodologies and procedures over its valuation processes, which include:

Prices quoted in an active market: The existence of quoted prices in an active market represents the best evidence of fair value. Where such prices exist, they are used in determining the fair value of financial assets and financial liabilities.

Notes (continued)

3.4 Fair value of financial instruments (continued)

Valuation process (continued)

Valuation techniques: Where quoted market prices are unavailable, the group establishes fair value using valuation techniques that incorporate observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices, for such assets and liabilities. Parameter inputs are obtained directly from the market, consensus pricing services or recent transactions in active markets, whenever possible. Where such inputs are not available, the group makes use of theoretical inputs in establishing fair value (unobservable inputs). Such inputs are based on other relevant input sources of information and incorporate assumptions that include prices for similar transactions, historic data, economic fundamentals, and research information, with appropriate adjustments to reflect the terms of the actual instrument being valued and current market conditions. Changes in these assumptions would affect the reported fair values of these financial instruments. Valuation techniques used for financial instruments include the use of financial models that are populated using market parameters that are corroborated by reference to independent market data, where possible, or alternative sources, such as, third-party quotes, recent transaction prices or suitable proxies. The fair value of certain financial instruments is determined using industry standard models such as, discounted cash flow analysis and standard option pricing models. These models are generally used to estimate future cash flows and discount these back to the valuation date. For complex or unique instruments, more sophisticated modelling techniques may be required, which require assumptions or more complex parameters such as correlations, prepayment spreads, default rates and loss severity.

Valuation adjustments: Valuation adjustments are an integral part of the valuation process. Adjustments include, but are not limited to: credit spreads on illiquid issuers; implied volatilities on thinly traded instruments; correlation between risk factors; prepayment rates; other illiquid risk drivers.
In making appropriate valuation adjustments, the group applies methodologies that consider factors such as bid-offer spreads, liquidity, counterparty and own credit risk. 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 or loss provisions in accordance with IFRS
- quantifying and reporting the sensitivity to each risk driver
- limiting exposure to such risk drivers and analysing exposure on a regular basis.

Validation and control: All financial instruments carried at fair value, regardless of classification, and for which there are no quoted market prices for that instrument, are fair valued using models that conform to international best practice and established financial theory. These models are validated independently by the group's model validation unit and formally reviewed and approved by the market risk methodologies committee. This control applies to both off-the-shelf models, as well as those developed internally by the group. Further, all inputsinto the valuation models are subject to independent price validation procedures carried out by the group's market risk unit. Such price validation is performed on at least a monthly basis, but daily where possible given the availability of the underlying price inputs. Independent valuation comparisons are also performed and any significant variances noted are appropriately investigated. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to model, are carefully validated and tabled at the monthly price validation forum to ensure that these are reasonable and used consistently across all entities in the group. 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 at the market risk and asset and liability committees.

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 2021 was a profit of KShs nil (2020: KShs nil).

Additional disclosures on fair value measurements of financial instruments are set out in notes 2.7 and 4.6.

Notes (continued)

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

3.5 Development costs

The Group capitalises software development costs for an intangible assets in accordance with the accounting policy detailed in note 2.9. Initial capitalisation of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone and where the Group is able to demonstrate its intention and ability to complete and use the software.

3.6 Share-based payment

The Group has a number of cash and equity-settled share incentive schemes which are issued to qualifying employees based on the rules of the schemes. The Group uses the Black-Scholes option pricing model to determine the fair value of awards on grant date for its equity-settled share incentive schemes. The valuation of the Group's obligation with respect to its cash-settled share incentive scheme obligations is determined with reference to the SBG share price, which is an observable market input. In determining the expense to be recognised for both the cash and equity-settled share schemes, the Group estimates the expected future vesting of the awards by considering staff attrition levels. The Group also makes estimates of the future vesting of awards that are subject to non-market vesting conditions by taking into account the probability of such conditions being met. Refer to note 45 for further details regarding the carrying amount of the liabilities arising from the Group's cash-settled share incentive schemes and the expenses recognised in the statement of profit or loss.

3.7 Income taxes

The Group is subject to direct taxation in four jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in note 37 and note 38, respectively, in the period in which such determination is made.

Deferred tax assets

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

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

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

3.8 Hyperinflation

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

Notes (continued)

3.8 Hyperinflation (continued)

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

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 accou
- Interest rates, wages and prices are linked to a price index; and
- The cumulative inflation rate over three years is approaching, or exceeds, 100%.

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

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 2021	2020	10,507.09	112.67%
31 December 2020	2019	9,902.46	89.30%

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

	2021 KShs Million	2020 KShs Million
Impact on statement of profit or loss		
Profit for the year before hyperinflation	7,251	4,995
Net monetary gain/(loss)*	(43)	197
Profit for the year after hyperinflation	7,208	5,192

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

3.9 Provisions

During the current reporting period models have been enhanced, but, no material changes to assumptions have occurred. Covid-19 placed considerable strain on our operations specifically retail, business and corporate clients, however, the group's risk appetite remained unchanged. As such the significant increase in credit risk (SICR) and default assumptions, thresholds and/or triggers were not amended.

The accounting policy for provisions is set out in accounting policy 2.13. The principal assumptions taken into account in determining the value at which provisions are recorded at, in the Group's statement of financial position, include determining whether there is an obligation as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the

The probability of an event of a significant nature occurring will be assessed by management and, where applicable, consultation with the Group's legal counsel. In determining the amount and timing of the obligation once it has been assessed to exist, management exercises its judgement by taking into account all available information, including that arising after the reporting date up to the date of the approval of the financial statements.

Notes (continued)

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

In preparing the financial statements, estimates and assumptions 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 future events. The estimates and judgements below have remained unchanged unless otherwise stated. The following represents the most material key management assumptions applied in preparing these financial statements.

ECL measurement period

Consumer and high net worth(CHNW) and Business and commercial clients (BCC)

- The ECL measurement period at a minimum, is equal to the 12-month ECL of the financial asset or for the remaining tenor of the financial asset if the remaining lifetime is less than 12 months.
- A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
- The impact of the lifetime loss given default (LGD) workout, being an increase in the lifetime period over which subsequent cures and re-defaults are considered.
- The IFRS 9 requirement to hold ECL on unutilised loan commitments, notably pertaining to CHNW and BCC's card and other lending portfolios.

Corporate and investment banking (CIB)

- The ECL measurement period at a minimum, is equal to the 12-month ECL of the financial asset or for the remaining tenor of the financial asset if the remaining lifetime is less than 12 months.
- A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
- The requirement to hold ECL on unutilised loan commitments has been included, where appropriate, within this classification.

Treasury

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

Significant increase in credit risk (SICR) and low credit risk

A lifetime ECL requirement for all exposures for which there has been SICR. This included the impact of the LGD work out, being an increase in the life time period over which subsequent cures and re-defaults are considered. The requirement to hold ECL on off-balance sheet exposures has been included where appropriate within this classification.

To determine whether a client’s credit risk has increased significantly since origination, the group would need to determine the extent of the change in credit risk using the table below:

Group master rating scale band	SICR trigger (from origination)
SB 1 – 12	Low credit risk
SB 13 – 20	3 rating or more
SB 21 – 25	1 rating or more

CHNW and BCC

In accordance with IFRS 9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised. SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk.

Notes (continued)

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

CHNW and BCC (continued)

The Group also determines an appropriate transfer rate of exposures from stage 1 to stage 2 by taking into account the expected levels of arrears status for similar exposures. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR throughout the life of the exposure and consequently facilitate appropriate impairment coverage.

Where behaviour scores are not available, historical levels of delinquency are applied in determining whether there has been SICR. For all exposures, IFRS 9's rebuttable presumption of 30 days past due as well as exposures classified as either debt review or as 'watch-list' are used to classify exposures within stage 2.

Forward looking economic expectations are included in the ECL by adjusting the probability of default (PD), LGD and SICR. Adjustments are made based on the Group's macro-economic outlook, using models that correlate these parameters with macro-economic variables. Where modelled correlations are not viable or predictive, adjustments are based on expert judgement to predict the outcomes based on the Group's macro-economic outlook expectations.

CIB

The Group uses a 25-point master rating scale to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the Group's 25-point master rating scale. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

CIB exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historic default experience which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historic default experience, exposures that are classified by the Group's master rating scale as investment grade are assessed for SICR at each reporting date but are considered to be of a low credit risk for IFRS 9

Forward looking economic expectations are incorporated in CIB's client ratings. The client rating thus reflects the expected client risk for the Group's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.

Forward looking expectations

- The Group Economics Research team determines the macroeconomic outlook and a Group view of commodities over a planning horizon of at least three years. The outlook is provided to the legal entity's Chief Financial and Value Officer for review and asset and liability committee for approval.

- Macroeconomic outlooks take into account various variables such as gross domestic product, central bank policy interest rates, inflation, exchange rates and treasury bill rates.

- Narratives for each of the country economic outlooks, being bear, base and bull cases, are compiled and typically include consideration of the country's economic background, sovereign risk, foreign exchange risk, financial sector, liquidity and monetary policy stance.

- Probabilities are assigned to each of the bear, base and bull cases based on primary macroeconomic drivers and are reviewed monthly.

- The forward looking economic expectations are updated on a bi-annual basis or more regularly when deemed appropriate.

Notes (continued)

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

Main macroeconomic factors

The following table shows the main macroeconomic factors used to estimate the forward-looking impact on the ECL provision of financial assets. Each scenario, namely base, bear and bull scenario, is presented for each identified time period.

	31 December 2021			31 December 2020		
Macroeconomic factors	Base	Bear	Bull	Base	Bear	Bull
Inflation	6.3	6.8	5.8	5.9	5.9	5.9
Policy rate	7	7	7	7	7	7
3m Tbill rate	7.1	7.2	6.9	7.1	7.1	7.1
6m Tbill rate	7.6	7.9	7.2	7.9	7.9	7.9
Exchange rate (USDKES)	111.2	111.7	110.5	109.5	109.5	109.5
Real GDP	2.9	0.5	5.3	0	-1.6	1.5
Equity index	2008	1979	2037	1,846	1,846	1,846
Sovereign Rating	B	B	B	B	B	B

CHNW and BCC
Adjustments to the PD and LGD, based on forward looking economic expectations at the reporting date resulted in the requirement to hold higher credit impairments.

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

Lifetime LGD work out

Increased lifetime period over which subsequent cures and re-defaults are considered resulted in higher credit impairments for credit-impaired financial assets.

Default

The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the Basel definition) as occurring at the earlier of:

- where, in the Group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

Notes (continued)

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

Write off policy

An impaired loan is written off once all reasonable attempts at collection have been made and there is no economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- the financial asset has been in default for the period defined for the specific product (i.e. vehicle and asset finance, mortgage loans, etc.) which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan; and
- at the point of write-off, the financial asset is fully impaired (i.e. 100% allowance) with the expectation that the probability of recovery is nil and this probability is not expected to change in the future.

As an exception to the above requirements, where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post-realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above. The shortfall amount does not need to meet the first requirement to be written off.

Partial write-off of an asset occurs when the Group gives a concession to a debtor such that a part of the loan will not be recovered. In this case, the part that will not be recovered is written off.

For CIB products, write-offs are assessed on a case-by-case basis and approved by CIB credit governance committee based on the individual facts and circumstances.

Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e. stage 3) still exist. Distressed restructured financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e. six full consecutive monthly payments per the terms and conditions). However, in the case of financial assets with quarterly or longer dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the Group’s CIB or CHNW and BCC Credit Governance Committee (as appropriate), such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial asset terms and conditions.

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, when compared to the credit rating at initial recognition, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively. In retail portfolios, a rehabilitation period of at least 6 months (subsequent to a customer repaying all outstanding facilities) would be needed for the customer’s internal rating to decrease back to its rating scale at initial recognition and move from stage 2 to stage 1 accordingly.

Notes (continued)

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

Off-balance sheet exposures – bankers' acceptances, guarantees and letters of credit

The requirement to hold ECL on off-balance sheet financial instruments, such as guarantees and letters of credit, resulted in a requirement to hold additional credit impairment provisions.

Out of the above factors that drive the ECL, the most significant source of uncertainty is credit ratings allocated to counterparties which drive this assigned probability of default. The PDs in turn incorporate assessment for significant increase in credit risk, default risk assessment, forward looking information and probability weighted scenarios. At 31 December 2021, had the average credit ratings for all counterparties shifted one notch down expected credit losses would have increased by KShs 1,015,358,770 (2020: KShs 1,380,367,360) higher where if the credit ratings had shifted one notch up the excpected credit losses would have decreased by KShs 487,585,685 (2020: KShs 665,015,002).

3.11 Credit impairment losses on loans and advances

Specific loan impairments

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

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Where the net present value of estimated cash flows to differ by +/-1%, the impairment loss is to be estimated at KShs 101,064,403 higher or KShs 101,064,403 lower (2020: KShs 77,158,420 higher or KShs 77,158,420 lower) respectively.

3.12 Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy 2.9. Information on key assumptions used to determine the value in use and impairment testing for CGUs containing goodwill is included in Note 29.

3.13 Covid-19 Related Operational Losses

Following the onset of Covid-19 pandemic, the Group adopted accounting policies to capture the Covid-19 related costs. Incremental credit impairment costs for customers impacted by Covid-19 were accounted for in accordance with IFRS 9 and were therefore not reported as Covid-19 related costs. Costs to enable the Group to restore operations following the impacts of the coronavirus pandemic are reported as operational risk losses. These include costs to set up working from home arrangements, cost of protective equipment's, Covid-19 sanitations costs, cancelled travel costs due to Covid-19 and costs associated with providing travel outside of normal business practise (such as to essential services staff). Ongoing costs after the pandemic lockdown to maintain operations are not reportable as operational risk losses. For example, if these costs are incorporated in post-pandemic budgets in response to measures mandated by public health agencies, then these will be seen as preventative measures and therefore not classified as operation risk losses. These include sick payments, quarantine costs and Covid-19 related donations. Cost savings such as reduced travel or reduced electricity costs are also not reported as Covid-19 cost savings and therefore do not offset operational losses recognised as a result of Covid-19. COVID-19 operational losses are included under operating expenses.

Notes (continued)

4 Financial risk management

Risk management is a cornerstone of the Group's response to the Covid-19 crisis, enabling fast, targeted and responsible support of our clients, at the same time protecting our people while preserving the Group's financial position. Our response to the pandemic was swift and purposeful, and a testament to our operational resilience. As we executed our business continuity measures on an unprecedented scale, we put our people, our customers and our communities front and centre of our response efforts to this public health emergency. We provided extensive client relief programmes while carefully monitoring and managing our capital, liquidity and impairment risk metrics. We helped ease the liquidity crisis facing many clients, and maintained the collections activity by enabling employees to work from home.

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

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risks (encompasses systems, people and processes).

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various committees, including the Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors of the Group on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit and Risk Committees are responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Committees are assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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

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

Notes (continued)

4 Financial risk management (continued)

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

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

4.1 Capital management- Company

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

4.2 Capital management- Group

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

- to comply with the capital requirements set by the regulators, Central Bank of Kenya and Capital Market
- to safeguard the Group's (and its subsidiaries) ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

It uses two approaches of measuring capital for capital management.

a) Economic capital assessment

Economic capital is the Group's internal measure of required capital and it incorporates granular risk assessments and portfolio concentration effects that may be absent from the regulatory capital assessment process. Stanbic aggregates the individual risk type economic capital measurements conservatively assuming no inter-risk diversification. Economic capital is compared to Available Financial Reserves (AFR) to perform an assessment of capital adequacy based on internal measures.

b) Regulatory capital assessment

The Group's main subsidiary, Stanbic Bank Kenya Limited, monitors the adequacy of its capital using ratios established by the Central Bank of Kenya (CBK), which ratios are broadly in line with those of the Group for International Settlements (BIS).

These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The risk-based approach applies to both on and off-statement of financial position items. The focus of this approach is credit risk, interest rate risk, market risk, operational risk, concentration risk and underlying collateral risk.

The assets are weighted according to broad categories, each being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, and 100%) are applied.

Notes (continued)

4 Financial risk management (continued)

b) Regulatory capital assessment (continued)

The Group's key subsidiary (Stanbic Bank Kenya Limited) is required at all times to maintain:

- A minimum level of regulatory capital of KShs 1 billion as at 31 December 2021;
- A core capital (tier 1) of not less than 10.5% (2020: 10.5%) of total risk weighted assets plus risk weighted off-statement of financial position items;
- A core capital (tier 1) of not less than 8% (2020: 8%)of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 14.5% (2020: 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.

Notes (continued)

4 Financial risk management (continued)

4.2 Capital management- Group (continued)

c) Regulatory capital assessment - Stanbic Bank Kenya Limited

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

	2021 KShs Million	2020 KShs Million
Tier 1 capital (Core capital)		
Share capital	3,412	3,412
Share premium	3,445	3,445
Retained earnings	38,406	34,781
Less: Deferred tax asset	(1,127)	(699)
Total Tier 1 capital (Core capital)	**44,136**	**40,939**
Tier 2 capital		
Regulatory credit risk reserve	-	-
Qualifying subordinate liabilities	5,700	5,504
Total Tier 2 capital	**5,700**	**5,504**
Total capital (Tier 1 + Tier 2)	**49,836**	**46,443**
Risk - weighted assets		
Operational risk	41,873	39,795
Market risk	8,004	7,658
Credit risk on-statement of financial position	194,636	172,496
Credit risk off-statement of financial position	43,665	36,523
Total risk - weighted assets	**288,178**	**256,472**
Capital adequacy ratios		
Core capital / total deposit liabilities	18.2%	18.5%
Minimum statutory ratio	**8.0%**	**8.0%**
Core capital / total risk - weighted assets	15.3%	16.0%
Minimum statutory ratio	**10.5%**	**10.5%**
Total capital / total risk - weighted assets	17.3%	18.1%
Minimum statutory ratio	**14.5%**	**14.5%**

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk

Credit risk is the risk of loss arising out of failure of client counterparties to meet their financial or contractual obligations when due.

Credit risk is composed of counterparty risk (including primary, pre-settlement risk, issuer and settlement risk) and concentration risk. These risk types are defined as follows:

- Counterparty risk: The risk of credit loss to the Group as a result of failure by a counterparty to meet its financial and/or contractual obligations to the Group as they fall due.

- Credit concentration risk: The risk of loss to the Group as a result of excessive build-up of exposure to a specific counterparty or counterparty group, an industry, market, product, financial instrument or type of security, or geography, or a maturity. This concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

4.3.1 Governance committees

The primary governance committees overseeing credit risk are the Board Credit Risk Committee (BCRC) and Credit Risk Management Committee (CRMC). These committees are responsible for credit risk and credit concentration risk decision-making, and delegation thereof to Credit officers and committees within defined parameters.

Credit risk management is governed by the Group's overall credit policy guidelines. Respective Credit Risk Management Divisions, which report into the BCC, are responsible for the implementation of these guidelines, which cover compliance with prescribed sanctioning authority levels, avoidance of a high concentration of credit risk and regular review of credit limits. Limits on facilities to counter-parties are governed by internal restraints, which restrict large exposures in relation to the Group's capital.

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

4.3.2 General approach to managing credit risk

The Group's credit risk comprises mainly wholesale and retail loans and advances, together with the counterparty credit risk arising from derivative contracts entered into with our clients and market counterparties.

The Group manages credit risk through:

- maintaining strong culture of responsible lending and a robust risk policy and control framework;

- identifying, assessing and measuring credit risk clearly and accurately across the Group , from the level of individual facilities up to the total portfolio;

- defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions;

- monitoring the Group's credit risk relative to limits; and

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

Notes (continued)

4 Financial risk management (continued)

4.3.2 General approach to managing credit risk

Primary responsibility for credit risk management resides with the Group's business lines. This is complemented with an independent credit risk function embedded within the business units, which is in turn supported by the overarching group risk function.

Impairment provisions are provided for losses that have been incurred or expected at the reporting date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management, therefore, carefully manages its exposure to credit risk.

The exposure to any one borrower including banks is further restricted by sub-limits covering on - and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

4.3.3 Management reporting

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

- Quarterly Board Credit Committee Report;
- Quarterly Board Audit Committee Report;
- Quarterly Board Risk Committee Report;
- Monthly Credit Risk Management Committee Report;
- Regulatory returns;
- Half-year results; and
- Annual financial statements.

These reports are distributed to management and regulators, and are available for inspection by authorised personnel.

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.4 Credit risk measurement

a) Loans and advances including loan commitments and guarantees

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Group has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. All models are managed under model development and validation policies that set out the requirements for model governance structures and processes, and the technical framework within which model performance and appropriateness is maintained. The models are developed using internal historical default and recovery data. In low default portfolios, internal data is supplemented with external benchmarks and studies. Models are assessed frequently to ensure on-going appropriateness as business environments and strategic objectives change, and are recalibrated semi-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 Group reflects three components:

(i) the 'probability of default' by the client or counter-party on its contractual obligations;

(ii) current exposures to the counter-party and its likely future development, from which the Group derives the 'exposure at default'; and

(iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

Probability of default (PD)

The Group uses a 25-point master rating scale to quantify the credit risk for each borrower as illustrated in the table on the following page. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable portfolio. The Group distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making and in managing credit risk exposures.

Loss given default (LGD)

Loss given default measures are a function of customer type, product type, seniority of loan, country of risk and level of collateralisation. LGDs are estimated based on historic recovery data per category of LGD. A downturn LGD is used in the estimation of the capital charge and reflects the anticipated recovery rates and macroeconomic factors in a downturn period.

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.4 Credit risk measurement (continued)

Exposure at default (EAD)

Exposure at default captures the impact of potential draw-downs against unutilised facilities and changes in counterparty risk positions due to changes in market prices. By using historical data, it is possible to estimate the average utilisation of limits of an account when default occurs, recognising that customers may use more of their facilities as they approach default.

b) Debt securities

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

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.4 Credit risk measurement (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-	Investment grade	Normal monitoring
8 - 12	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-	Investment grade	Normal monitoring
13 - 20	Ba1, Ba2, Ba3, B1, B2, B3	BB+, BB, BB-, B+, B, B-	BB+, BB, BB-, B+, B, B-	Sub-investment grade	Normal monitoring
21 -25	Caa1, Caa2, Caa3, Ca	CCC+, CCC, CCC-	CCC+, CCC, CCC-	Sub-investment grade	Close monitoring
Default	C	D	D	D	D

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified − in particular, to individual counterparties and banks, industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sublimit covering on-balance sheet and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

a) Credit tailored to customer profile

There is a clear distinction between the fundamental credit characteristics of the Group's customer base. This customer base is managed according to the following market segments:

- Corporate and Investment Banking (CIB)
- Business and Commercial clients (BCC) ; and
- Consumer and High Net Worth clients (CHNW)

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

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

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

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

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

a) Credit tailored to customer profile (continued)

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

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

Consumer & High Net Worth, and Business and Commercial clients (CHNW and BCC): Retail portfolio

Retail mortgage exposures relate to mortgage loans to individuals and are a combination of both drawn and undrawn EADs. Qualifying retail revolving exposure (QRRE) relate to cheque accounts, credit cards and evolving personal loans and products, and include both drawn and undrawn exposures. Retail other covers other branch lending and vehicle finance for retail, retail small and retail medium enterprise portfolios. Branch lending includes both drawn and undrawn exposures, while vehicle and asset finance only has drawn exposures.

Internally developed behavioural scorecards are used to measure the anticipated performance for each account. Mapping of the behaviour score to a PD is performed for each portfolio using a statistical calibration of portfolio-specific historical default experience. The behavioural scorecard PDs are used to determine the portfolio distribution on the master rating scale. Separate LGD models are used for each product portfolio and are based on historical recovery data. EAD is measured as a percentage of the credit facility limit and is based on historical averages. EAD is estimated per portfolio and per portfolio-specific segment, using internal historical data on limit utilisation.

b) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

c) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

d) Derivatives

For derivative transactions, the Group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure, where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

e) Collateral

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

Business and Commercial clients, and Consumer and High Net Worth (BCC & CHNW)	
Mortgage lending	First ranking legal charge over the property financed.
Vehicle and asset finance	Joint registration of vehicles.
Other loans and advances	Debentures over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees.

Corporate and Investment Banking	
Corporate lending	All assets debenture over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees.

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

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

e) Collateral (continued)

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

Valuation of collateral

The Group has a panel of valuers who undertake valuation of property and other assets to be used as Collateral. The valuers in the panel are qualified professional valuers with adequate experience in the field of property and machinery valuation. Valuers are required to provide the Group with professional indemnity to cover the Group in cases of professional negligence relating to their valuations. The Group ensures that all properties used as collateral are adequately insured during the term of the loan. Valuation reports on properties are valid for three years after which the property and equipment is revalued.

The table on the following page shows the financial effect that collateral has on the Group's maximum exposure to credit risk. The table includes collateral that management takes into consideration in the management of the Group's exposures to credit risk. All on- and off-balance sheet exposures that are exposed to credit risk, including non-performing loans, have been included. Collateral includes:

- Financial securities that have a tradable market, such as shares and other securities;
- Physical items, such as property, plant and equipment; and
- Financial guarantees and intangible assets.

Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the Group's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions.

In the retail portfolio, 77% (2020: 76%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures above 50% collateral coverage category is 100% (2020: 100%). Of the Group's total exposure, 63% (2020: 55%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

e) Collateral (continued)

						Collateral coverage - Total		
31 December 2021	**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%**
	KShs Million	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**
Asset class								
Corporate	**104,658**	15,549	89,109	-	***89,109***	-	89,109	-
Sovereign	**59,556**	59,556	-	-	**-**	-	-	-
Loans and advances to bank	**44,009**	**44,009**	**-**	**-**	**-**	**-**	**-**	**-**
Group	**17,582**	17,582	-	-	**-**	-	-	-
Other banks	**26,427**	26,427	-	-	**-**	-	-	-
Retail	**96,284**	**21,739**	**74,545**	**-**	**74,545**	**-**	**74,545**	**-**
Retail mortgage	**35,864**	-	35,864	-	***35,864***	-	*35,864*	-
Other retail	**60,420**	21,739	38,681	-	***38,681***		*38,681*	-
Total	**304,507**	**140,853**	**163,654**	**-**	**163,654**	**-**	**163,654**	**-**
Less: Impairments for loans and advances	**(15,653)**							
Total exposures	**288,854**							

						Collateral coverage - Total		
31 December 2020	**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%**
	KShs Million	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**
Asset class								
Corporate	**87,034**	15,694	71,340	-	***71,340***	-	71,340	-
Sovereign	**87,584**	87,584	-	-	**-**	-	-	-
Loans and advances to bank	**38,119**	**38,119**	**-**	**-**	**-**	**-**	**-**	**-**
Group	**27,171**	27,171	-	-	**-**	-	-	-
Other banks	**10,948**	10,948	-	-	**-**	-	-	-
Retail	**89,561**	**21,628**	**67,933**	**-**	**67,933**	**-**	**67,933**	**-**
Retail mortgage	**34,783**	-	34,783	-	***34,783***	-	34,783	-
Other retail	**54,778**	21,628	33,150	-	***33,150***	-	33,150	-
Total	**302,298**	**163,025**	**139,273**	**-**	**139,273**	**-**	**139,273**	**-**
Less: Impairments for loans and advances	**(18,434)**							
Total exposure	**283,864**							

The Group holds collateral on loans and advances. The table above represents the collateral cover held on various types of loans and advances. Other deposits and margin balances held against off balance sheet facilities are included in other liabilities in Note 36 (a).

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

e) Collateral (continued)

Foreclosed collateral

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

Nature of assets	2021 KShs Million	2020 KShs Million
Residential property	53	120
Assets financed under VAF	210	174
	263	**294**

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

Renegotiated financial assets

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure. The renegotiations resulted in the continuation of the original financial asset, with no gain or loss recognised as a consequence of the restructuring. The table below show the carrying amount of financial assets whose term have been renegotiated, by class.

	2021 KShs Million	2020 KShs Million
Vehicle and asset finance	682	3,786
Other loans and advances	5,409	36,489
	6,091	**40,275**

4.3.6 Default and provisioning policy

The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the BASEL definition) as occurring at the earlier of:

- where, in the Group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.6 Default and provisioning policy (continued)

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets as per IFRS 9:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower);
- a breach of contract, such as default or delinquency in interest and/or principal payments;
- disappearance of active market due to financial difficulties;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- where the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

4.3.7 Credit quality

a) Maximum exposure to credit risk before collateral held or other credit enhancements

Financial instruments whose carrying amounts represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 19 to 24. The Directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both the loan and advances portfolio and debt securities based on the following:

- 62% of the total maximum exposure is derived from loans and advances to customers (2020: 58%); 21% represents investments in debt securities (2020: 29%);

- 74% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2020: 74%);

- 86% of the loans and advances portfolio are considered to be neither past due nor impaired (2020: 86%); and

- 99.8% of all the debt securities, which the Bank has invested in, are issued by the Central Bank of Kenya (2020: 99.8%).

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

b) Credit quality by class

The table below shows the credit quality by class of loans and advances, based on the Group's credit rating system:

Year ended 31 December 2021	Gross Carrying amount	SB 1 - 12 Stage 1	SB 1 - 12 Stage 2	SB 13 - 20 Stage 1	SB 13 - 20 Stage 2	SB 21- 25 Stage 1	SB 21- 25 Stage 2	Default Stage 3	Default Purchased/ originated credit impaired	Total gross carrying amount of default exposures	Securities and expected recoveries on default exposures	Interest in suspense on default exposures	Balance sheet expected credit loss on default exposures	Gross default coverage	Non-performing exposures
	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	%	%
Loans and advances to customers															
CHNW	**56,053**	**3**	**1**	**40,526**	**3,952**	**4,339**	**1,350**	**5,882**	**-**	**5,882**	**1,908**	**746**	**3,228**	**68%**	**10%**
Mortgage loans	**32,013**	-	-	22,793	2,240	2,845	1,039	3,096	-	3,096	1,778	422	896	43%	10%
Vehicle and asset finance	**3,067**	-	1	1,905	448	243	86	384	-	384	41	63	280	89%	13%
Card debtors	**622**	-	-	566	35	-	-	21	-	21	14	-	7	33%	3%
Other loans and advances	**20,351**	3	-	15,262	1,229	1,251	225	2,381	-	2,381	75	261	2,045	97%	12%
BCC	**40,230**	**25**	**5**	**19,391**	**6,823**	**1,270**	**5,583**	**7,133**	**-**	**7,133**	**3,174**	**824**	**3,135**	**56%**	**18%**
Mortgage loans	**3,851**	-	-	606	3,228	-	-	17	-	17	1	9	7	94%	0%
Vehicle and asset finance	**7,661**	17	2	4,695	1,045	217	131	1,554	-	1,554	280	318	956	82%	20%
Card debtors	**-**	-	-	-	-	-	-	-	-	-	-	-	-	0%	0%
Other loans and advances	**28,718**	8	3	14,090	2,550	1,053	5,452	5,562	-	5,562	2,893	497	2,172	48%	19%
CIB	**104,658**	**11,571**	**-**	**79,488**	**3,927**	**136**	**47**	**9,489**	**-**	**9,489**	**5,105**	**977**	**3,442**	**47%**	**9%**
Corporate	**104,658**	11,571	-	79,488	3,927	136	47	9,489	-	9,489	5,105	977	3,442	47%	9%
	200,941	**11,599**	**6**	**139,405**	**14,702**	**5,745**	**6,980**	**22,504**	**-**	**22,504**	**10,187**	**2,547**	**9,805**	**55%**	**11%**
Loans and advances to banks															
Bank	**44,009**	12,243	-	24,422	7,344	-	-	-	-	-	-	-	1	0%	0%
Gross carrying amount	**244,950**	**23,842**	**6**	**163,827**	**22,046**	**5,745**	**6,980**	**22,504**	**-**	**22,504**	**10,187**	**2,547**	**9,806**	**49%**	**9%**
Less: Total expected credit losses for loans and advances	(15,629)														
Net carrying amount of loans & advances measured at amortised cost	**229,321**														

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

b) Credit quality by class (continued)

The table below shows the credit quality by class of loans and advances, based on the Group's credit rating system:

Year ended 31 December 2020	Gross Carrying amount	SB 1 - 12		SB 13 - 20		SB 21- 25		Default		Total gross carrying amount of default exposures	Securities and expected recoveries on default exposures	Interest in suspense on default exposures	Balance sheet expected credit loss on default exposures	Gross default coverage	Non-performing exposures
		Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Purchased/originated credit impaired						
	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	%	%
Loans and advances to customers															
CHNW	**51,067**	**-**	**-**	**40,477**	**-**	**165**	**5,780**	**4,645**	**-**	**4,645**	**1,603**	**649**	**2,393**	**57%**	**9%**
Mortgage loans	30,784	-	-	24,816	-	-	3,386	2,582	-	2,582	1,400	433	749	39%	8%
Vehicle and asset finance	3,958	-	-	2,733	-	-	759	466	-	466	92	52	322	72%	12%
Card debtors	515	-	-	294	-	-	197	24	-	24	6	-	18	75%	5%
Other loans and advances	15,810	-	-	12,634	-	165	1,438	1,573	-	1,573	105	164	1,304	85%	10%
BCC	**38,494**	**-**	**-**	**19,049**	**-**	**-**	**13,640**	**5,805**	**-**	**5,805**	**2,880**	**582**	**2,343**	**46%**	**15%**
Mortgage loans	3,999	-	-	844	-	-	3,140	15	-	15	2	7	6	59%	0%
Vehicle and asset finance	9,169	-	-	6,386	-	-	1,481	1,302	-	1,302	81	244	977	79%	14%
Card debtors	-	-	-	-	-	-	-	-	-	-	-	-	-	0%	0%
Other loans and advances	25,326	-	-	11,819	-	-	9,019	4,488	-	4,488	2,797	331	1,360	35%	18%
CIB	**87,034**	**20,275**	**-**	**45,733**	**5,315**	**82**	**1,042**	**14,587**	**-**	**14,587**	**5,702**	**2,946**	**6,231**	**52%**	**17%**
Corporate	87,034	20,275	-	45,733	5,315	82	1,042	14,587	-	14,587	5,702	2,946	6,231	52%	17%
	176,595	**20,275**	**-**	**105,259**	**5,315**	**247**	**20,462**	**25,037**	**-**	**25,037**	**10,185**	**4,177**	**10,967**	**52%**	**14%**
Loans and advances to banks															
Bank	38,110	26,582	-	11,528	-	-	-	-	-	-	-	-	4	0%	**0%**
Gross carrying amount	**214,705**	**46,857**	**-**	**116,787**	**5,315**	**247**	**20,462**	**25,037**	**-**	**25,037**	**10,185**	**4,177**	**10,971**	**52%**	**13%**
Less: Total expected credit losses for loans and advances	(18,419)														
Net carrying amount of loans & advances measured at amortised cost	**196,286**														

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

b) Credit quality by class (continued)

Year ended 31 December 2021	Gross Carrying amount KShs Million	SB 1 - 12 Stage 1 KShs Million	SB 1 - 12 Stage 2 KShs Million	SB 13 - 20 Stage 1 KShs Million	SB 13 - 20 Stage 2 KShs Million	SB 21- 25 Stage 1 KShs Million	SB 21- 25 Stage 2 KShs Million	Default Stage 3 KShs Million	Default Purchased/originated credit impaired KShs Million
Financial assets measured at amortised cost									
Sovereign	**21,797**	21,797	-	-	-	-	-	-	-
Gross carrying amount	**21,797**								
Less: Total expected credit losses for loans and advances (Note 22.1)	**(24)**								
Net carrying amount of financial assets measured at amortised costs	**21,773**								

Year ended 31 December 2021	Gross Carrying amount KShs Million	SB 1 - 12 Stage 1 KShs Million	SB 1 - 12 Stage 2 KShs Million	SB 13 - 20 Stage 1 KShs Million	SB 13 - 20 Stage 2 KShs Million	SB 21- 25 Stage 1 KShs Million	SB 21- 25 Stage 2 KShs Million	Default Stage 3 KShs Million	Default Purchased/originated credit impaired KShs Million
Financial assets at fair value through OCI									
Corporate	**154**	154	-	-	-	-	-	-	-
Sovereign	**19,075**	19,075	-	-	-	-	-	-	-
Gross carrying amount	**19,229**								
Add: Fair value reserve relating to fair value adjustments (before the ECL balance) (Note 21.1)	**(2)**								
Net carrying amount of financial assets measured at fair value through OCI	**19,227**								

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

b) Credit quality by class (continued)

Year ended 31 December 2020	Gross Carrying amount KShs Million	SB 1 - 12		SB 13 - 20		SB 21- 25		Default	
		Stage 1 KShs Million	Stage 2 KShs Million	Stage 1 KShs Million	Stage 2 KShs Million	Stage 1 KShs Million	Stage 2 KShs Million	Stage 3 KShs Million	Purchased/originated credit impaired KShs Million
Financial assets measured at amortised cost									
Corporate	**168**	168	-	-	-	-	-	-	-
Sovereign	**23,038**	23,038	-	-	-	-	-	-	-
Gross carrying amount	**23,206**								
Less: Total expected credit losses for loans and advances	**(15)**								
Net carrying amount of financial assets measured at amortised costs	**23,191**								

Financial assets at fair value through OCI									
Corporate	**-**	-	-	-	-	-	-	-	-
Sovereign	**30,660**	30,660	-	-	-	-	-	-	-
Gross carrying amount	**30,660**								
Add: Fair value reserve ralating to fair value adjustments (before the ECL balance)	**4**								
Net carrying amount of financial assets measured at fair value through OCI	**30,664**								

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

c) Ageing analysis of past due but not impaired financial assets

Loans and advances less than 90 days past due are not considered credit 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 credit impaired, per class.

	Performing (Early arrears)			Non - performing		Total
	1 to 29 days	30 to 59 days	60 to 89 days	90 to 180 days	More than 180 days	
31 December 2021	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**
CHNW	**3,833**	**1,341**	**933**	**-**	**-**	**6,107**
Mortgage lending	2,066	873	769	-	-	**3,708**
Vehicle and asset finance	428	147	18	-	-	**593**
Other loans and advances	1,339	321	146	-	-	**1,806**
BCC	**2,949**	**1,250**	**473**	**-**	**-**	**4,672**
Mortgage lending	35	-	-	-	-	**35**
Vehicle and asset finance	747	286	81	-	-	**1,114**
Other loans and advances	2,167	964	392	-	-	**3,523**
Corporate and Investment Banking	**9,516**	**2**	**3**	**-**	**-**	**9,521**
Corporate lending	9,516	2	3	-	-	**9,521**
Total recognised financial instruments	**16,298**	**2,593**	**1,409**	**-**	**-**	**20,300**

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

c) Ageing analysis of past due but not impaired financial assets (continued)

The table below shows the ageing of financial assets that are past due at the reporting date but not credit impaired, per class.

	Performing (Early arrears)			Non - performing		Total
31 December 2020	**1 to 29 days KShs Million**	**30 to 59 days KShs Million**	**60 to 89 days KShs Million**	**90 to 180 days KShs Million**	**More than 180 days KShs Million**	**KShs Million**
CHNW	**3,696**	**990**	**582**	**-**	**-**	**5,268**
Mortgage lending	2,367	528	402	-	-	**3,297**
Vehicle and asset finance	496	209	45	-	-	**750**
Other loans and advances	833	253	135	-	-	**1,221**
BCC	**3,138**	**1,077**	**260**	**-**	**-**	**4,475**
Mortgage lending	17	14	-	-	-	**31**
Vehicle and asset finance	845	345	34	-	-	**1,224**
Other loans and advances	2,276	718	226	-	-	**3,220**
Corporate and Investment Banking	**4,325**	**114**	**2**	**-**	**-**	**4,441**
Corporate lending	4,325	114	2	-	-	**4,441**
Total recognised financial instruments	**11,159**	**2,181**	**844**	**-**	**-**	**14,184**

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk

Market risk is the risk of a change in market value, earnings (actual or effective) or future cash-flows of a portfolio of financial instruments (including commodities), caused by moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these measures.

4.4.1 Governance committees

The Group's policy is that all trading activities are undertaken within the Group's trading operations. The Board grants general authority to take on market risk exposure to the Group's Assets and Liabilities Committee (ALCO).

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

i) Identification of market risks in the trading and banking books

This process entails analysis of new business plans, new products, new pricing models, new risk models and regular reviews by Market Risk staff of financial and management accounts balance sheets, income statements, and portfolio structure hierarchies, accounting classification and accounting elections, jointly with financial control, Risk Self Assessments jointly with operational risk, price testing reports and profit and loss decomposition reports.

ii) Measurement of market risk

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

iii) Management of market risk

The Group manages market risk through a specification of risk appetite in form of market risk limits. It uses a suite of risk measurement techniques, including Value at Risk (VaR), Stress Value at Risk (SVar), stress testing, stop loss triggers, back-testing and specific business unit and product controls.

iv) Reporting of market risk

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

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.2 Market risk exposure on banking operations

Banking-related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and the economic value of equity that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk. The Group's approach to managing Interest Rate Risk in Banking Book (IRRBB) is governed by applicable regulations and is influenced by the competitive environment in which the Bank operates. Treasury and Capital Management team monitors banking book interest rate risk together with the country ALCO.

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

4.4.3 Approved regulatory capital approaches

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

Market risk qualifying assets includes interest rate risk assets in the trading book and foreign currency risk assets throughout the Group.

4.4.4 Trading book market risk

Trading book market risk is represented by financial instruments held on the trading book, arising out of normal global markets' trading activity.

4.4.5 Approach to managing market risk in the trading book

The Stanbic Bank policy is that all trading activities are undertaken within the Group's trading operations. The market risk functions are independent of trading operations and accountable to ALCO. All Value at Risk (VaR) and stressed VaR (SVaR) limits require prior approval from ALCO. The market risk functions have the authority to set limits at a lower level.

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

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

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

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

a) VaR and SVaR

The Group uses the historical VaR and SVaR approach to quantify market risk under normal conditions and under stressed conditions.

For risk management purposes VaR is based on 250 days of unweighted recent historical data, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in

- Calculate 250 daily market price movements based on 250 days' historical data.

- Calculate hypothetical daily profit or loss for each day using these daily market price movements.

- Aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days.

- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

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

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

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

Limitations of historical VaR are acknowledged globally and include:

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

Trading book portfolio characteristics

VaR for the year under review

Trading book market risk exposures arise mainly from residual exposures from client transactions and limited trading for the group's own account. In general, the group's trading desks have run increased levels of market risk throughout the year for all asset classes when compared to 2020 aggregate normal VaR, and aggregate SVaR.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

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

a) VaR and SVaR (continued)

Normal VaR Exposures

31 December 2021	Normal VAR (KShs 'million')			
Desk name	**Maximum**	**Minimum**	**Average**	**Closing**
FX trading	55	2	18	23
Money market trading	63	3	6	3
Fixed income trading	11	1	4	2
Money market banking	7	4	5	5
Bankwide	58	7	22	21

31 December 2020*	Normal VAR (KShs 'million')			
Desk name	**Maximum**	**Minimum**	**Average**	**Closing**
FX trading	79	1	17	14
Money market trading	42	10	25	10
Fixed income trading	16	4	8	7
Money market banking	12	3	6	6
Bankwide	101	3	22	24

SVaR Exposures

31 December 2021	SVAR (KShs 'million')			
Desk name	**Maximum**	**Minimum**	**Average**	**Closing**
FX trading	271	26	106	92
Money market trading	494	34	115	38
Fixed income trading	264	22	66	26
Money market banking	507	53	111	62
Bankwide	278	60	146	110

31 December 2020*	SVAR (KShs 'million')			
Desk name	**Maximum**	**Minimum**	**Average**	**Closing**
FX trading	280	25	107	128
Money market trading	1,148	121	555	127
Fixed income trading	236	48	139	146
Money market banking	854	175	475	175
Bankwide	1,152	98	523	158

* VAR and SVAR disclosures as at 31 December 2020 have been disclosed in 2021

b) Stop-loss triggers

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

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

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

c) Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical and hypothetical simulations. Daily losses experienced during the year ended 31 December 2021 did not exceed the maximum tolerable losses as represented by the Group's stress scenario limits.

d) Back-testing

The Group back-tests its VaR models to verify the predictive ability of the VaR calculations and ensure the appropriateness of the models within the inherent limitations of VaR. Back-testing compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's calculated VaR In addition, VaR is tested by changing various model parameters, such as confidence intervals and observation periods to test the effectiveness of hedges and risk-mitigation instruments.

e) Specific business unit and product controls

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

4.4.6 Foreign exchange risk

Definition

The Group's primary exposures to foreign currency risk arise as a result of the translation effect on the Group's net assets in foreign operations, intragroup foreign-denominated debt and foreign denominated cash exposures and accruals.

Approach to managing foreign currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily risk according to existing legislation, and accounting parameters. It takes into account naturally offsetting risk positions and manages the Group's residual risk by means of forward exchange contracts, currency swaps and option contracts.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.6 Foreign exchange risk (continued)

Approach to managing foreign currency risk (continued)

The repositioning of the currency profile is a controlled process based on underlying economic views of the relative strength of currencies. The Group does not ordinarily hold open exposures of any significance with respect to the banking book.

Gains or losses on derivatives are reported in profit or loss.

The table below summarises the Group's exposure to foreign exchange risk at 31 December 2021.

Included in the table are the Group's financial instruments at carrying amounts, categorised by currency (all amounts expressed in millions of Kenya Shillings):

At 31 December 2021	USD	GBP	EUR	Others	Total
Assets					
Cash and bank balances with banks abroad	12,599	671	942	2,115	**16,327**
Loans and advances	68,681	317	4,595	15	**73,608**
Investment in government securities	2,692	-	-	-	**2,692**
Balances due from group companies	20,573	3,696	314	876	**25,459**
Other foreign currency assets	2,483	(13)	29	622	**3,121**
Total foreign currency denominated financial assets	**107,028**	**4,671**	**5,880**	**3,628**	**121,207**
Liabilities					
Amounts due to banking institutions abroad	8,524	-	1,822	2	**10,348**
Deposits	80,621	5,828	10,430	1,065	**97,944**
Borrowings	5,700	-	-	-	**5,700**
Balances due to group companies	9,970	50	297	-	**10,317**
Other foreign currency liabilities	3,636	39	131	2,036	**5,842**
Total foreign currency denominated financial liabilities	**108,451**	**5,917**	**12,680**	**3,103**	**130,151**
Net on balance sheet financial position	(1,423)	(1,246)	(6,800)	525	**(8,944)**
Off balance sheet net notional position	3,533	1,198	6,818	(811)	**10,738**
Overall net position	**2,110**	**(48)**	**18**	**(286)**	**1,794**

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.6 Foreign exchange risk (continued)

At 31 December 2020	USD	GBP	Euro	Others	Total
Assets					
Cash and bank balances with banks abroad	15,905	492	1,186	1,553	**19,136**
Loans and advances	59,244	942	6,360	15	**66,561**
Investment in Government Securities	2,554	-	-	-	**2,554**
Balances due from Group Companies	17,885	5,191	-	637	**23,713**
Other foreign currency assets	3,232	-	321	149	**3,702**
Total foreign currency denominated financial assets	**98,820**	**6,625**	**7,867**	**2,354**	**115,666**
Liabilities					
Amounts due to banking institutions abroad	12,011	7	83	472	**12,573**
Deposits	82,768	7,353	7,172	1,156	**98,449**
Borrowings	5,502	-	-	-	**5,502**
Balances due to group companies	12,432	-	2,691	-	**15,123**
Other foreign currency liabilities	12,446	3	700	1,078	**14,227**
Total foreign currency denominated financial liabilities	**125,159**	**7,363**	**10,646**	**2,706**	**145,874**
Net on balance sheet financial position	**(26,339)**	**(738)**	**(2,779)**	**(352)**	**(30,208)**
Off balance sheet net notional position	26,456	724	3,162	127	**30,469**
Overall net position	**117**	**(14)**	**383**	**(225)**	**261**

The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and cash flows. The Board sets limit on the level of exposure by currency and in aggregate for both overnight and intraday positions, which are monitored daily. The table indicates the extent to which the bank was exposed to currency risk as at 31st December on its monetary assets and liabilities denominated in foreign currency. It shows the sensitivity analysis for each currency to which the bank has significant exposure and the effect of the change in exchange rate on the income statement. Percentage exchange rate changes represent the average of the largest 1 and 10 days increase/decrease for the year.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.6 Foreign exchange risk (continued)

Year ended 31 December 2021 Currency	Increase in currency rate in % 2021	Effect on profit before tax 2021 KShs Million	Effect on equity 2021 KShs Million	Decrease in currency rate in % 2021	Effect on profit before tax 2021 KShs Million	Effect on equity 2021 KShs Million
USD	**1.01%**	21	15	**(3.43%)**	(72)	(50)
GBP	**1.96%**	(1)	(1)	**(2.80%)**	1	1
EUR	**3.67%**	1	1	**(3.10%)**	(1)	(1)
Year ended 31 December 2020 Currency	**Increase in currency rate in % 2020**	**Effect on profit before tax 2020 KShs Million**	**Effect on equity 2020 KShs Million**	**Decrease in currency rate in % 2020**	**Effect on profit before tax 2020 KShs Million**	**Effect on equity 2020 KShs Million**
USD	**2.45%**	3	2	**(2.17%)**	3	2
GBP	**5.53%**	(1)	(1)	**(3.96%)**	(1)	(1)
EUR	**2.48%**	9	6	**(3.59%)**	14	10

4.4.7 Interest rate risk

Interest rate risk in the banking book (IRRBB)

These are risks that have an impact on net interest income that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities.

IRRBB is further divided into the following sub risk types:

- **Repricing risk:** timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and
- **Yield curve risk**: shifts in the yield curves that have adverse effects on the Group's income or underlying
- **Basis risk:** hedge price not moving in line with the price of the hedged position. Examples include bonds/swap basis, futures/ underlying basis.
- **Optionality risk:** options embedded in Group asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial
- **Endowment risk:** exposure arising from the net differential between interest rate insensitive assets such as non-earning assets, interest rate insensitive liabilities such as non-paying liabilities, and equity.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

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)

The Group's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the Group operates. The Bank's Treasury and Capital Management team monitors banking book interest rate risk operating under the oversight of ALCO.

Measurement

The analytical techniques used to quantify IRRBB include both earnings- and valuation-based measures. The analysis takes account of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.

Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing or maturity profiles, or through derivative overlays.

Limits

Interest rate risk limits are set in relation to changes in forecast banking book earnings and the economic value of equity. Economic value of equity sensitivity is calculated as the net present value of aggregate asset cash flows less the net present value of aggregate liability cash flows.

All assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on behavioural profiling.

Hedging of endowment risk

IRRBB is predominantly the consequence of endowment exposures, being the net effect of non-rate sensitive assets less non-rate sensitive liabilities and equity.

The endowment risk is hedged using liquid instruments as and when it is considered opportune. Where permissible, hedge accounting is adopted using the derivatives. The interest rate view is formulated through ALCO processes, following meetings of the monetary policy committees, or notable market developments.

Non-endowment IRRBB (repricing, yield curve, basis and optionality) is managed within the treasury and the global markets portfolios.

The table below indicates the KShs equivalent sensitivity of the Bank's banking book earnings (net interest income and banking book mark-to-market profit or loss) and other comprehensive income (OCI) given a parallel yield curve shock. A floor of 0% is applied to all interest rates under the decreasing interest rate scenario. Hedging transactions are taken into account while other variables are kept constant.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.7 Interest rate risk (continued)

Hedging of endowment risk (continued)

Currency	Increase in basis points 2021 KShs Million	Sensitivity of net interest income 2021 KShs Million	Sensitivity of other comprehensive income 2021 KShs Million	Decrease in basis points 2021 KShs Million	Sensitivity of net interest income 2021 KShs Million	Sensitivity of other comprehensive income 2021 KShs Million
KShs	250	497	(100)	(200)	(566)	80
Others*	100	2	-	(100)	-	-

Currency	Increase in basis points 2020 KShs Million	Sensitivity of net interest income 2020 KShs Million	Sensitivity of other comprehensive income 2020 KShs Million	Decrease in basis points 2020 KShs Million	Sensitivity of net interest income 2020 KShs Million	Sensitivity of other comprehensive income 2020 KShs Million
KShs	250	242	(68)	(200)	(334)	54
Others*	100	(1)	-	(100)	-	-

* These are any other currencies held by the Group not denominated in KShs.

4.5 Liquidity risk

Liquidity risk arises when the Group, despite being solvent, is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms. This inability to maintain or generate sufficient cash resources may arise where counterparties who provide the Group with short-term funding withdraw or do not rollover that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The nature of banking and trading activities results in a continuous exposure to liquidity risk. The Group manages liquidity in accordance with applicable regulations and within Group's risk appetite. The Bank's liquidity risk management governance framework supports the measurement and management of liquidity at various levels to ensure that all payment obligations can be met by the Group under both normal and stressed conditions. Liquidity risk management ensures that the Group has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times.

The Bank's liquidity risk management framework differentiates between:

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

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

- **Structural (long-term) liquidity risk management:** ensuring a structurally sound statement of financial position, a diversified funding base and prudent term funding requirements.
- **Contingent liquidity risk management**: monitoring and managing early warning liquidity indicators while establishing and maintaining contingency funding plans, undertaking regular liquidity stress testing and scenario analysis, and setting liquidity buffers in accordance with anticipated stress events.

Governance committees

The primary governance committee overseeing this risk is the Group Asset Liability Committee (ALCO), which is chaired by the Chief Executive. There is independent risk oversight of all liquidity limits and guidelines by Market Risk, Finance and Central Asset Liability Management units. ALCO reports to the Board Risk Committee.

Approach to managing liquidity risk

There is a sound and robust liquidity management process to measure, monitor and manage liquidity exposures. The following elements are incorporated as part of a cohesive liquidity management process:

a) *Maintaining a structurally sound statement of financial position;*

With actual cash flows typically varying significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments with an indeterminable maturity or drawdown period, as well as to certain liquid assets. Behavioural profiling assigns probable maturities based on historical customer behaviour. This is used to identify significant additional sources of structural liquidity in the form of liquid assets and core deposits, such as current and savings accounts, which exhibit stable behaviour despite being repayable on demand or at short notice.

Structural liquidity mismatch analysis are performed regularly to anticipate the mismatch between payment profiles of balance sheet items, in order to highlight potential risks within the Group's defined liquidity risk thresholds.

b) *Foreign currency liquidity management;*

A specific number of indicators are observed in order to monitor changes in market liquidity as well as the impacts on liquidity as a result of movements in exchange rates. Foreign currency loans and advances are restricted to the availability of foreign currency deposits.

c) *Ensuring the availability of sufficient contingency liquidity;*

Funding markets are evaluated on an on-going basis to ensure appropriate Group funding strategies are executed depending on the market, competitive and regulatory environment. The Group employs a diversified

d) *Preserving a diversified funding base;*

Concentration risk limits are used within the Group to ensure that funding diversification is maintained across products, sectors, and counterparties. Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital.

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

e) Undertaking regular liquidity stress testing;

Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on the funding profiles and liquidity positions of the Group. The crisis impact is typically measured over a two month period, as this is considered the most crucial time horizon for a liquidity event. Anticipated on- and off-balance sheet cash flows are subjected to a variety of Group-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the Group's ability to maintain sufficient liquidity under adverse conditions.

f) Maintaining adequate liquidity contingency plans or liquidity buffer;

Portfolios of highly marketable securities over and above regulatory and stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO defined limits on the basis of diversification and liquidity.

g) Short-term and long-term cash flow management;

Active liquidity and funding management is an integrated effort across a number of functional areas. Short-term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and internal requirements.

The Group's long term funding strategy is derived from the projected net asset growth which includes consideration of Personal & Business Banking and Corporate & Investment Banking asset classes, capital requirements, the maturity profile of existing wholesale funding and anticipated changes in the retail deposit base. Funding requirements and initiatives are assessed in accordance with ALCO requirements for diversification, tenure and currency exposure, as well as the availability and pricing of alternative liquidity sources.

Liquidity contingency plans are designed to, as far as possible, protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an extensive early warning indicator process supported by a clear and decisive crisis response strategy. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event.

The cumulative impact of the above elements is monitored on a monthly basis by the Group's ALCO and the process is underpinned by a system of extensive internal and external controls. In periods of increased volatility, the frequency of meetings is increased as required to facilitate appropriate and timely management action.

To ensure integrity of the process there is use of application of purpose built technology, documented processes and procedures; independent oversight by risk management and regular independent reviews and evaluations of the effectiveness of the system. The total amount of liquidity held is adequate to meet all internal stress tests as well as regulatory requirements.

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

Exposure to liquidity risk

The key measure by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, 'net liquid assets' includes cash and cash equivalents and financial investment debt securities for which there is an active and liquid market less any deposits from Groups. Details of the reported Group's key subsidiary, Stanbic Bank Kenya Limited, ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	2021 %	2020 %
At 31 December	**44.2**	56.4
Average for the year	**51.5**	58.8
Maximum for the year	**59.8**	61.5
Minimum for the year	**43.3**	51.0
Statutory minimum requirement	**20.0**	20.0

The tables below present the remaining contractual maturities of the Group's non-derivative financial liabilities; it includes a maturity analysis for financial assets that the Group holds as part of managing liquidity risk – e.g. financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities - GROUP

	Carrying value	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
	2021	2021	2021	2021	2021	2021	2021	2021
	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million
Non- derivative financial assets								
Cash and balances to banks	**15,403**	**15,403**	15,403	-	-	-	-	-
Financial assets at FVTPL	**18,535**	**20,002**	-	2,049	13,513	1,383	2,053	1,004
Financial assets at FVOCI	**19,227**	**20,338**	-	1,024	10,594	6,117	2,603	-
Financial assets at amortised cost	**21,773**	**32,741**	-	8	1,676	1,508	19,055	10,494
Loans and advances to banks	**44,008**	**45,485**	15,564	24,238	2,583	176	2,924	-
Loans and advances to customers	**185,313**	**260,492**	14,638	4,401	22,626	26,405	163,834	28,588
Other assets	**3,032**	**3,032**	3,032	-	-	-	-	-
	307,291	**397,493**	**48,637**	**31,720**	**50,992**	**35,589**	**190,469**	**40,086**
Derivative assets:	**1,881**							
- Inflows		(404)	-	(191)	(77)	(67)	(69)	-
- Outflows		7,844	-	516	3,908	2,344	1,076	-
	1,881	**7,440**	**-**	**325**	**3,831**	**2,277**	**1,007**	**-**
Non- derivative financial liabilities								
Amounts due to other banks	**(12,243)**	**(12,423)**	(2,577)	(58)	(149)	(410)	(7,442)	(1,787)
Customer deposits	**(242,345)**	**(243,359)**	(158,525)	(69,431)	(13,313)	(1,428)	(623)	(39)
Financial liabilities	**(357)**	**475**	-	-	19	19	437	-
Borrowings	**(5,700)**	**(6,554)**	-	(21)	(101)	(113)	(569)	(5,750)
Other liabilities	**(5,453)**	**(5,453)**	(5,453)	-	-	-	-	-
	(266,098)	**(267,314)**	**(166,555)**	**(69,510)**	**(13,544)**	**(1,932)**	**(8,197)**	**(7,576)**
Derivative liabilities:	**(1,743)**							
- Inflows		(11,947)	-	(327)	(7,333)	(3,737)	(550)	-
- Outflows		165	-	10	23	96	36	-
	(1,743)	**(11,782)**	**-**	**(317)**	**(7,310)**	**(3,641)**	**(514)**	**-**

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

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

	Carrying value 2020 KShs Million	Gross nominal inflow/(outflow) 2020 KShs Million	Redeemable on demand 2020 KShs Million	Maturing within 1 month 2020 KShs Million	Maturing after 1 month but within 6 months 2020 KShs Million	Maturing after 6 months but within 12 months 2020 KShs Million	Maturing after 12 months but within 5 years 2020 KShs Million	Maturing After 5 years 2020 KShs Million
Non- derivative financial assets								
Cash and balances to banks	**18,077**	18,077	18,077	-	-	-	-	-
Financial assets at FVTPL	**33,729**	34,021	-	8,791	11,954	10,118	1,579	1,579
Financial assets at FVOCI	**30,664**	31,711	-	3,500	8,572	18,172	1,467	-
Financial assets at amortised cost	**23,191**	27,855	-	8	949	949	15,511	10,438
Loans and advances to banks	**38,119**	37,273	11,233	18,282	3,027	179	4,552	-
Loans and advances to customers	**158,180**	224,914	16,109	3,978	20,406	23,869	112,696	47,856
Other assets	**4,759**	4,759	4,759	-	-	-	-	-
	306,719	**378,610**	**50,178**	**34,559**	**44,908**	**53,287**	**135,805**	**59,873**
Derivative assets:	**2,956**							
- Inflows	-	(225)	-	(2)	(20)	(38)	(165)	-
- Outflows	-	11,642	-	1,416	6,457	2,739	1,030	-
	2,956	**11,417**	**-**	**1,414**	**6,437**	**2,701**	**865**	**-**
Non- derivative financial liabilities								
Amounts due to other banks	**(42,526)**	(43,440)	-	(43,326)	(18)	(21)	(75)	-
Customer deposits	**(217,444)**	(218,201)	(130,620)	(73,538)	(12,019)	(1,122)	(895)	(7)
Financial liabilities	**(418)**	(1,000)	-	(515)	(17)	(66)	(402)	-
Borrowings	**(5,504)**	(6,591)	-	(66)	(395)	(790)	(3,502)	(1,838)
Other liabilities	**(6,722)**	(6,722)	(6,722)	-	-	-	-	-
	(272,614)	**(275,954)**	**(137,342)**	**(117,445)**	**(12,449)**	**(1,999)**	**(4,874)**	**(1,845)**
Derivative liabilities:	**2,601**							
- Inflows	-	(1,481)	-	(111)	(862)	(463)	(45)	-
- Outflows	-	22	-	1	21	-	-	-
	2,601	**(1,459)**	**-**	**(110)**	**(841)**	**(463)**	**(45)**	**-**

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities (continued)

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

Type of financial	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows which include interest payments
Issued financial guarantee contracts, and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
Derivative financial liabilities and financial assets held for risk management purpose	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) and the net amounts for derivatives that are net settled.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprises cash and cash equivalents and debt securities issued by sovereigns which can be readily sold to meet liquidity requirements. In addition the Group maintains lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central bank.

The table below analyses the Company's non-derivative financial assets and liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

COMPANY

	0-3 MONTHS
At 31 December 2021	**KShs Million**
Cash and balances to banks	117
Other liabilities	(129)
	(12)
At 31 December 2020	
Cash and balances to banks	132
Other liabilities	(144)
	(12)

4.6 Financial instruments subject to offsetting, enforceable master netting arrangements or similar

The following table sets out the impact of offset, as well as financial assets and financial liabilities that are subject to enforceable master netting arrangement or similar agreement, irrespective of whether they have been offset in accordance with IAS 32, as required by IFRS 7R disclosure requirements. The gross amounts of financial asset and financial liabilities and their net amounts disclosed in the table below have been measured in the statement of financial position on the following bases:

- Derivative asset and liabilities – fair value;
- Loans and advances – amortised cost; and
- Customer deposits – amortised cost.

Notes (continued)

4 Financial risk management (continued)

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

As at 31 December 2021, the Group had cash margins of KShs 1,470,000,000 (2020: KShs 1,321,000,000) held as collateral against loans and advances to customers. Therefore, the credit facilities secured by cash margins can be settled at net.

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

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

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

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

IFRS 9 Financial Instruments: requires financial assets and financial liabilities to be offset and the net amount presented in the statement of financial position when, and only when, the Group has a current legally enforceable right to set off recognised amounts, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. The group did not have master netting arrangements as at the end of the year.

** An ISDA master agreement is a standard agreement used in over-the-counter derivatives transactions. The ISDA Master Agreement, published by the International Swaps and Derivatives Association (ISDA), is a document that outlines the terms applied to a derivatives transaction between two parties.*

Notes (continued)

5 Segment information

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

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

Management has determined the operating segments based on the reports reviewed by the Group's Chief Executive (CE) with the assistance of the Group's Leadership Council (KLC) and the Asset and Liability Committee (ALCO). Management considers the business from client turnover perspective.

The Group has therefore segmented its business as CHNW, BCC and CIB. This is in line with Group reporting and decision-making reports.

The geographical spread (across borders) is also used as a part of performance analysis. The Group's main subsidiary (Stanbic Bank Kenya Limited) operates one Branch in the Republic of South Sudan.

CHNW and BCC

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

(i) Mortgage Lending – provides residential accommodation loans to individual customers.
(ii) Instalment Sales and Finance Leases – comprises two areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.
(iii) Card Products – provides card facilities to individuals and businesses.
(iv) Transactional and Lending Products – transactions in products associated with the various points of contact channels such as Automated Teller Machines (ATMs), Internet, and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.

Corporate and Investment Banking (CIB)

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

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

The Group does not have any customer that contributes more than 10% of its revenue nor a customer that constitutes more than 10% of deposits or loans (2020: None)

Notes (continued)

5 Segment information (continued)

5 (a) Results by business units

Statement of profit and loss	Total 2021 KShs Million	Total 2020 KShs Million	CIB 2021 KShs Million	CIB 2020 KShs Million	BCC 2021 KShs Million	BCC 2020 KShs Million	CHNW 2021 KShs Million	CHNW 2020 KShs Million
Interest income	20,567	20,302	11,150	11,398	3,591	3,688	5,826	5,216
Interest expense	(6,194)	(7,507)	(4,608)	(5,397)	166	(308)	(1,752)	(1,802)
Net interest income	**14,373**	**12,795**	**6,542**	**6,001**	**3,757**	**3,380**	**4,074**	**3,414**
Fees and commission revenue	4,872	4,642	2,715	2,828	1,167	834	990	980
Fees and commission expense	(740)	(582)	(213)	(227)	(226)	(39)	(301)	(316)
Net fees and commission income	**4,132**	**4,060**	**2,502**	**2,601**	**941**	**795**	**689**	**664**
Trading revenue	5,988	6,234	4,512	4,685	828	921	648	628
Net income from financial instruments at fair value through profit or loss	592	93	592	93	-	-	-	-
Other income	47	38	173	35	(138)	3	12	-
Other (losses)/gains on financial instruments	(143)	17	(143)	17	-	-	-	-
Trading and other income	**6,484**	**6,382**	**5,134**	**4,830**	**690**	**924**	**660**	**628**
Total income	**24,989**	**23,237**	**14,178**	**13,432**	**5,388**	**5,099**	**5,423**	**4,706**
Credit impairment losses	(2,524)	(4,876)	(326)	(2,606)	(953)	(1,182)	(1,245)	(1,088)
Net income before operating expenses	**22,465**	**18,361**	**13,852**	**10,826**	**4,435**	**3,917**	**4,178**	**3,618**
Employee benefits expense	(6,519)	(5,929)	(3,354)	(4,232)	(1,158)	(441)	(2,007)	(1,256)
Depreciation and amortisation expense	(813)	(804)	(413)	(595)	(121)	(5)	(279)	(204)
Depreciation on right-of use assets	(352)	(458)	(121)	(205)	(15)	(9)	(216)	(244)
Other operating expenses	(5,016)	(4,895)	(2,231)	(555)	(2,054)	(2,812)	(731)	(1,528)
Finance costs	(9)	(48)	(9)	(48)	-	-	-	-
Total operating expenses	**(12,709)**	**(12,134)**	**(6,128)**	**(5,635)**	**(3,348)**	**(3,267)**	**(3,233)**	**(3,232)**
Profit before income tax	**9,756**	**6,227**	**7,724**	**5,191**	**1,087**	**650**	**945**	**386**
Income tax expense	(2,548)	(1,035)	(1,745)	(740)	(417)	(157)	(386)	(138)
Profit for the year	**7,208**	**5,192**	**5,979**	**4,451**	**670**	**493**	**559**	**248**

Notes (continued)

5 Segment information (continued)

5 (a) Results by business units (continued)

Statement of financial position	Total 2021 KShs Million	Total 2020 KShs Million	CIB 2021 KShs Million	CIB 2020 KShs Million	BCC 2021 KShs Million	BCC 2020 KShs Million	CHNW 2021 KShs Million	CHNW 2020 KShs Million
Assets								
Cash and balances with Central Bank of Kenya	15,403	18,077	11,277	12,385	2,664	3,747	1,462	1,945
Financial assets – (FVTPL)	18,535	33,729	18,535	33,729	-	-	-	-
Financial assets – (FVOCI)	19,227	30,664	19,227	30,664	-	-	-	-
Financial assets – (amortised cost)	21,773	23,191	21,773	23,191	-	-	-	-
Derivative assets	1,881	2,956	1,881	2,956	-	-	-	-
Loans and advances to banks	44,008	38,119	42,412	37,978	1,216	63	380	78
Loans and advances to customers	185,313	158,180	99,509	76,683	35,692	34,768	50,112	46,729
Other assets and prepayments	3,704	4,759	832	564	1,450	2,043	1,422	2,152
Investment in subsidiaries and other investments	18	18	10	18	4	-	4	-
Property and equipment	1,915	2,242	719	1,064	263	545	933	633
Right-of-use assets (leasehold land)	39	42	23	21	8	11	8	10
Other intangible assets	1,021	864	600	485	206	174	215	205
Intangible assets - goodwill	9,350	9,350	8,882	9,350	468	-	-	-
Right-of-use assets (buildings)	1,037	1,479	207	-	59	783	771	696
Deferred tax asset	5,648	4,847	3,731	3,089	876	995	1,041	763
Asset classified as held-for-sale	-	76	-	76	-	-	-	-
Total assets	**328,872**	**328,593**	**229,618**	**232,253**	**42,906**	**43,129**	**56,348**	**53,211**
Liabilities								
Derivative liabilities	1,743	2,601	1,743	2,601	-	-	-	-
Financial liabilities – FVTPL	357	418	357	418	-	-	-	-
Deposits from banks	12,243	42,526	12,243	42,526	-	-	-	-
Deposits from customers	242,345	217,444	113,340	99,195	56,467	49,436	72,538	68,813
Borrowings	5,700	5,504	3,318	3,166	1,164	1,165	1,218	1,173
Other liabilities and accrued expenses	7,149	6,581	5,724	4,030	48	454	1,377	2,097
Current tax liability	1,751	395	1,048	281	246	105	457	9
Deferred tax liability	-	1	-	-	-	1	-	-
Lease liabilities	1,132	1,386	373	614	105	229	654	543
Liabilities directly associated with assets classified as held-for-sale	-	7	-	7	-	-	-	-
Total liabilities	**272,420**	**276,863**	**138,146**	**152,838**	**58,030**	**51,390**	**76,244**	**72,635**
Equity	**56,452**	**51,730**	**33,278**	**33,529**	**11,588**	**9,192**	**11,586**	**9,009**
Funding	**-**	**-**	**58,194**	**45,886**	**(26,712)**	**(17,453)**	**(31,482)**	**(28,433)**
Total equity and liabilities	**328,872**	**328,593**	**229,618**	**232,253**	**42,906**	**43,129**	**56,348**	**53,211**

Notes (continued)

5 Segment information (continued)

5 (b) Results by geographical area

Statement of profit and loss	Total 2021 KShs Million	Total 2020 KShs Million	Kenya 2021 KShs Million	Kenya 2020 KShs Million	South Sudan 2021 KShs Million	South Sudan 2020 KShs Million
Interest income	20,567	20,302	20,561	20,296	6	6
Interest expense	(6,194)	(7,507)	(6,089)	(7,411)	(105)	(96)
Net interest income	**14,373**	**12,795**	**14,472**	**12,885**	**(99)**	**(90)**
Fees and commission revenue	4,872	4,642	4,066	3,729	806	913
Fees and commission expense	(740)	(582)	(721)	(542)	(19)	(40)
Net fees and commission income	**4,132**	**4,060**	**3,345**	**3,187**	**787**	**873**
Trading revenue	5,988	6,234	5,222	5,403	766	831
Net income from financial instruments at fair value through profit or loss	592	93	592	93	-	-
Other income	47	38	46	38	1	-
Other (losses)/gains on financial instruments	(143)	17	(143)	17	-	-
Trading and other income	**6,484**	**6,382**	**5,717**	**5,551**	**767**	**831**
Total income	**24,989**	**23,237**	**23,534**	**21,623**	**1,455**	**1,614**
Credit impairment losses	(2,524)	(4,876)	(2,523)	(4,877)	(1)	1
Net income before operating expenses	**22,465**	**18,361**	**21,011**	**16,746**	**1,454**	**1,615**
Employee benefits expense	(6,519)	(5,929)	(5,952)	(5,304)	(567)	(625)
Depreciation and amortisation expense	(813)	(804)	(784)	(788)	(29)	(16)
Depreciation on right-of use assets	(352)	(458)	(261)	(327)	(91)	(131)
Other operating expenses	(5,016)	(4,895)	(4,575)	(4,387)	(441)	(508)
Finance costs	(9)	(48)	(2)	(24)	(7)	(24)
Total operating expenses	**(12,709)**	**(12,134)**	**(11,574)**	**(10,830)**	**(1,135)**	**(1,304)**
Profit before income tax	**9,756**	**6,227**	**9,437**	**5,916**	**319**	**311**
Income tax expense	(2,548)	(1,035)	(2,483)	(1,047)	(65)	12
Profit for the year	**7,208**	**5,192**	**6,954**	**4,869**	**254**	**323**

Notes (continued)

5 Segment information (continued)

5 (b) Results by geographical area (continued)

Statement of financial position	Total 2021 KShs Million	Total 2020 KShs Million	Kenya 2021 KShs Million	Kenya 2020 KShs Million	South Sudan 2021 KShs Million	South Sudan 2020 KShs Million
Assets						
Cash and balances with Central Bank of Kenya	15,403	18,077	10,719	17,110	4,684	967
Financial assets – (FVTPL)	18,535	33,729	18,535	33,729	-	-
Financial assets – (FVOCI)	19,227	30,664	19,227	30,664	-	-
Financial assets – (amortised cost)	21,773	23,191	21,773	23,191	-	-
Derivative assets	1,881	2,956	1,881	2,956	-	-
Loans and advances to banks	44,008	38,119	31,649	23,890	12,359	14,229
Loans and advances to customers	185,313	158,180	185,293	158,162	20	18
Other assets and prepayments	3,704	4,759	3,690	6,739	14	(1,980)
Investment in subsidiaries and other investments	18	18	18	18	-	-
Property and equipment	1,915	2,242	1,785	2,077	130	165
Right-of-use assets (leasehold land)	39	42	39	42	-	-
Other intangible assets	1,021	864	1,015	861	6	3
Intangible assets - goodwill	9,350	9,350	9,350	9,350	-	-
Right-of-use assets (buildings)	1,037	1,479	805	946	232	533
Deferred tax asset	5,648	4,847	5,630	4,847	18	-
Asset classified as held-for-sale	-	76	-	76	-	-
Total assets	**328,872**	**328,593**	**311,409**	**314,658**	**17,463**	**13,935**
Liabilities						
Derivative liabilities	1,743	2,601	1,743	2,601	-	-
Financial liabilities – FVTPL	357	418	357	418	-	-
Deposits from banks	12,243	42,526	10,476	40,938	1,767	1,588
Deposits from customers	242,345	217,444	230,497	206,901	11,848	10,543
Borrowings	5,700	5,504	5,700	5,504	-	-
Other liabilities and accrued expenses	7,149	6,581	4,671	6,268	2,478	313
Current tax liability	1,751	395	1,732	392	19	3
Deferred tax liability	-	1	-	-	-	1
Lease liabilities	1,132	1,386	850	1,038	282	348
Liabilities directly associated with assets classified as held-for-sale	-	7	-	7	-	-
Total liabilities	**272,420**	**276,863**	**256,026**	**264,067**	**16,394**	**12,796**
Equity	**56,452**	**51,730**	**55,383**	**50,591**	**1,069**	**1,139**
Total equity and liabilities	**328,872**	**328,593**	**311,409**	**314,658**	**17,463**	**13,935**

Notes (continued)

5 Segment information (continued)

5 (b) Results by geographical area (continued)

Reconciliation of reportable assets and liabilities

	GROUP	
	2021 KShs Million	**2020 KShs Million**
Assets		
Total assets for reportable segments	350,330	338,368
Elimination of inter-branch balances with South Sudan	(21,458)	(9,775)
Entity's assets	**328,872**	**328,593**
Liabilities		
Total liabilities and equities for reportable segments	350,331	338,368
Elimination of inter-branch balances with South Sudan	(21,458)	(9,775)
Entity's liabilities and equities	**328,873**	**328,593**

6 Interest income

	GROUP		COMPANY	
	2021 KShs Million	**2020 KShs Million**	**2021 KShs Million**	**2020 KShs Million**
Loans and advances to customers	15,524	14,975	-	-
Financial assets – (FVOCI)	2,131	2,149	-	-
Financial assets – (amortised cost)	2,493	2,380	-	-
Placements and other bank balances	419	798	4	1
	20,567	**20,302**	**4**	**1**

7 Interest expense

	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Current accounts	1,424	1,556	-	-
Savings and term deposit accounts	4,207	4,664	-	-
Deposits and placements from other banks	211	567	-	-
Interest on borrowed funds	242	547	-	-
Interest expense on lease liabilities (Note 3	110	173	-	-
	6,194	**7,507**	**-**	**-**
Net interest income	**14,373**	**12,795**	**4**	**1**

All interest income reported above relates to financial assets not carried at fair value through profit or loss and all interest expense reported relates to financial liabilities not carried at fair value through profit or loss.

Notes (continued)

		GROUP		COMPANY	
8	**Fees and commission revenue**	**2021 KShs Million**	**2020 KShs Million**	**2021 KShs Million**	**2020 KShs Million**
	Account transaction fees	1,471	1,574	-	-
	Knowledge based and client administration fees	1,251	1,110	-	-
	Electronic banking fees	591	541	-	-
	Foreign service fees	571	486	-	-
	Documentation and administration fees	234	241	-	-
	Brokerage commission	216	256	-	-
	Other bank related fees and commission	538	434	-	-
		4,872	**4,642**	**-**	**-**

The net fees and commission earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers is KShs 332 403 182 (2020: KShs 298,974,575).

All net fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss.

		GROUP		COMPANY	
9	**Fees and commission expense**	**2021 KShs Million**	**2020 KShs Million**	**2021 KShs Million**	**2020 KShs Million**
	Card based commission expenses	218	212	-	-
	Brokerage fees	43	91	-	-
	Other bank related fees and commission expenses	479	279	-	-
		740	**582**	**-**	**-**

10	**Trading revenue**				
	Net foreign exchange income	6,031	6,037	-	-
	(Loss)/gain in monetary value	(43)	197	-	-
		5,988	6,234	-	-

11 (a)	**Net income from financial instruments at fair value through profit or loss**				
	Fixed Income-financial assets-(FVTPL/ Held for trading)	592	93	-	-

11 (b)	**Other (losses)/gains on financial instruments**				
	Net gain on disposal of financial assets - FVTPL	(143)	17	-	-
		(143)	17	-	-

Notes (continued)

12 Other income

	GROUP 2021 KShs Million	GROUP 2020 KShs Million	COMPANY 2021 KShs Million	COMPANY 2020 KShs Million
Gain on disposal of property and equipment	-	4	-	-
Dividend income	-	-	2,235	2,320
Other income	47	34	-	-
	47	**38**	**2,235**	**2,320**

13 Employee benefits expense

	GROUP 2021 KShs Million	GROUP 2020 KShs Million	COMPANY 2021 KShs Million	COMPANY 2020 KShs Million
Salaries and wages	6,027	5,478	34	-
Retirement benefit costs	492	451	2	-
	6,519	**5,929**	**36**	**-**
Included in retirement benefit costs are;				
Defined contribution scheme	488	447	-	-
National Social Security Fund	4	4	-	-
	492	**451**	**-**	**-**

Average staff numbers for the year;

	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Management	399	365	-	-
Supervisory	420	425	-	-
Clerical and other categories	248	209	-	-
Total	1,067	999	-	-

14 Breakdown of expenses by nature

	Notes	GROUP 2021 KShs Million	GROUP 2020 KShs Million	COMPANY 2021 KShs Million	COMPANY 2020 KShs Million
Profit before tax has been arrived at after charging-;					
Employee benefits	13	6,519	5,929	36	-
Audit fees		41	43	3	3
Directors' fees		83	59	9	9
Depreciation of property and equipment	26	498	473	-	-
Depreciation on right-of use assets	30	352	458	-	-
Amortisation of right-of-use leasehold land	27	3	3	-	-
Amortisation of intangible assets	28	312	328	-	-
Franchise fees	42 (i)	732	675	-	-

Notes (continued)

			GROUP		COMPANY	
			2021	2020	2021	2020
15	**Finance costs**	**Notes**	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**
	Bank charges		9	48	1	-
			9	**48**	**1**	**-**
16	**Income tax expense**					
	Current income tax		3,356	1,373	7	5
	Current year charge	37 (a)	3,356	1,373	7	5
	Previous year current income tax over provision		-	-	-	-
	Deferred income tax		(808)	(338)	-	(5)
	Current year (credit)/charge Kenya operations	38 (a)	(789)	(330)	-	(5)
	Current year (credit)/charge foreign operations	38 (b)	(19)	(8)	-	-
	Income tax expense for the year		**2,548**	**1,035**	**7**	**-**

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:

	2021	2020	2021	2020
	KShs Million	**KShs Million**	**KShs Million**	**KShs Million**
Profit before income tax	**9,756**	**6,227**	**2,176**	**2275**
Tax at statutory tax rate of 30% (2020: 25%)	2,927	1,557	653	569
Tax effect of:				
Income not subjected to tax	(481)	(1,054)	(671)	(580)
Expenses not deductible for tax purposes	138	402	25	11
Previous year’s current tax over provision	-	160	-	-
Effect of tax paid in other jurisdictions	(25)	(7)	-	-
Effect of different tax rate in South Sudan	(11)	(23)	-	-
Income tax expense	**2,548**	**1,035**	**7**	**-**

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.

Notes (continued)

17 Earnings per share (continued)

	GROUP		COMPANY	
	2021	**2020**	**2021**	**2020**
	KShs Million	**KShs Million**	**KShs Million**	**KShs Million**
Earnings (Profit after tax)				
Earnings for the purposes of basic earnings per share (KShs Million)	7,208	5,192	2,169	2,275
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share (in millions)	395	395	395	395
Earnings per share (KShs) basic and diluted	**18.23**	**13.13**	**5.49**	**5.75**

There were no dilutive potential ordinary shares as at 31 December 2021 or 31 December 2020. Therefore, diluted earnings per share are the same as basic earnings per share.

18 Dividend

	GROUP AND COMPANY	
	2021	**2020**
The calculation of dividends per share is based on:		
Dividends for the year attributable to ordinary shareholders:		
Interim dividend paid (KShs ‘000)	672	-
Final dividend proposed (KShs ‘000)	2,886	1,502
	3,558	**1,502**
Number of ordinary shares at issue date (in millions)	395	395
Dividends per share – KShs	**9.00**	**3.80**

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting.

At the next annual general meeting, a final dividend in respect of the year ended 31 December 2021 of KShs 7.30 (2020: KShs 3.80) per share amounting to a total of KShs 2,886,224,000 (2020: KShs 1,502,224,000) is to be proposed. These financial statements do not reflect this dividend as payable, the proposed dividend has however been transferred to a separate category of equity.

During the year an interim dividend of KShs 1.70 per share totalling to KShs 672,047,000 was paid (2020: Nil).

Payment of dividends is subject to withholding tax at a rate of either 5% for resident and 10% for non-resident shareholders. Dividend paid to resident shareholders who own more than 12.5% share-holding are exempt from withholding tax.

Notes (continued)

19 Cash and balances with Central Bank of Kenya

	GROUP		COMPANY	
	2021	**2020**	**2021**	**2020**
	KShs Million	**KShs Million**	**KShs Million**	**KShs Million**
Cash in hand	3,866	2,877	-	-
Balances with Central Bank of Kenya	11,537	15,200	-	-
	15,403	**18,077**	**-**	**-**

The Group's key subsidiary, Stanbic Bank Kenya Limited are required to maintain a prescribed minimum cash reserve ratio (CRR) including cash in hand and balances with Central Bank of Kenya. The minimum cash reserve is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. At 31 December 2021, the cash reserve requirement was 4.25% of the eligible deposits (2020: 4.25%).

The cash reserve requirement balance for the year ended 31 December 2021 is KShs. 9,547,857,985 (2020: KShs 8,779,084,750).The Central Bank allows a daily minimum of 3% (2020: 3%) of eligible deposits when the average total reserving for the month is above the CRR. The applicable daily minimum for the bank therefore is KShs. 6,739,664,460 as at 31 December 2021 (2020: KShs 6,197,000,990). The bank complied with the CRR requirement throughout the reporting period.

20 Financial assets and liabilities – FVTPL

20 (a) Financial assets – (FVTPL)

	GROUP	
	2021	**2020**
Debt securities	**KShs Million**	**KShs Million**
Government treasury bills and bonds	18,535	33,729
	18,535	**33,729**
Maturity analysis;		
Maturing within 1 month	2,951	8,600
Maturing after 1 months but within 6 months	12,194	11,651
Maturing after 6 months but within 12 months	1,279	9,625
Maturing after 12 months but within 5 years	1,575	3,853
Maturing after 5 years	536	-
	18,535	**33,729**

The maturities represent periods to contractual redemption of financial assets - FVPTL recorded. Financial assets - FVTPL had a redemption value at 31 December 2021 of KShs 18,562,735,000 (2020: KShs 33,954,619,000). The weighted average effective interest yield on debt securities held for trading at 31 December 2021 was 9.11% (2020: 8.73%).

20 (b) Financial liabilities – FVTPL

	GROUP	
	2021	**2020**
	KShs Million	**KShs Million**
Unlisted	357	418
Maturity analysis;		
Maturing within 1 month	-	58
Maturing after 6 months but within 12 months	-	50
Maturing after 12 months but within 5 years	357	310
	357	**418**

Notes (continued)

20 Financial assets and liabilities – FVTPL (continued)

20 (b) Financial liabilities – FVTPL (continued)

The maturities represent periods to contractual redemption of trading liabilities recorded. Dated trading liabilities had a redemption value at 31 December 2020 of KShs. 350,000,000 (2020: KShs 405,590,000). The weighted average effective interest cost on debt securities held for trading at 31 December 2021 was 11.07% (2020: 9.56%).

21 Financial assets – (FVOCI)

	Note	GROUP 2021 KShs Million	GROUP 2020 KShs Million
Financial assets – (FVOCI)	21 (a)	19,227	30,091
Pledged assets – (FVOCI)	21 (b)	-	573
		19,227	**30,664**

21 (a) Financial assets – (FVOCI)

	GROUP 2021 KShs Million	GROUP 2020 KShs Million
Debt securities – at fair value:		
Listed	2,085	1,078
Unlisted	17,144	29,017
	19,229	**30,095**
Comprising:		
Government bonds	2,085	1,078
Government treasury bills	16,990	29,017
Corporate Bonds	154	-
	19,229	**30,095**
Allowances for impairments		
Expected credit loss for debt securities measured at fair value through OCI (IFRS 9)	(2)	(4)
Credit impairment losses	**(2)**	**(4)**
Net debt securities at FVOCI	**19,227**	**30,091**

Maturity analysis	GROUP 2021 KShs Million	GROUP 2020 KShs Million
Maturing within 1 month	2,987	3,460
Maturing after 1 month but within 6 months	8,345	8,328
Maturing after 6 months but within 12 months	5,673	17,223
Maturing after 12 months	2,222	1,080
	19,227	**30,091**

Financial investment securities had a redemption value at 31 December 2021 of KShs. 19,648,000,000 (2020: KShs 31,100,000,000).The weighted average effective interest cost on debt securities held for trading at 31 December 2021 was 8.64% (2020: 8.24%).

Notes (continued)

21 Financial assets – (FVOCI) (continued)

21 (b) Pledged assets – (FVOCI)

	GROUP	
	2021	**2020**
	KShs Million	**KShs Million**
Fair value through OCI	-	573
	-	573
Maturity analysis		
Maturing after 1 months but within 6 months	-	573
Maturing after 12 months but within 5 years	-	-
	-	**573**

Dated pledged assets at fair value through OCI had a redemption value at 31 December 2021 of KShs. nil (2020: KShs 534,000,000).

The weighted average effective interest yield on investment securities at FVOCI on 31 December 2021 was nil (2020: 11.18%).

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

Notes (continued)

21 Financial assets – (FVOCI) (continued)

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

			Income statement movements							
	Opening ECL 1 Jan 2021	Total transfers between stages	ECL on new exposure raised	Change in ECL due to modifications	Subsequent changes in ECL	Change in ECL due to derecognition	Net ECL raised/ (released)1	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 Dec 2021
GROUP	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Financial assets (Fair value through OCI)										
Debt securities	**4**	**-**	**2**	**-**	**1**	**(4)**	**(1)**	**-**	**(1)**	**2**
Stage 1	4	-	2	-	1	(4)	(1)	-	(1)	2
Total	**4**	**-**	**2**	**-**	**1**	**(4)**	**(1)**	**-**	**(1)**	**2**

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

Notes (continued)

21 Financial assets – (FVOCI) (continued)

21.1 Reconciliation of expected credit losses for debt financial assets measured at fair value through OCI: (continued)

	Opening ECL 1 Jan 2020	Total transfers between stages	Income statement movements: ECL on new exposure raised	Income statement movements: Change in ECL due to modifications	Income statement movements: Subsequent changes in ECL	Income statement movements: Change in ECL due to derecognition	Net ECL raised/ (released)1	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 Dec 2020
GROUP	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Financial assets (Fair value through OCI)										
Debt securities	**2**	**-**	**4**	**-**	**-**	**(2)**	**2**	**-**	**-**	**4**
Stage 1	2	-	4	-	-	(2)	2	-	-	4
Total	**2**	**-**	**4**	**-**	**-**	**(2)**	**2**	**-**	**-**	**4**

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

21.2 Reconciliation of fair value through OCI reserve for debt financial assets measured at fair value through OCI

	Balance at beginning of the year 2021	Reclassifications	Net change in fair value	Realised fair value adjustments and reversal to profit or loss	Net expected credit loss raised/ (released) during the period	Exchange and other movements	Balance at end of the year 2021
	KShs	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
GROUP							
Debt securities	(1)	-	(13)	1	(12)	-	(13)
Total	(1)	-	(13)	1	(12)	-	(13)

Notes (continued)

21 Financial assets – (FVOCI) (continued)

21.2 Reconciliation of fair value through OCI reserve for debt financial assets measured at fair value through OCI (continued)

	Balance at beginning of the year 2020 KShs	Reclassifications KShs	Net change in fair value KShs	Realised fair value adjustments and reversal to profit or loss KShs	Net expected credit loss raised/ (released) during the period KShs	Exchange and other movements KShs	Balance at end of the year 2020 KShs
GROUP							
Debt securities	(34)	-	(1)	34	33	-	(1)
Total	(34)	-	(1)	34	33	-	(1)

Notes (continued)

22 Financial assets – (amortised cost)

	Note	GROUP 2021 KShs Million	2020 KShs Million
Pledged assets – (amortised cost)	22 (a)	3,454	3,676
Financial assets – (amortised cost)	22 (b)	18,319	19,515
		21,773	**23,191**

22 (a) Pledged assets – (amortised cost)

	Note	GROUP 2021 KShs Million	2020 KShs Million
Amortised cost/held to collect debt securities		3,455	3,677
Gross pledged assets at amortised cost		**3,455**	3,677
Allowances for impairments			
Expected credit loss for financial assets measured at amortised cost (IFRS 9)	22.1	(1)	(1)
Credit impairment losses		**(1)**	**(1)**
Net pledged assets at amortised cost		**3,454**	**3,676**
Maturity analysis:			
Maturing after 1 months but within 6 months		509	514
Maturing after 6 months but within 12 months		389	210
Maturing after 12 months but within 5 years		2,556	2,952
		3,454	**3,676**

Dated pledged assets at amortized cost had a redemption value at 31 December 2021 of KShs. 3,370,000,000 (2020: KShs 4,104,000,000).

The weighted average effective interest yield on investment securities at FVOCI on 31 December 2021 was 11.00% (2020: 11.45%).

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

22 (b) Financial assets – (amortised cost)

	Note	GROUP 2021 KShs Million	2020 KShs Million
Debt securities:			
Listed		18,342	19,529
Unlisted		-	-
Gross financial assets at amortised cost		18,342	19,529
Allowances for impairments			
Expected credit loss for financial assets measured at amortised cost (IFRS 9)	22.1	(23)	(14)
Credit impairment losses		(23)	(14)
Net debt securities at amortised cost		18,319	19,515

Notes (continued)

22 Financial assets – (amortised cost) (continued)

22 (b) Financial assets – (amortised cost) (continued)

	Note	GROUP 2021 KShs Million	GROUP 2020 KShs Million
Comprising:			
Government bonds		18,342	19,529
Corporate bonds		-	-
		18,342	19,529
Maturity analysis:			
Maturing within 1 month		-	-
Maturing after 1 month but within 6 months		11	-
Maturing after 6 months but within 12 months		-	11,009
Maturing after 12 months but within 5 years		10,567	8,520
Maturing after 5 years		7,764	-
		18,342	**19,529**

Dated held to collect assets had a redemption value at 31 December 2021 of KShs. 18,271,899,000 (2020: KShs 19,504,870,000).

The weighted average effective interest yield on held to collect investment securities at 31 December 2021 was 11.29% (2020: 11.01%).

Notes (continued)

22 Financial assets – (amortised cost) (continued)

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

	Opening ECL 1 January 2021	Total transfers between stages	Income statement movements: ECL on new exposure raised	Income statement movements: Change in ECL due to modifications	Income statement movements: Subsequent changes in ECL	Income statement movements: Change in ECL due to derecognition	Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2021
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Financial assets Amortised cost										
Sovereign - Debt securities	**14**	**-**	**6**	**-**	**4**	**(1)**	**9**	**-**	**-**	**23**
Stage 1	14	-	6	-	4	(1)	9	-	-	23
Pledged assets	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Stage 1	1	-	-	-	-	-	-	-	-	1
Stage 2	-	-	-	-	-	-	-	-	-	-
Total	**15**	**-**	**6**	**-**	**4**	**(1)**	**9**	**-**	**-**	**24**

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

Notes (continued)

22 Financial assets – (amortised cost) (continued)

22.1 Reconciliation of expected credit losses for debt financial assets measured at amortised cost (continued)

	Opening ECL 1 January 2020	Total transfers between stages	Income statement movements: ECL on new exposure raised	Income statement movements: Change in ECL due to modifications	Income statement movements: Subsequent changes in ECL	Income statement movements: Change in ECL due to derecognition	Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2020
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Sovereign - Debt securities	**2**	**-**	**14**	**-**	**(2)**	**(2)**	**12**	**-**	**2**	**14**
Stage 1	2	-	14	-	(2)	(2)	12	-	2	14
Pledged assets	**-**	**-**	**1**	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Stage 1	-	-	1	-	-	-	1	-	-	1
Total	**2**	**-**	**15**	**-**	**(2)**	**(2)**	**13**	**-**	**2**	**15**

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

Notes (continued)

23 Loans and advances

23 (a) Loans and advances to banks

	Note	GROUP 2021 KShs Million	GROUP 2020 KShs Million	COMPANY 2021 KShs Million	COMPANY 2020 KShs Million
Balances with banks		26,427	10,952	-	-
Balances due from Group banks	42 (a)	17,582	27,171	117	132
		44,009	**38,123**	**117**	**132**
Allowances for impairments					
Impairment Stages 1 & 2 (performing loans)		(1)	(4)	-	-
Impairment Stage 3 (non-performing loans)		-	-	-	-
Credit impairment allowances		**(1)**	**(4)**	**-**	**-**
Net loans and advances		**44,008**	**38,119**	**117**	**132**
Maturity analysis:					
Redeemable on demand		15,564	11,257	117	132
Maturing within 1 month		24,999	20,249	-	-
Maturing after 1 month but within 12 months		1,695	2,743	-	-
Maturing after 12 month but within 5 years		1,750	3,870	-	-
Net loans and advances to banks		**44,008**	**38,119**	**117**	**132**

Notes (continued)

23 Loans and advances (continued)

23 (a) Loans and advances to banks (continued)

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

	Opening ECL 1 January 2021	Total transfers between stages	Income statement movements				Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2021
			ECL on new exposure raised	Change in ECL due to modifications	Subsequent changes in ECL	Change in ECL due to derecognition				
BANKS	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Stage 1	4	-	6	-	(9)	-	(3)	-	-	1
Total	**4**	**-**	**6**	**-**	**(9)**	**-**	**(3)**	**-**	**-**	**1**

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

	Opening ECL 1 January 2020	Total transfers between stages	Income statement movements				Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2020
			ECL on new exposure raised	Change in ECL due to modifications	Subsequent changes in ECL	Change in ECL due to derecognition				
BANKS	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Stage 1	1	-	2	-	1	-	3	-	-	4
Total	**1**	**-**	**2**	**-**	**1**	**-**	**3**	**-**	**-**	**4**

Notes (continued)

23 Loans and advances (continued)

23 (b) Loans and advances to customers

		GROUP	
		2021	2020
	Note	KShs Million	KShs Million
Mortgage lending		35,864	34,783
Vehicle and asset finance (note 23(e))		10,728	13,127
Overdraft and other demand lending		14,638	16,109
Term lending		139,089	112,061
Card lending		622	515
Gross loans and advances to customers		**200,941**	**176,595**
Allowances for impairments			
Expected credit loss for loans and advances measured at amortised cost (IFRS 9)	23(c (i))	(15,628)	(18,415)
Credit impairment allowances		**(15,628)**	**(18,415)**
Net loans and advances		**185,313**	**158,180**
Maturity analysis:			
Redeemable on demand		16,154	13,088
Maturing within 1 month		16,609	8,646
Maturing after 1 month but within 6 months		30,146	25,542
Maturing after 6 months but within 12 months		6,864	13,997
Maturing after 12 months but within 5 years		73,889	77,440
Maturing after 5 years		41,651	19,467
Net loans and advances		**185,313**	**158,180**

The weighted average effective interest rate on loans and advances to customers as at 31 December 2021 was 8.44% (2020: 8.79%). The Group extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, vehicle and asset finance, and overdrafts.

Notes (continued)

23 Loans and advances (continued)

23 (c) Allowances for Impairment

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

A reconciliation of the expected credit loss for loans and advances, by class:

	Opening ECL 1 Jan 2021	Total transfers between stages	Income statement movements			Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 Dec 2021	Interest in suspense	Total
			ECL on new exposure raised	Subsequent changes in ECL	Change in ECL due to derecognition						
Customers	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Mortgage loans	**1,510**	**-**	**12**	**361**	**-**	**373**	**(22)**	**(131)**	**1,730**	**(9)**	**1,721**
Stage 1	20	38	6	(32)	-	12	-	-	32	-	32
Stage 2	330	(26)	6	82	-	62	-	-	392	-	392
Stage 3	1,160	(12)	-	311	-	299	(22)	(131)	1,306	(9)	1,297
Vehicle and asset finance	**2,464**	**-**	**78**	**88**	**-**	**166**	**(83)**	**(235)**	**2,312**	**85**	**2,397**
Stage 1	77	13	30	(43)	-	-	-	-	77	-	77
Stage 2	439	(9)	25	(79)	-	(63)	-	(8)	368	-	368
Stage 3	1,948	(4)	23	210	-	229	(83)	(227)	1,867	85	1,952
Card debtors	**87**	**-**	**4**	**36**	**-**	**40**	**(37)**	**(29)**	**61**	**-**	**61**
Stage 1	26	15	2	(21)	-	(4)	-	-	22	-	22
Stage 2	35	(15)	2	29	-	16	-	-	51	-	51
Stage 3	26	-	-	28	-	28	(37)	(29)	(12)	-	(12)
Other loans and advances	**4,279**	**-**	**673**	**1,028**	**-**	**1,701**	**(480)**	**300**	**5,800**	**263**	**6,063**
Stage 1	366	61	247	(285)	-	23	-	-	389	-	389
Stage 2	920	(136)	189	(21)	-	32	-	-	952	-	952
Stage 3	2,993	75	237	1,334	-	1,646	(480)	300	4,459	263	4,722
Corporate	**10,075**	**-**	**562**	**321**	**(247)**	**636**	**(3,540)**	**184**	**7,355**	**(1,969)**	**5,386**
Stage 1	560	48	283	(82)	(158)	91	-	(82)	569	-	569
Stage 2	336	(51)	58	16	(232)	(209)	-	297	424	-	424
Stage 3	9,179	3	221	387	143	754	(3,540)	(31)	6,362	(1,969)	4,393
Total	**18,415**	**-**	**1,329**	**1,834**	**(247)**	**2,916**	**(4,162)**	**89**	**17,258**	**(1,630)**	**15,628**

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note 23(d)).

Notes (continued)

23 Loans and advances (continued)

23 (c) Allowances for Impairment (continued)

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

	Opening ECL 1 Jan 2020	Total transfers between stages	Income statement movements			Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 Dec 2020	Interest in suspense	Total
			ECL on new exposure raised	Subsequent changes in ECL	Change in ECL due to derecognition						
Customers	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Mortgage loans	**1,154**	**1**	**10**	**222**	**-**	**233**	**(4)**	**(17)**	**1,366**	**144**	**1,510**
Stage 1	23	36	4	(43)	-	(3)	-	-	20	-	20
Stage 2	311	(42)	4	57	-	19	-	-	330	-	330
Stage 3	820	7	2	208	-	217	(4)	(17)	1,016	144	1,160
Vehicle and asset finance	**1,714**	**-**	**82**	**493**	**-**	**575**	**(61)**	**10**	**2,238**	**226**	**2,464**
Stage 1	96	40	28	(87)	-	(19)	-	-	77	-	77
Stage 2	490	(95)	40	(6)	-	(61)	-	10	439	-	439
Stage 3	1,128	55	14	586	-	655	(61)	-	1,722	226	1,948
Card debtors	**82**	**-**	**-**	**74**	**-**	**74**	**(76)**	**7**	**87**	**-**	**87**
Stage 1	23	10	-	(7)	-	3	-	-	26	-	26
Stage 2	41	(11)	-	5	-	(6)	-	-	35	-	35
Stage 3	18	1	-	76	-	77	(76)	7	26	-	26
Other loans and advances	**3,023**	**(1)**	**717**	**720**	**-**	**1,436**	**(403)**	**47**	**4,103**	**176**	**4,279**
Stage 1	251	63	148	(96)	-	115	-	-	366	-	366
Stage 2	880	(143)	89	94	-	40	-	-	920	-	920
Stage 3	1,892	79	480	722	-	1,281	(403)	47	2,817	176	2,993
Corporate	**8,198**	**-**	**777**	**1,885**	**(2)**	**2,660**	**(1,241)**	**57**	**9,674**	**401**	**10,075**
Stage 1	657	(122)	221	(171)	-	(72)	-	(25)	560	-	560
Stage 2	352	28	75	(117)	(2)	(16)	-	-	336	-	336
Stage 3	7,189	94	481	2,173	-	2,748	(1,241)	82	8,778	401	9,179
Total	**14,171**	**-**	**1,586**	**3,394**	**(2)**	**4,978**	**(1,785)**	**104**	**17,468**	**947**	**18,415**

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

Notes (continued)

23 Loans and advances (continued)

23 (d) Credit impairment losses

	Note	GROUP 2021 KShs Million	GROUP 2020 KShs Million
Loans impairment (credit)/charge for financial assets		8	14
Loans impairment for customer loans		2,916	4,978
Loans impairment charge/(credit) for performing bank loans		(3)	3
Loans impairment for non-performing off balance sheet Letters of credit and guarantees	43 (c)	39	-
Loans impairment for performing off balance sheet Letters of credit and guarantees	43 (c)	(10)	2
Amounts recovered during the year		(426)	(121)
Net credit impairment losses		**2,524**	**4,876**

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

23 (e) Vehicle and asset finance

The Group holds contracts with customers where the Group finances the purchase of assets under a series of contracts which transfer title to the Group as security for the loan. The Group receives the loan repayments and sets off the repayments against the principal loan and interest.

	GROUP 2021 KShs Million	GROUP 2020 KShs Million
Maturity analysis:		
Not later than 1 year	2,046	2,199
Later than 1 year and not later than 5 years	8,536	10,069
Later than 5 years	146	859
	10,728	**13,127**

Notes (continued)

23 Loans and advances (continued)

23 (f) Loans to employees

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

	GROUP	
	2021	**2020**
	KShs Million	**KShs Million**
At start of year	3,798	3,798
New loans issued	1,635	1,073
Interest on loans	470	336
Loan repayments	(1,699)	(1,505)
At end of year	**4,204**	**3,702**

24 Other assets and prepayments

		GROUP		COMPANY	
		2021	**2020**	**2021**	**2020**
	Note	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**
Uncleared effects		1,942	3,055	21	20
Off market loan adjustment		651	585	-	-
Trade receivables and prepayments		824	735	-	-
Due from related companies	42 (g)	259	330	-	-
Others		28	54	-	-
		3,704	**4,759**	**21**	**20**

The off-market adjustment relates to the prepaid benefit granted to staff, being the difference between the fair value of the loan and the initial cash outflow. The fair value of future cash flows is discounted at a market related rate. The asset represents the group's right to receive future service from employees.

25 Investment in subsidiaries and other investments

25 (a) Investment in subsidiaries

	Company			
	Beneficial	**Country of**	**2021**	**2020**
Company	**ownership**	**Incorporation**	**KShs Million**	**KShs Million**
Stanbic Bank Kenya Limited	1	Kenya	18,010	18,010
SBG Securities Limited	1	Kenya	166	166
Stanbic Bancassurance Intermediary Limited (formerly Stanbic Insurance Agency Limited)	1	Kenya	42	42
Stanbic Kenya Foundation Limited	1	Kenya	-	-
			18,218	**18,218**

Notes (continued)

25 Investment in subsidiaries and other investments (continued)

25 (a) Investment in subsidiaries (continued)

All subsidiary entities are incorporated and domiciled in Kenya. The consolidated financial statements are available to the public and can be accessed on http://www.stanbicbank.co.ke/kenya/About-Us/Investor-relations.

The principal place of business for the subsidiaries is Stanbic Bank Centre, Chiromo Road.

There were no significant restrictions on the company's ability to access the assets and settle liabilities of the subsidiaries. The total amount disclosed as investment in subsidiaries is a non-current asset.

25 (b) Other investments

	GROUP		COMPANY	
	2021	**2020**	**2021**	**2020**
Unquoted:	**KShs Million**	**KShs Million**	**KShs Million**	**KShs Million**
Equity investment at fair value through profit and loss default	18	18	-	-
At 31 December	**18**	**18**	**-**	**-**

The investment is in Anglo African Property Holding Limited where the Group holds a beneficial interest of 1%. The investment is unquoted and its carrying amount (cost) approximates its fair value.

Notes (continued)

26 Property and equipment

26 a) GROUP

	Land and premises	Equipment, furniture & fittings	Motor vehicles	Work in progress	Total
	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million
Year ended 31 December 2021					
Cost					
At 1 January 2021	385	5,242	159	112	5,898
Additions	-	225	7	32	264
Disposals/retirement	-	(705)	(13)	-	(718)
Transfers from work in progress	-	99	-	(99)	-
Transfer from intangible assets (Note 28)	-	-	-	5	5
Foreign exchange revaluation		(22)		-	(22)
Hyperinflation adjustment	-	(76)	-	-	(76)
At 31 December 2021	**385**	**4,763**	**153**	**50**	**5,351**
Depreciation					
At 1 January 2021	(151)	(3,371)	(134)	-	(3,656)
Depreciation for the year	(13)	(469)	(16)	-	(498)
Disposals/ Retirement	-	705	13	-	718
Foreign exchange revaluation	-	-	-	-	-
At 31 December 2021	**(164)**	**(3,135)**	**(137)**	**-**	**(3,436)**
Carrying amount at 31 December 2021	**221**	**1,628**	**16**	**50**	**1,915**

Notes (continued)

26 Property and equipment (continued)

26 a) GROUP

	Land and premises	Equipment, furniture & fittings	Motor vehicles	Work in progress	Total
	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million
Year ended 31 December 2020					
Cost					
At 1 January 2020	385	4,558	168	388	5,499
Additions	-	341	5	62	408
Disposals/retirement	-	-	(14)	-	(14)
Transfers from work in progress	-	324	-	(324)	-
Transfer to intangible assets (Note 28)	-	-	-	(1)	(1)
Foreign exchange revaluation				(13)	(13)
Hyperinflation adjustment	-	19	-	-	19
At 31 December 2020	**385**	**5,242**	**159**	**112**	**5,898**
Depreciation					
At 1 January 2020	(138)	(2,926)	(133)	-	(3,197)
Depreciation for the year	(13)	(445)	(15)	-	(473)
Disposals/ Retirement	-	-	14	-	14
At 31 December 2020	**(151)**	**(3,371)**	**(134)**	**-**	**(3,656)**
Carrying amount at 31 December 2020	**234**	**1,871**	**25**	**112**	**2,242**

Notes (continued)

26 Property and equipment (continued)

26 (b) COMPANY

	Computer Equipment	
	2021 KShs Million	**2020 KShs Million**
Cost		
At 1 January	2	2
At 31 December	**2**	**2**
Depreciation		
At 1 January	(2)	(2)
Charge for the year	-	-
At 31 December	**(2)**	**(2)**
Carrying amount at 31 December	**-**	**-**

The Group's work in progress is composed of refurbishments and equipment for branches and projects that had not been completed as at year end. The total amount disclosed as property and equipment is non-current.

As at 31 December 2021 and 31 December 2020, there were no items of property and equipment pledged by the Group and Company to secure liabilities. No items of property and equipment were obtained from borrowed funds hence no capitalization of borrowing costs.

Revaluation of land and buildings

The revaluation reserve in equity relates to the value of the Stanbic office in Chiromo at the point of merger between CFC Bank and Stanbic Bank in 2008. The fair value of the properties was determined using the market comparable method. This means that valuations performed by the valuer were based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property.

As the functional currency of Stanbic South Sudan is the currency of a hyperinflationary economy, property, plant and equipment relating to this Branch is restated by applying the change in the general price indices from the date of acquisition to the current reporting date.

Depreciation relating to the property, plant and equipment of Stanbic South Sudan is based on the restated amounts, which have been adjusted for the effects of hyperinflation.

27 Right-of-use leasehold land

	GROUP	
	2021 KShs Million	**2020 KShs Million**
Cost		
At 1 January	85	85
At 31 December	**85**	**85**
Amortisation		
At 1 January	(43)	(40)
Charge for the year	(3)	(3)
At 31 December	**(46)**	**(43)**
Carrying amount at 31 December	**39**	**42**

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

Notes (continued)

28 Other Intangible assets

GROUP

Year ended 31 December 2021	Work in progress KShs Million	Software KShs Million	Other intangible assets KShs Million	Total KShs Million
Cost				
At 1 January 2021	19	3,325	1,099	4,443
Additions	409	65		474
Transfer from work in progress	(31)	31		-
Transfer to property and equipment (Note 26)	-	(5)	-	(5)
Transferred to assets held-for-sale	-	-	-	-
Foreign exchange revaluation	-	-	-	-
At 31 December 2021	**397**	**3,416**	**1,099**	**4,912**
Amortisation				
At 1 January 2021	-	(2,590)	(989)	(3,579)
Amortisation charge for the year	-	(266)	(46)	(312)
Foreign exchange revaluation	-	-	-	-
Transferred to assets held-for-sale	-	-	-	-
At 31 December 2021	**-**	**(2,856)**	**(1,035)**	**(3,891)**
Carrying amount at 31 December 2021	**397**	**560**	**64**	**1021**

Year ended 31 December 2020	Work in progress KShs Million	Software KShs Million	Other intangible assets KShs Million	Total KShs Million
Cost				
At 1 January 2020	16	3,162	1,099	4,277
Additions	66	100	-	166
Transfer from work in progress	(63)	63	-	-
Transfer to property and equipment (Note 26)	-	1	-	1
Transferred to assets held-for-sale	-	(1)	-	(1)
At 31 December 2020	**19**	**3,325**	**1,099**	**4,443**
Amortisation				
At 1 January 2020	-	(2,308)	(944)	(3,252)
Amortisation charge for the year	-	(283)	(45)	(328)
Foreign Exchange revaluation	-	-	-	-
Transferred to assets held-for-sale	-	1	-	1
At 31 December 2020	**-**	**(2,590)**	**(989)**	**(3,579)**
Carrying amount at 31 December 2020	**19**	**735**	**110**	**864**

As the functional currency of Stanbic Bank South Sudan Branch is the currency of a hyperinflationary economy, intangible assets relating to this Branch are hyperinflated by applying the change in the general price indices from the date of acquisition to the current reporting date.

Amortisation relating to intangible assets of Stanbic Bank South Sudan branch is based on the hyperinflated amounts, which have been adjusted for the effects of hyperinflation.

Notes (continued)

28 Other Intangible assets (continued)

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

As at 31 December 2021, the intangible assets had an average remaining useful life of 3 years.

The intangible assets that arose from the business combination comprise of the following:

	Cost KShs Million	Useful life Years
Trade names	260	15
Customer relationships	475	5 - 15
Others	364	2 - 5
	1,099	

29 Intangible assets - goodwill

	Group		Company	
Cost	**2021 KShs Million**	**2020 KShs Million**	**2021 KShs Million**	**2020 KShs Million**
At 1 January and 31st December	9,350	9,350	-	-

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

Goodwill relating to Stanbic Holdings Plc was tested for impairment on 31 December 2021. The recoverable amount was determined to be the value in use. Unless indicated otherwise, the value in use in 2021 was determined in a manner consistent with that used in prior years. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use.

(a) Future cash flows

The forecast periods adopted reflect a set of cash flows that based on management judgement and expected market conditions could be sustainably generated over such a period. A ten-year forecast was used as a basis for future cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a nominal growth rate of 10.1% (2020: 9.1%). These values are sensitive to the cash flows projected for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows thereafter. Based on the testing performed, no impairment was identified.

(b) Discount rate

The pre-tax discount rate used was based on an assessment of the risks applicable to the Stanbic Holdings Plc. The cost of equity discount rate calculated for the forecast years was 16.31% per annum (2020: 16.87%). The cost of equity assigned to the cash-generating unit and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is derived from an equity pricing model deemed appropriate based on the entity under review. The risk-free rate used to determine the cost of equity has been derived from the 10-year US Dollar government bonds adjusted for inflation differential and country risk yield.

Notes (continued)

29 Intangible assets - goodwill (continued)

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. 95% of the goodwill has been allocated to Corporate and Investment Banking CGU and the remaining 5% has been allocated to Business and Commercial Clients CGU.

30 Right-of-use assets (buildings)

Year ended 31 December 2021

	Buildings KShs Million	Branches KShs Million	ATM Space KShs Million	Others KShs Million	Total KShs Million
Cost					
At start of year	245	1,859	57	112	2,273
Additions and modifications	-	46	19	55	120
Disposals and terminations	(17)	-	-	-	(17)
Translation difference	-	(290)	-	-	(290)
	228	1,615	76	167	2,086
Depreciation					
At start of year	99	615	27	53	794
Depreciation charge for the year	43	263	18	28	352
Disposals and terminations	(16)	-	-	-	(16)
Translation difference	-	(81)	-	-	(81)
	126	797	45	81	1,049
At end of year	**102**	**818**	**31**	**86**	**1,037**

Year ended 31 December 2020

	Buildings KShs Million	Branches KShs Million	ATM Space KShs Million	Others KShs Million	Total KShs Million
Cost					
At start of year	78	1,574	33	32	1,717
Additions	167	57	24	80	328
Translation difference	-	228	-	-	228
	245	1,859	57	112	2,273
Depreciation					
At start of year	47	318	13	24	402
Depreciation charge for the year	52	363	14	29	458
Translation difference	-	(66)	-	-	(66)
	99	615	27	53	794
At end of year	**146**	**1,244**	**30**	**59**	**1,479**

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

Notes (continued)

31 Lease liabilities

	2021 KShs Million	2020 KShs Million
Non-current	842	1,371
Current	290	15
	1,132	1,386

Reconciliation of lease liabilities arising from financing activities:

31 December 2021	Buildings KShs Million	Branches KShs Million	ATM Space KShs Million	Others KShs Million	Total KShs Million
At start of year	175	1,109	36	66	1,386
Additions and modifications	-	46	19	55	120
Interest charged to profit or loss	13	82	5	10	110
Foreign exchange revaluation	-	3	-	-	3
Cash flows:					
- Operating activities (interest paid)	(13)	(82)	(5)	(10)	(110)
- Payments under leases	(40)	(297)	(12)	(28)	(377)
At end of year	**135**	**861**	**43**	**93**	**1,132**

31 December 2020	Buildings KShs Million	Branches KShs Million	ATM Space KShs Million	Others KShs Million	Total KShs Million
At start of year	40	1,304	20	7	1,371
Additions and modifications	167	58	24	79	328
Interest charged to profit or loss	16	140	7	12	175
Translation difference	-	1	3	8	12
Cash flows:					
- Operating activities (interest paid)	(16)	(140)	(7)	(12)	(175)
- Payments under leases	(32)	(254)	(11)	(28)	(325)
At end of year	**175**	**1,109**	**36**	**66**	**1,386**

	2021 %	2020 %
Weighted average effective interest rates at the reporting date was:	9.44	9.44

Maturity analysis of lease liabilities is as follows:	Group 2021 KShs Million	Group 2020 KShs Million
Within 1 year	290	15
From 1 year to 5 years	842	1,338
More than 5 years	-	33
	1,132	**1,386**

Notes (continued)

32 Ordinary share capital and share premium

32 (a) Authorised share capital

	2021 Number of shares (millions)	2021 Share capital KShs Million	2020 Number of shares (millions)	2020 Share capital KShs Million
Balance as at 1 January and 31 December	474	2,368	474	2,368

32 (b) Issued share capital

	2021 Number of shares (millions)	2021 Share capital KShs Million	2020 Number of shares (millions)	2020 Share capital KShs Million
Balance as at 1 January and 31 December	395	1,977	395	1,977
Unissued shares	79	391	79	391

32 (c) Ordinary share premium

	2021 KShs Million	2020 KShs Million
At 1 January and 31 December	16,897	16,897

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

33 Derivative assets and derivative liabilities

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

33.1 Use and measurement of derivative instruments

In the normal course of business, the Group enters into a variety of derivative transactions for trading purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation and for credit exposures. Derivative instruments used by the Group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of equities.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that there is both a legal right of set-off and an intention to settle on a net basis, or the intention to realise the derivative asset and settle the derivative liability simultaneously.

Notes (continued)

33 Derivative assets and derivative liabilities (continued)

33.1 Use and measurement of derivative instruments (continued)

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.

The major types of swap transactions undertaken by the Bank are as follows:

a) Interest rate swap contracts which generally entail the contractual exchange of fixed and floating interest payments in a single currency, based on a notional amount and an interest reference rate.

b) Options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified amount of a financial instrument or commodity at a predetermined price. The seller receives a premium from the purchaser for this right. Options may be traded Over The Counter (OTC) or on a regulated exchange.

c) Forwards and futures are contractual obligations to buy or sell financial instruments on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the OTC market, whereas futures are standardised contracts transacted on regulated exchanges.

33.2 Derivatives held-for-trading

The Group transacts derivative contracts to address client demand both as a market maker in the wholesale markets and in structuring tailored derivatives for clients. The Group also takes proprietary positions for its own account. Trading derivative products include the following derivative instruments:

30.2.1 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.

30.2.2 Interest rate derivatives

Interest rate derivatives are primarily used to modify the volatility and interest rate characteristics of interest-earning assets and interest-bearing liabilities on behalf of clients and for the Group's own positions. Interest rate derivatives primarily consist of bond options, caps and floors, forwards, options, swaps and swap options.

33.3 Day one profit or loss

Where the fair value of an instrument differs from the transaction price, and the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation model whose variables include only data from observable markets, the difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If the fair value of the financial instrument cannot be evidenced by comparison with other observable current market transactions in the same instrument or non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the valuation model is deferred and subsequently recognised in accordance with the Group's accounting policies (refer to accounting policy 2.6 – Financial instruments).

Notes (continued)

33.4 Fair values

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

33.5 Notional amount

The contract/notional amount is the sum of the absolute value of all bought and sold contracts. The notional amounts have been translated at the closing exchange rate at the reporting date where cash flows are receivable in foreign currency. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the Group's participation in derivative contracts.

Notes (continued)

33 Derivative assets and derivative liabilities (continued)

33.5 Notional amount (continued)

	GROUP					
	2021 Fair values			2020 Fair values		
	Notional contract amount KShs Million	Assets KShs Million	Liabilities KShs Million	Notional contract amount KShs Million	Assets KShs Million	Liabilities KShs Million
Foreign exchange derivatives						
Currency forwards	50,619	825	821	59,914	1,077	983
Currency swaps	54,689	161	90	43,509	413	245
Currency options	8,675	182	48	10,595	416	187
Total over-the-counter derivatives	**113,983**	**1,168**	**959**	**114,018**	**1,906**	**1,415**
Interest rate derivatives						
Cross currency interest rate swaps	31,749	713	784	33,247	1,050	1,186
Total over-the-counter derivatives	**31,749**	**713**	**784**	**33,247**	**1,050**	**1,186**
Total derivative assets held for trading	**145,732**	**1,881**	**1,743**	**147,265**	**2,956**	**2,601**
Current	111,141	1,084	1,000	118,915	1,799	1,481
Non-current	34,591	797	743	28,350	1,157	1,120
Total	**145,732**	**1,881**	**1,743**	**147,265**	**2,956**	**2,601**

Notes (continued)

34 Deposits and current accounts from banks and customers

34 (a) Deposits from banks

	Note	GROUP 2021 KShs Million	GROUP 2020 KShs Million
Deposits from banks		2,424	16,310
Deposits due to Group banks	42 (b)	9,819	26,216
Total deposits from banks		**12,243**	**42,526**

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

	GROUP 2021 KShs Million	GROUP 2020 KShs Million
Repayable on demand	2,259	21,490
Maturing within 1 month	318	176
Maturing after 1 month but within 6 months	1,526	9,418
Maturing after 6 months but within 12 months	21	2,185
Maturing after 12 months	8,119	9,257
	12,243	**42,526**

Included in balances due to group companies are borrowings of KShs. 8,328,303,025 (2020: KShs. 13,610,584,528). The average interest rate for these borrowings is 4.07% (2020: libor + 1.91%).

34 (b) Deposits from customers

	GROUP 2021 KShs Million	GROUP 2020 KShs Million
Current accounts	151,164	129,939
Call deposits	7,310	9,139
Savings accounts	63,400	58,030
Term deposits	15,541	17,484
LC acceptances	4,930	2,852
Total deposits from customers	**242,345**	**217,444**
Total deposits from banks and customers	**254,588**	**259,970**

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

	2021	2020
Repayable on demand	150,948	130,153
Maturing within 1 month	71,649	73,525
Maturing after 1 month but within 6 months	17,683	11,893
Maturing after 6 months but within 12 months	1,423	1,076
Maturing after 12 months	642	797
	242,345	**217,444**

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 2021 was 1.34% (2020: 1.67%).

Notes (continued)

35 Borrowings

At 31 December 2021

	Notional value KShs Million	Carrying amounts KShs Million	Interest Rate	Date of Issue	Maturity date
Subordinated debt - USD 30M	3,389	3,402	4.29%	28-Feb-18	28-Feb-28
Subordinated debt - USD 20M	2,259	2,298	4.91%	30-Jan-19	12-Dec-28
Total	**5,648**	**5,700**			

At 31 December 2020

	Notional value KShs Million	Carrying amounts KShs Million	Interest Rate	Date of Issue	Maturity date
Subordinated debt - USD 30M	3,052	3,285	6.82%	28-Feb-18	28-Feb-28
Subordinated debt - USD 20M	2,018	2,219	6.28%	30-Jan-19	12-Dec-28
Total	**5,070**	**5,504**			

There were no charges placed on any of the Group's assets in relation to these borrowings. The borrowings are unsecured subordinated debt instruments.

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

Interest expense incurred in the above borrowings was KShs. 241,772,253 (2020: KShs 546,694,865). The weighted average effective interest rate on borrowings as at 31 December 2021 was 4.40% (2020: 9.93%).

The Group has not had any defaults of principal, interest or other breaches with regard to any borrowings during 2021 and 2020. The borrowings are payable on their maturity dates at the notional value.

Counterparties and covenants to the subordinated debt facilities are as follows:

a) USD 30 million obtained from Standard Bank of South Africa in 2018.There are no covenants relating to this financing.

b) USD 20 million obtained from the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in 2019. The Group has complied with all covenants throughout the reporting year.

	GROUP	
Reconciliation of liabilities arising from financing activities:	**2021 KShs Million**	**2020 KShs Million**
At start of year	5,504	9,127
Interest charged to profit or loss	242	547
Foreign exchange loss/(gain)	197	386
Cash flows:		
- Operating activities (Interest paid)	(243)	(558)
- Repayments of borrowings	-	(3,998)
At end of year	**5,700**	**5,504**

Notes (continued)

36 Other liabilities and accrued expenses

36 (a) Other liabilities and accrued expenses

		Group		Company	
	Note	2021 KShs Million	2020 KShs Million	2021 KShs Million	2020 KShs Million
Accruals		2,909	2988	15	11
Deferred bonus scheme	36 (b)	103	79	-	-
Unpresented bank drafts		73	56	-	-
Margin on guarantees and letters of credit		1,287	1,321	-	-
Items in transit		194	59	-	-
Due to group companies	42 (h)	934	426	-	-
Sundry creditors		1,491	1511	114	133
Expected credit losses on off balance sheet items	43 (c)	158	141	-	-
Other operating costs		-	-	-	-
		7,149	**6,581**	**129**	**144**

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

36 (b) Deferred bonus scheme (DBS)

It is essential for the Group to retain key skills over the longer term. This is done particularly through share-based incentive plans. The purpose of these plans is to align the interests of the Group and employees, as well as to attract and retain skilled, competent people.

The Group has implemented a scheme to defer a portion of incentive bonuses over a minimum threshold for key management and executives. This improves the alignment of shareholder and management interests by creating a closer linkage between risk and reward, and also facilitates retention of key employees.

All employees granted an annual performance award over a threshold have part of their award deferred. The award is indexed to Standard Bank Group's (SBG) share price and accrues notional dividends during the vesting period, which are payable on vesting. The awards vest in three equal amounts at 18 months, 30 months and 42 months from the date of award. The final pay-out is determined with reference to SBG's share price on vesting date.

The provision in respect of liabilities under the scheme amounts to KShs 102,865,749 at 31 December 2021 (2020: KShs 78,636,177) and the amount charged for the year was KShs 108,203,400 (2020: KShs 50,989,553).

Reconciliation	Units 2021	Units 2020
Units outstanding at beginning of the year	66,834	59,152
Granted	8,294	32,923
Exercised	(16,304)	(25,762)
Lapsed	-	-
Transfers	(31,329)	521
Units outstanding at end of the year	**27,495**	**66,834**
Weighted average fair value at grant date (ZAR)*	142.00	152.64
Expected life (years)	2.51	2.51

* South African Rand

Notes (continued)

37 Current income tax asset/ (liability)

The current income tax payable and current income tax receivable have been separately recognised as Kenya and South Sudan have no legal enforceable right to set off current tax.

The tax receivable/(payable) from the tax authorities in the jurisdictions of operations are highlighted below;

		GROUP	
	Note	2021 KShs Million	2020 KShs Million
Kenya operations	37 (a)	(1,732)	(392)
Foreign operations	37 (b)	(19)	(3)
As at 31 December		**(1,751)**	**(395)**

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

		GROUP		COMPANY	
	Note	2021 KShs Million	2020 KShs Million	2021 KShs Million	2020 KShs Million
At 1 January		(395)	(398)	16	16
Exchange difference on translation		7	-	-	-
Current income tax charge	16	(3,356)	(1,373)	(7)	(5)
Income tax paid		2,012	1,374	-	-
Transferred to asset held-for-sale		-	-	-	-
South sudan tax payable	37 (b)	(19)	(3)	-	-
Prior year provision		-	5	-	5
		(1,751)	**(395)**	**9**	**16**

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

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

Foreign operations

		GROUP	
	Note	2021 KShs Million	2020 KShs Million
As at 1 January		-	-
Current tax charge		19	3
Transfer to tax payable account	37 (a)	(19)	(3)
As at 31 December		**-**	**-**

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

Notes (continued)

38 Deferred income tax asset/ (liability)

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

The deferred tax liability and asset have been separately recognised as Kenya and South Sudan have no legal enforceable right to set off tax.

Kenya operations		**GROUP**		**COMPANY**	
	Note	**2021 KShs Million**	**2020 KShs Million**	**2021 KShs Million**	**2020 KShs Million**
At start of year		4,847	4,397	-	-
Credit /debit to statement of profit or loss	16	789	330	-	-
Credit /debit to statement of profit or loss - Foreign operations	39 (b)	19	-	-	-
` Credit/ debit to OCI		-	(32)	-	-
Transferred to asset held-for-sale		-	-	-	-
Previous year deferred income tax over provision		-	148	-	-
Exchange difference on translation		(7)	4	-	-
At 31 December		**5,648**	**4,847**	**-**	**-**

Deferred income tax assets and liabilities and deferred income tax (credit)/charge in the statement of profit or loss and other comprehensive income (OCI) are attributable to the following items:

Year ended 31 December 2021	**1.1.2021 KShs Million**	**(Credited)/ charged to statement of profit or loss KShs Million**	**Charge to SOCI KShs Million**	**Translation difference KShs Million**	**31.12.2021 KShs Million**
Arising from:					
Property and equipment	88	122	-	-	210
Unrealised gain on bonds- FVOCI	4	-	-	-	4
Unrealised gain on bonds- FVTPL	(133)	(13)	-	-	(146)
Right-of-use assets	26	20	-		46
Impairment charges on loans and advances	3,700	429	-	-	4,129
Other provisions	1,244	231	-	-	1,475
Group intangible assets	(90)	-	-	-	(90)
Unrealised gain on South Sudan paid up capital	(8)	-	-	-	(8)
Exchange difference on translation	2	-	-	(7)	(5)
South Sudan deffered tax asset	14	19	-	-	33
Net deferred asset	**4,847**	**808**	**-**	**(7)**	**5,648**

Notes (continued)

38 Deferred income tax asset/ (liability)

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

Year ended 31 December 2020	1.1.2020 KShs Million	(Charge)/ Credited to statement of profit or loss KShs Million	Charge to SOCI KShs Million	Translation movement KShs Million	31.12.2020 KShs Million
Arising from:					
Property and equipment	(30)	118	-	-	88
Unrealised gain on bonds- FVOCI	36	-	(32)	-	4
Unrealised gain on bonds- FVTPL	318	(451)	-	-	(133)
Right-of-use assets	(8)	34	-		26
Impairment charges on loans and advances	3,077	623	-	-	3,700
Other provisions	1,089	155	-	-	1,244
Group intangible assets	(90)	-	-	-	(90)
Unrealised gain on South Sudan paid up capital	(8)	-	-	-	(8)
Exchange difference on translation	(2)	4	-	-	2
South Sudan deffered tax asset	15	(1)	-	-	14
Net deferred asset	**4,397**	**482**	**(32)**	**-**	**4,847**

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

Notes (continued)

38 Deferred income tax asset/ (liability)

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

Foreign operations

	Note	GROUP 2021 KShs Million	GROUP 2020 KShs Million
At start of year		(1)	(25)
Debit/(credit) to statement of profit or loss	16	19	8
Debit to other comprehensive income		-	-
Exchange difference on translation		-	16
At end of year		**18**	**(1)**

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

As the functional currency of Stanbic Bank South Sudan branch is the currency of a hyperinflationary economy, deferred tax relating to this branch is recognised using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their restated carrying amounts.

	GROUP			
Year ended 31 December 2021	**01.01.2021**	**(Credited)/ charged to statement of profit or loss**	**Translation difference**	**31.12.2021**
Arising from:				
Property and equipment	(3)	2	-	(1)
Other provisions	-	7	-	7
Right-of-use assets	2	10	-	12
Net deferred income tax asset	(1)	19	-	18

	GROUP			
Year ended 31 December 2020	**01.01.2020**	**(Credited)/ charged to statement of profit or loss**	**Credited to OCI**	**31.12.2020**
Arising from:				
Property and equipment	(5)	2	-	(3)
Right-of-use assets	(20)	6	16	2
Net deferred income tax liability	(25)	8	16	(1)

Notes (continued)

39 Notes to the cash flow statement

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

	Note	Group 2021 KShs Million	Group 2020 KShs Million	Company 2021 KShs Million	Company 2020 KShs Million
Net profit before income tax		9,756	6,227	2,176	2,275
Adjusted for:					
Depreciation - property and equipment	26	498	473	-	-
Amortisation of intangible assets	28	312	328	-	-
Amortisation of ROU assets - leasehold land/prepaid operating lease	27	3	3	-	-
Depreciation on right-of use assets (buildings)	30	352	458	-	-
Change in fair value of derivatives		217	(1,500)	-	-
Interest charged on borrowings	35	242	547	-	-
Changes in operating assets and liabilities held-for-sale		69	32	-	-
Previous year deferred income tax over provision		-	(148)	-	-
Cash flows from operating activities		**11,449**	**6,420**	**2,176**	**2,275**

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

	Group 2021 KShs Million	Group 2020 KShs Million	Company 2021 KShs Million	Company 2020 KShs Million
Unrestricted cash and balances with CBK	5,855	9,298	-	-
Treasury bills	17,858	56,245	-	-
Loans and advances to banks	41,087	33,958	117	132
Amounts due to other banks	(2,201)	(4,065)	-	-
Cash and cash equivalents at the end of the year	**62,599**	**95,436**	**117**	**132**

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

Notes (continued)

40 Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

The table below categorises the Group's assets and liabilities as at 31 December 2021 between those that are financial and non-financial.

All financial assets and liabilities have been classified according to their measurement category with disclosure and their fair value

Year ended 31 December 2021	Fair value through profit or loss - default KShs Million	Fair value through profit or loss - designated KShs Million	Amortised cost KShs Million	Fair value through OCI KShs Million	Other non-financial assets/liabilities	Total carrying amount KShs Million	Fair value KShs Million
Assets							
Cash and balances with Central Bank of Kenya	11,317	-	4,086	-	-	**15,403**	15,403
Financial assets – held for trading	18,535	-	-	-	-	**18,535**	18,535
Financial assets – FVOCI	-	-	-	19,227	-	**19,227**	19,227
Financial assets – amortised cost	-	-	21,773	-	-	**21,773**	24,471
Derivative assets	1,881	-	-	-	-	**1,881**	1,881
Loans and advances to banks	-	-	44,008	-	-	**44,008**	39,861
Loans and advances to customers	-	-	185,313	-	-	**185,313**	189,903
Other financial assets	-	-	3,032	-	-	**3,032**	3,032
Investment securities	18	-	-	-	-	**18**	18
Other non - financial assets	-	-	-	-	19,682	**19,682**	-
	31,751	**-**	**258,212**	**19,227**	**19,682**	**328,872**	**312,331**
Liabilities							
Deposits from customers	-	-	(242,345)	-	-	**(242,345)**	(220,440)
Deposits from banks	-	-	(12,243)	-	-	**(12,243)**	(9,298)
Derivative liabilities	(1,743)	-	-	-	-	**(1,743)**	(1,743)
Trading liabilities	(357)	-	-	-	-	**(357)**	(357)
Borrowings	-	-	(5,700)	-	-	**(5,700)**	(4,361)
Other financial liabilities	-	-	(5,453)	-	-	**(5,453)**	(5,453)
Other non - financial liabilities	-	-	-	-	(4,579)	**(4,579)**	-
	(2,100)	**-**	**(265,741)**	**-**	**(4,579)**	**(272,420)**	**(241,652)**

Notes (continued)

40 Classification of assets and liabilities (continued)

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

Year ended 31 December 2020	Fair value through profit or loss - default KShs Million	Fair value through profit or loss - designated KShs Million	Amortised cost KShs Million	Fair value through OCI KShs Million	Other non-financial assets/liabilities KShs Million	Total carrying amount KShs Million	Fair value KShs Million
Assets							
Cash and balances with Central Bank of Kenya	11,656	-	6,421	-	-	18,077	18,077
Financial assets – held for trading	33,729	-	-	-	-	33,729	33,729
Financial assets – FVOCI	-	-	-	30,664	-	30,664	30,664
Financial assets – amortised cost	-	-	23,191	-	-	23,191	17,114
Derivative assets	2,956	-	-	-	-	2,956	2,956
Loans and advances to banks	-	1,309	36,810	-	-	38,119	33,221
Loans and advances to customers	-	-	158,180	-	-	158,180	156,242
Other financial assets	-	-	4,759	-	-	4,759	4,759
Investment securities	18	-	-	-	-	18	18
Other non - financial assets	-	-	-	-	18,900	18,900	-
	48,359	**1,309**	**229,361**	**30,664**	**18,900**	**328,593**	**296,780**
Liabilities							
Deposits from customers	-	-	(217,444)	-	-	(217,444)	(179,883)
Deposits from banks	-	-	(42,526)	-	-	(42,526)	(23,682)
Derivative liabilities	(2,601)	-	-	-	-	(2,601)	(2,601)
Trading liabilities	(418)	-	-	-	-	(418)	(418)
Borrowings	-	-	(5,504)	-	-	(5,504)	(8,620)
Other financial liabilities	-	-	(6,581)	-	-	(6,581)	(6,581)
Other non - financial liabilities	-	-	-	-	(1,789)	(1,789)	-
	(3,019)	**-**	**(272,055)**	**-**	**(1,789)**	**(276,863)**	**(221,785)**

Notes (continued)

41 Fair value of financial instruments

Valuation process

All financial instruments carried at fair value, regardless of classification, are marked to market using models that have been validated independently by the Group's model validation unit and approved by the market risk methodologies committee. This control applies to both off-the-shelf models as well as those developed internally by the Group. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the market risk unit. Such price validation is performed on at least a monthly basis and daily where possible given the liquidity of the underlying price inputs. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to market, are carefully validated and tabled at the monthly price validation forum to ensure these are reasonable and used consistently. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed monthly to the market risk committee and ALCO.

Level hierarchy

The table that follows analyses financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that available market data is used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the assets and liabilities.

Significant unobservable inputs

The fair value of level 3 assets and liabilities is determined using valuation techniques that include reference to recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants. However, such techniques typically have unobservable inputs that are subject to management judgement. These inputs include credit spreads on illiquid issuers, implied volatilities on thinly traded stocks, correlation between risk factors, prepayment rates and other illiquid risk drivers. Exposure to such illiquid risk drivers is typically managed by:

- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver
- raising day one profit provisions in accordance with IFRS
- quantifying and reporting the sensitivity to each risk driver
- limiting exposure to such risk drivers and analysing this exposure on a regular basis

Notes (continued)

41 (a) Financial instruments measured at fair value

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

Financial instruments measured at fair value on a recurring basis

At 31 December 2021	Note	Level 1 KShs Million	Level 2 KShs Million	Level 3 KShs Million	Total KShs Million
Assets					
Cash and balances with Central Bank of Kenya (minimum regulatory reserve)		11,317	-	-	11,317
Financial assets – FVTPL	20 (a)	-	18,535	-	18,535
Financial assets – FVOCI	21	-	19,227	-	19,227
Equity investments	25 (b)	-	-	18	18
Derivative assets	33	-	1,881	-	1,881
		11,317	**39,643**	**18**	**50,978**
Liabilities					
Financial liabilities – FVTPL	20 (b)	-	357	-	357
Derivative liabilities	33	-	1,743	-	1,743
		-	**2,100**	**-**	**2,100**

At 31 December 2020	Note	Level 1 KShs Million	Level 2 KShs Million	Level 3 KShs Million	Total KShs Million
Assets					
Cash and balances with Central Bank of Kenya (minimum regulatory reserve)		11,656	-	-	11,656
Financial assets – FVTPL	20 (a)	-	33,729	-	33,729
Financial assets – FVOCI	21	-	30,664	-	30,664
Equity investments	25(b)	-	-	18	18
Derivative assets	33	-	2,956	-	2,956
		11,656	**67,349**	**18**	**79,023**
Liabilities					
Financial liabilities – FVTPL	20 (b)	-	418	-	418
Derivative liabilities	33	-	2,601	-	2,601
		-	**3,019**	**-**	**3,019**

There were no transfers between levels in 2021 and 2020.

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily of cash and subordinated debt listed on the Nairobi Securities Exchange (NSE).

Sensitivity of fair value of level 2 financial instruments

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

Notes (continued)

41 Fair value of financial instruments (continued)

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

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
Financial assets	Discounted cash flow model	Discount rate, liquidity discount rate
	Multiple valuation technique	Valuation multiples
	Quoted exit price adjusted for notice period	Discount rate
Loans and advances to customers	Discounted cash flow model	Discount rate, liquidity discount rate
Financial liabilities	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from Banks	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from customers	Discounted cash flow model	Discount rate, liquidity discount rate
Other financial liabilities	Discounted cash flow model	Discount rate, liquidity discount rate
Cash with Central Bank of Kenya	Prevailing exchange rate	Exchange rate
Investment in equities	Sale price	Discount rate

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

Notes (continued)

41 Fair value of financial instruments (continued)

41 (b) Financial instruments not measured at fair value

Financial assets and Financial liabilities

Assets and liabilities not measured at fair value for which fair value is disclosed is as shown in the table below:

	Level 1	Level 2	Level 3	Fair value	Carrying amount
At 31 December 2021	**KShs Million**	**KShs Million**	**KShs Million**	**KShs '000**	**KShs Million**
Assets					
Cash and balances with the Central Bank of Kenya	4,086	-	-	4,086	4,086
Loans and advances to banks	-	-	39,861	39,861	44,008
Loans and advances to customers	-	-	189,903	189,903	185,313
Financial assets - amortised cost	-	24,471	-	24,471	21,773
Other assets	-	-	3,032	3,032	3,032
	4,086	**24,471**	**232,796**	**261,353**	**258,212**
Liabilities					
Deposits from banks	-	-	(9,298)	(9,298)	(12,243)
Deposits from customers	-	-	(220,440)	(220,440)	(242,345)
Borrowings	-	-	(4,361)	(4,361)	(5,700)
Other liabilities	-	-	(5,453)	(5,453)	(5,453)
	-	**-**	**(239,552)**	**(239,552)**	**(265,741)**

	Level 1	Level 2	Level 3	Fair value	Carrying amount
At 31 December 2020	**KShs Million**	**KShs Million**	**KShs Million**	**KShs '000**	**KShs Million**
Assets					
Cash and balances with the Central Bank of Kenya	6,421	-	-	6,421	6,421
Loans and advances to banks	-	-	33,221	33,221	38,119
Loans and advances to customers	-	-	156,242	156,242	158,180
Financial assets - amortised cost	-	17,114	-	17,114	23,191
Other investments	-	-	18	18	18
Other assets	-	-	4,169	4,169	4,759
	6,421	**17,114**	**193,650**	**217,185**	**230,688**
Liabilities					
Deposits from banks	-	-	(23,682)	(23,682)	(42,526)
Deposits from customers	-	-	(179,883)	(179,883)	(217,444)
Borrowings	-	-	(8,620)	(8,620)	(5,504)
Other liabilities	-	-	(6,440)	(6,440)	(6,440)
	-	**-**	**(218,625)**	**(218,625)**	**(271,914)**

Notes (continued)

41 Fair value of financial instruments (continued)

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

The valuation techniques used in determining the fair value of financial assets and liabilities classified within level 2 and level 3.

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 2 and level 3 assets and liabilities not measured at fair value but for which fair value is disclosed in table 41 (b) above:

2021	Valuation basis/technique	Main assumptions
Loans and advances to Banks Loans and advances to Customers Deposits from banks Customer deposits Subordinated debt Other financial assets	Discounted cash flow model	Discount rate, liquidity discount rate

42 Related party transactions

Stanbic Holdings Plc is a subsidiary of Stanbic Africa Holdings Limited (SAHL), incorporated in the United Kingdom. The ultimate parent of SAHL is Standard Bank Group Limited, which is incorporated in South Africa.

There are other companies which are related to Stanbic Holdings Plc through common shareholdings or common directorships.

In the normal course of business, nostro and vostro accounts are operated and placings of both foreign and local currencies are made with the parent company and other group companies at interest rates in line with the market. The relevant balances are as shown below;

For the year ended 31 December 2021, the Group has made provision for doubtful debts relating to long outstanding amounts owed by related parties KShs 286,384,000 (2020: KShs 275,290,000) as indicated on Note 42 (g).

Notes (continued)

42 (a) Loans due from group banks

	GROUP		COMPANY	
	2021 KShs Million	**2020 KShs Million**	**2021 KShs Million**	**2020 KShs Million**
Stanbic Bank Kenya Limited	-	-	117	132
Stanbic Bank Uganda Limited	446	27	-	-
Stanbic Bank Tanzania Limited	14	13	-	-
Standard Bank (Mauritius) Limited	-	3	-	-
Standard Bank of South Africa Limited	2,405	6,285	-	-
Standard Bank Isle of Man Limited	14,717	20,843	-	-
	17,582	**27,171**	**117**	**132**
Interest income earned on the above is:	**296**	**396**	**4**	**1**

42 (b) Deposits due to group banks

	GROUP	
	2021 KShs Million	**2020 KShs Million**
Standard Bank of South Africa Limited	580	12,589
Standard Bank Namibia Limited	-	1
Stanbic Bank Uganda Limited	899	3
Stanbic Bank Zambia Limited	1	2
Stanbic Bank Zimbabwe Limited	1	-
Stanbic Bank Botswana Limited	2	-
Standard Bank (Mauritius) Limited	497	617
Standard Bank Malawi Limited	-	1
Standard Bank Isle of Man Limited	7,832	12,994
Stanbic Bank Tanzania Limited	7	9
	9,819	**26,216**
Interest expense incurred on the above is:	**232**	**417**

The weighted average effective interest rate on loans and advances to group companies as at 31 December 2021 is 1.22% (2020: 2.43%) and on amounts due to group companies was 1.97% (2020: 1.41%).

Notes (continued)

42 Related party transactions (continued)

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

	GROUP 2021 KShs Million	GROUP 2020 KShs Million
The Heritage Insurance Company Limited	297	268
Liberty Life Assurance Kenya Ltd	164	106
Liberty Kenya Holdings Limited	10	10
	471	384

42 (d) Key management compensation

Key management personnel include: the members of the Stanbic Holdings Plc board of directors and prescribed officers effective for 2021 and 2020. Non-executive directors are included in the definition of key management personnel as required by IAS 24 Related Party Disclosures. The definition of key management includes the close family members of key management personnel and any entity over which key management exercise control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by that person in their dealings with the Group. They include the person's domestic partner and children, the children of the person's domestic partner, and dependants of the person or the person's domestic partner.

Key management have transacted with the Group as indicated in note 42 (e) and 42 (f);

42 (e) Loans and advances

Included in loans and advances are amounts advanced to certain companies in which directors are involved either as shareholders or directors (associated companies). In addition, there are contingent liabilities including guarantees and letters of credit, which have been issued to associated companies. The balances as at 31 December 2021 and 31 December 2020 are as shown below:

Loans and advances to key management

The aggregate amount of loans to directors, affiliates and their families on the statement of financial position is Kshs 18 million (2020: KShs nil).

No specific credit impairments have been recognised in respect of loans granted to key management (2020: KShs nil). The mortgage loans and, vehicle and asset finance are secured by the underlying assets. All other loans are unsecured.

42 (f) Key management compensation

	GROUP		COMPANY	
	2021 KShs Million	2020 KShs Million	2021 KShs Million	2020 KShs Million
Fees for services as a director	83	59	9	9
Salaries and other short-term employment benefits	131	77	-	-
Post-employment pension	4	4	-	-
Share-based payments	27	18	-	-
	245	158	9	9

Notes (continued)

42 Related party transactions (continued)

42 (g) Amounts due from related companies

	GROUP	
	2021	**2020**
	KShs Million	**KShs Million**
Standard Bank Jersey Limited	1	1
Stanbic Bank Tanzania Limited	297	297
Standard Bank of South Africa Limited	234	296
Stanbic Bank Zambia Limited	-	2
Standard Bank de Angola S.A.	13	9
	545	**605**
Provisions on regional costs balances	(286)	(275)
	259	**330**

Movement analysis

At 1 January	605	834
Additions	824	729
Receipts	(884)	(958)
Closing Balance	**545**	**605**
Provisions on regional costs balances	(286)	(275)
At 31 December	**259**	**330**

42 (h) Other payables due to related companies

	GROUP		COMPANY	
	2021	**2020**	**2021**	**2020**
	KShs Million	**KShs Million**	**KShs Million**	**KShs Million**
Standard Bank of South Africa Limited	927	424	-	-
Stanbic Bank Uganda Limited	7	2	-	-
	934	**426**	**-**	**-**

There is no interest accruing for these outstanding liabilities

42 (i) Related party expenses

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

	GROUP	
	2021	**2020**
	KShs Million	**KShs Million**
Franchise fees	732	675
Information technology	574	257
Other operating costs	149	121
	1,455	**1,053**

Notes (continued)

43 Contingent liabilities - Group

Commitments were with respect to:	GROUP 2021 KShs Million	GROUP 2020 KShs Million
Letters of credit and acceptances	3,919	3,427
Guarantees	74,998	67,497
Unutilised facilities	14,468	11,331
	93,385	**82,255**

Contingent liabilities - maturity analysis

31 December 2021	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	Total carrying value
Letters of credit and acceptances	384	1,020	1,825	690	-	-	**3,919**
Guarantees	4	1,210	14,294	27,749	31,464	277	**74,998**
Unutilised facilities	-	2,291	8,214	3,947	16	-	**14,468**
31 December 2020							
Letters of credit and acceptances	622	539	1,830	436	-	-	**3,427**
Guarantees	38	349	18,667	20,059	27,810	574	**67,497**
Unutilised facilities	-	994	6,176	4,161	-	-	**11,331**

43 (a) Nature of contingent liabilities

Letters of credit commit the Group to make payments to third parties, on production of documents, which are subsequently reimbursed by the customers.

Guarantees are generally written by a Group to support performance by a customer to third parties. The Group will only be required to meet these obligations in the event of customers' default.

An acceptance is an undertaking by the Group to pay a bill of exchange drawn on a customer. The Group expects most of the acceptances to be presented, and to be reimbursed by the customer almost immediately.

Notes (continued)

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

	2020		**2020**	
	KShs Million	**%**	**KShs Million**	**%**
Agriculture	2,269	2%	1,406	2%
Manufacturing	5,736	6%	5,751	7%
Construction	21,612	23%	20,310	25%
Energy	890	1%	274	0%
Transport and communication	1,658	2%	1,581	2%
Distribution/wholesale	15,750	17%	14,287	17%
Financial Services	44,958	48%	38,256	47%
Tourism	-	0%	-	0%
Other activities and social service	512	1%	390	0%
	93,385	**100%**	**82,255**	**100%**

Notes (continued)

43 Contingent liabilities - Group (continued)

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

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

	Opening ECL 1 January 2021	Total transfers between stages	Income statement movements			Net ECL raised/ (released)	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2021
			ECL on new exposure raised	Derecognition	Subsequent changes in ECL				
Off balance sheet	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Stage 1	**123**	**(1)**	**36**	**(37)**	**(26)**	**(27)**	**-**	**(4)**	**91**
Letters of credit	15	-	5	(8)	4	***1***	-	(4)	12
Guarantees	108	(1)	31	(29)	(30)	***(28)***	-	-	79
Stage 2	**18**	**1**	**26**	**(9)**	**-**	**17**	**-**	**(8)**	**28**
Letters of credit	5	-	-	-	-	***-***	-	(5)	-
Guarantees	13	1	26	(9)	-	***17***	-	(3)	28
Stage 3	**-**	**-**	**-**	**-**	**39**	**39**	**-**	**-**	**39**
Letters of credit	-	-	-	-	-	***-***	-	-	-
Guarantees	-	-	-	-	39	***39***	-	-	39
Total ECL	**141**	**-**	**62**	**(46)**	**13**	**29**	**-**	**(12)**	**158**

Notes (continued)

43 Contingent liabilities - Group (continued)

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

	Opening ECL 1 January 2020	Total transfers between stages	Income statement movements			Net ECL raised/ (released)	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2020
			ECL on new exposure raised	Derecognition	Subsequent changes in ECL				
Off balance sheet	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Stage 1	**62**	**35**	**42**	**(16)**	**-**	**26**	**-**	**-**	**123**
Letters of credit	10	-	3	(4)	6	***5***	-	-	15
Guarantees	52	35	39	(12)	(6)	***21***	-	-	108
Stage 2	**79**	**(35)**	**2**	**(30)**	**4**	**(24)**	**-**	**(2)**	**18**
Letters of credit	9	-	-	(2)	-	***(2)***	-	(2)	5
Guarantees	70	(35)	2	(28)	4	***(22)***	-	-	13
Total ECL	**141**	**-**	**44**	**(46)**	**4**	**2**	**-**	**(2)**	**141**

43 (d) Legal proceedings

In the conduct of its ordinary course of business, the Group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims arising, that the Bank has adequate insurance programmes and provisions in place to meet such claims. The amounts provided for in other liabilities are KShs 265,000,000 (2020: KShs 253,000,000).

Notes (continued)

44 Other reserves

For the year ended 31 December 2021	Pre-acquisition reserve KShs Million	Revaluation of financial assets- at FVOCI KShs Million	Regulatory credit risk reserve KShs Million	Revaluation reserve on buildings KShs Million	Share-based payment reserve KShs Million	Foreign currency translation reserve KShs Million	Total KShs Million
At 1 January 2021	**(126)**	**-**	**-**	**107**	**-**	**(1,330)**	**(1,349)**
Total comprehensive income for the year	**-**	**12**	**-**	**(8)**	**-**	**(324)**	**(320)**
Currency translation difference for foreign operations	-	-	-	-	-	(324)	(324)
Transfer of excess depreciation to retained earnings	-	-	-	(8)	-	-	(8)
Realised fair value adjustment on financial assets - Fair value through OCI transferred to profit or loss	-	12	-	-	-	-	12
Transfer of statutory credit risk reserve	**-**	**-**	5	**-**	**-**	**-**	**5**
Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group							
Share based payment reserve	-	-	-	-	-	-	**-**
Total transactions with owners of the Group	**-**		**-**	**-**	**-**	**-**	**-**
At 31 December 2021	**(126)**	**12**	**5**	**99**	**-**	**(1,654)**	**(1,664)**

Notes (continued)

44 Other reserves (continued)

For the year ended 31 December 2020	Pre-acquisition reserve KShs Million	Revaluation of financial assets- Fair value KShs Million	Regulatory credit risk reserve KShs Million	Revaluation reserve on buildings KShs Million	Share-based payment reserve KShs Million	Foreign currency translation reserve KShs Million	Total KShs Million
At 1 January 2020	**(126)**	**34**	**938**	**115**	**36**	**(1,160)**	**(163)**
Total comprehensive income for the year	**-**	**(34)**	**-**	**(8)**	**-**	**(170)**	**(212)**
Currency translation difference for foreign operations	-	-	-	-	-	(170)	(170)
Transfer of excess depreciation to retained earnings	-	-	-	(8)	-	-	(8)
Realised fair value adjustment on financial assets - Fair value through OCI transferred to profit or loss	-	(34)	-	-	-	-	(34)
Transfer of statutory credit risk reserve	**-**	**-**	**(938)**	**-**	**-**	**-**	**(938)**
Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group							
Share based payment reserve	-	-	-	-	(36)	-	**(36)**
Total transactions with owners of the Group	**-**	**-**	**-**	**-**	**(36)**	**-**	**(36)**
At 31 December 2020	**(126)**	**-**	**-**	**107**	**-**	**(1,330)**	**(1,349)**

Notes (continued)

44 Other reserves (continued)

		Group	
		2021	**2020**
	Note	**KShs Million**	**KShs Million**
Pre-acquisition reserve		(126)	(126)
Revaluation of financial assets- Fair value		12	-
Regulatory credit risk reserve		5	-
Revaluation reserve on buildings		99	107
Foreign currency translation reserve		(1,654)	(1,330)
At end of year		**(1,664)**	**(1,349)**

The pre-acquisition reserve solely represents the deficit on the AFS reserve and regulatory credit risk reserve from the merger of CfC Bank Limited and Stanbic Bank Kenya Limited in 2008. The Group has not revalued the reserve since the merger. The pre-acquisition reserve is non-distributable.

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

The Regulatory credit risk reserve represents an appropriation from retained earnings to comply with the Central Bank of Kenya's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognised in accordance with the Company's accounting policy. The reserve is not distributable.

The revaluation reserve on buildings solely represents the surplus on the revaluation of buildings and freehold land net of deferred income tax. The revaluation reserve arose from the merger of CfC Bank Limited and Stanbic Bank Kenya Limited in 2008. The Group policy was adopted to state all its assets using the historical cost model. No revaluation has been undertaken since the merger. The revaluation reserve is non-distributable.

Share-based payment reserve represents the Group's share incentive scheme which enables key management personnel and senior employees of the Group to benefit from the performance of Standard Bank Group (SBG) shares.

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

Notes (continued)

45 Share-based payment reserve

	2021 KShs Million	2020 KShs Million
At start of year	-	36
Equity growth scheme for the year	-	-
Vested during the year	-	(36)
At end of year	**-**	**-**

The Group's share incentive scheme enables key management personnel and senior employees of the Group to benefit from the performance of Standard Bank Group (SBG) shares.

The Group has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights. The share appreciation rights granted during the year were valued using Black Scholes pricing model. Each grant was valued separately.

At 31 December 2021, the total amount included in staff costs for Group Share Incentive Scheme was KShs nil (2020: KShs nil) and for Equity Growth Scheme was KShs nil (2020: KShs nil).

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

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

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

	Option price range (ZAR)	Number of options	
Group Share Incentive Scheme	**2021**	**2021**	**2020**
Options outstanding at beginning of the year		**20,000**	**36,250**
Granted		-	-
Transfers		187	-
Exercised	98.8 - 111.94	-	(16,250)
Lapsed		-	-
Options outstanding at end of the year		**20,187**	**20,000**

The weighted average SBG share price for the year to 31 December 2021 was ZAR 131.30 (2020: ZAR 116.16).

The following options granted to employees had not been exercised at 31 December 2021:

Notes (continued)

45 Share-based payment reserve (continued)

The following options granted to employees had not been exercised at 31 December 2021:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
187	98.8	98.8	Year to 31 December 2023
20,000	107.55	107.55	Year to 31 December 2023
20,187			

The following options granted to employees had not been exercised at 31 December 2020:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
20,000	107.55	107.55	Year to 31 December 2021
20,000			

	Number of rights	
Equity Growth Scheme	**2021**	**2020**
Rights outstanding at beginning of the year	5,375	5,375
Transfers	37,662	-
Exercised	-	-
Lapsed	-	-
Rights outstanding at end of the year	**43,037**	**5,375**

1 At 31 December 2021 the Bank would need to issue 6,125 (2020: 1,196) SBG shares to settle the outstanding appreciated rights value.

All rights granted to employees have been exercised as at 31 December 2021.

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
1,785	98.8	98.8	Year to 31 December 2023
1	98.8	98.8	Year to 31 December 2023
3,000	96.68	96.68	Year to 31 December 2023
31,339	156.96	156.96	Year to 31 December 2025
6,912	122.24	122.24	Year to 31 December 2026
43,037			

The following rights granted to employees had not been exercised at 31 December 2020:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5,375	98.8	98.8	Year to 31 December 2021
5,375			

Notes (continued)

46 Capital commitments

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

	2021 KShs Million	2020 KShs Million
Authorised and contracted for	261	142
Authorised but not contracted for	1,156	963

47 Operating leases

The Group has entered into a number of commercial leases for its premises and office equipment under operating leases. These leases have an average life of between six years with a renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases such as those concerning dividends or additional debt.

At 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows;

	2021 KShs Million	2020 KShs Million
Less than one year	27	27
Between one and five years	18	18
	45	**45**

48 Fiduciary activities

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

	2021 KShs Million	2020 KShs Million
Assets held on behalf of individual’s trusts and other institutions	**429,329**	**365,573**

49 Assets and liabilities classified as held-for-sale

The assets and liabilities of SBG Securities Limited - Uganda branch and SBG Rwanda were classified as held-for-sale as at 31 December 2020 following approval by the board of directors to dispose the branch as a going concern. The branches were disposed off in 2021.

Notes (continued)

49 Assets and liabilities classified as held-for-sale

	2021 KShs Million	2020 KShs Million
Assets		
Trade and other receivables	-	7
Cash and cash equivalents	-	67
Current income tax	-	2
	-	76
Liabilities		
Trade and other payables	-	7
	-	7

50 Subsequent event

There have been no other events or transactions subsequent to 31 December 2021 to the date of these financial statements that would have a material effect on the financial statements at that date or for the year then ended and would require adjustment of, or disclosure in the financial statements or notes thereto in accordance with *IAS 10 Events After the Balance Sheet Date.*