STANBIC BANK KENYA LIMITED

ANNUAL FINANCIAL STATEMENTS 2020

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Contents

Corporate Information

Chairman
Kitili Mbathi

Chief Executive
Charles Mudiwa***

Chief Executive of Stanbic Holding Plc
Patrick Mweheire**
(Appointed on 3 March 2020)
Greg Brackenridge*
(Retired on 3 March 2020)

Non-executive Directors
Christopher J Blandford – Newson**** (Resigned on 4 March 2020)
Greg Brackenridge* (Retired on 26 June 2020)
Peter N Gethi
Samuel N Gikandi (Appointed on 29 June 2020)
Rose W Kimotho
Dorcas Kombo
Ruth T Ngobi
Ory A Okolloh (Appointed on 3 March 2020 and resigned on 9 December 2020)
Rose B Osoro

** South African*
*** Ugandan*
**** Zimbabwean*
***** South African and British*

Company Secretary
Lillian N Mbindyo
PO Box 72833
00200 Nairobi

Auditor
PricewaterhouseCoopers LLP
PwC Tower
Waiyaki Way/Chiromo Road
PO Box 43963
00100 Nairobi

Registered office
Stanbic Bank Centre
Chiromo Road, Westlands
PO Box 72833
00200 Nairobi

Report of the Directors

for the year ended 31 December 2020

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

Principal activities

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

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

Principal risks and uncertainties

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

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

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

Business review and financial performance

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

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

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

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

Summary results for the year is as follows:

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

Dividends

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

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

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

The results for the year are set out fully on pages 8 to 90 in the attached financial statements.

Directors

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

Events subsequent to the end of the reporting period

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

Management by third parties

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

Auditor

Disclosures to auditor

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

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

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

Terms of appointment of auditor

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

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

Approval of financial statements

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

By order of the Board,

Lillian N Mbindyo
Company Secretary

Statement of the Directors' Responsibilities

for the year ended 31 December 2020

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

The Directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:
- designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- selecting suitable accounting policies and applying them consistently; and
- making accounting estimates and judgements that are reasonable in the circumstances.

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

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

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

Kitili Mbathi
Chairman

Charles Mudiwa
Chief Executive

Dorcas Kombo
Director

Report of the Independent Auditor

for the year ended 31 December 2020

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

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Stanbic Kenya Limited (the Company) set out on pages 8 to 90 which comprise the statement of financial position at 31 December 2020 and the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Stanbic Kenya Limited at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act 2015.

Basis for opinion

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

We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Key audit matters

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

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

Report of the Independent Auditor (continued)

for the year ended 31 December 2020

Other information

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

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

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

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

Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other matters prescribed by the Companies Act, 2015

Report of the Directors

In our opinion the information given in the report of the Directors' report on pages 2 and 3 is consistent with the financial statements.

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

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

4 March 2021

Statement of Profit or Loss

for the year ended 31 December 2020

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

Statement of Other Comprehensive Income

for the year ended 31 December 2020

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

Statement of Financial Position

as at 31 December 2020

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

The financial statements on pages 8 to 90 were approved for issue by the Board of Directors on 4 March 2021 and signed on its behalf by:

Kitili Mbathi
Chairman

Charles Mudiwa
Chief Executive

Dorcas Kombo
Director

Lillian Mbindyo
Company Secretary

Statement of Changes in Equity

for the year ended 31 December 2020

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

Statement of Cash Flows

for the year ended 31 December 2020

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

1. General information

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

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

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

2. Summary of significant accounting policies

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

(a) Basis of preparation

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

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

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

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

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

The exemption conditions have been satisfied as follows:

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

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

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

(b) Functional and presentation currency

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

(c) Changes in accounting policies and disclosures

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

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

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

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

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

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

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

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

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

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

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

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

2.1 Translation of foreign currencies

(i) Transactions and balances

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

2.1 Translation of foreign currencies *(continued)*

(ii) Foreign operations

The results and financial position of our operations in South Sudan, which is a hyperinflationary economic environment and has a functional currency different from the Bank's presentation currency, are translated into the Bank's presentation currency as follows:

- All amounts (i.e. assets, liabilities, equity items, income and expenses, including comparatives) are translated at the closing rate as of 31 December 2020.
- All resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the foreign currency translation reserve.

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

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

These gains and losses are recognised in profit or loss either on disposal of a foreign operation or partial disposal (a reduction in ownership interest in a foreign operation other than a disposal) of an associate or joint venture that includes a foreign operation.

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

2.2 Net interest income

Interest income and expense (with the exception of those borrowing costs that are capitalised – refer to accounting policy 2.9 – Capitalisation of borrowing costs) are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss which are included under trading income and:

- purchased or originated credit impaired (POCI) for which the original credit adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- financial assets that are not POCI that have subsequently become impaired for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of expected credit losses) in subsequent reporting periods.

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

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

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

2.3 Non-interest revenue

(a) Net fee and commission revenue

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

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

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

(b) Trading revenue

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

(c) Other revenue

Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, dividends relating to those financial instruments, and remeasurement gains and losses from contingent consideration on disposals and purchases.

(d) Revenue sharing agreements with related companies

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

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

2.4 Cash and cash equivalents

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

2.5 Financial instruments

(i) Initial recognition and measurement

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

Financial assets

Financial assets are classified under each of the categories below and their carrying amounts are disclosed in Note 19.

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

2.5 Financial instruments *(continued)*

(ii) Subsequent measurement

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

Nature	
Amortised cost	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through OCI	Debt instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other gains and losses on financial instruments within non-interest revenue. Interest income on a debt financial asset is recognised in interest income in terms of the effective interest rate method. Dividends received are recognised in interest income within profit or loss. Dividends received on equity instruments are recognised in other revenue within non-interest income.
Fair value through profit or loss – held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the statement of profit or loss as part of other gains and losses on financial instruments within non-interest revenue.
Fair value through profit or loss – default	Fair value gains and losses (including interest and dividends) on other financial assets at FVTPL are recognised in the statement of profit or loss as part of other gains and losses on financial instruments within non-interest revenue.

Impairment of financial assets

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

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

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

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

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

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

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

Reclassification

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

- Financial assets that are reclassified from amortised cost to fair value through profit or loss are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments.
- The fair value of a financial asset that is reclassified from fair value through profit or loss to amortised cost becomes the financial asset's new carrying amount.
- Financial assets that are reclassified from amortised cost to fair value through OCI are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in OCI.
- The fair value of a financial asset that is reclassified from fair value through OCI to amortised cost becomes the financial asset's new carrying amount with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying amount.
- The carrying amounts of financial assets that are reclassified from fair value through profit or loss to fair value through OCI remains at fair value.
- The carrying amount of financial assets that are reclassified from fair value through OCI to fair value through profit or loss remains at fair value, with the cumulative fair value adjustment in OCI being recognised in profit or loss at the date of reclassification.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

2.5 Financial instruments *(continued)*

(ii) Subsequent measurement *(continued)*

Financial liabilities

Financial liabilities classified under each of the categories below are disclosed under Note 19.

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

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

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

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

	Derecognition	Modification
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Bank has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability. The Bank enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes. The terms of a financial asset are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial asset.
Financial assets (continued)	When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	If the terms are not substantially different for financial assets or financial liabilities, the Bank recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	See modification of financial assets on the previous page.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Bank (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

Derivative and embedded derivatives

A derivative is a financial instrument whose fair value changes in response to an underlying variable requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date.

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

2.5 Financial instruments *(continued)*

(ii) Subsequent measurement *(continued)*

Sale and repurchase agreements and lending of securities

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

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

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

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

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

Offsetting financial instruments

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

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

2.6 Fair value

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

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

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

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

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

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

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

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

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

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

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

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

2.7 Property and equipment

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

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

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

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. Land is not depreciated. Leasehold buildings are depreciated over the shorter of the lease period or their useful lives. Depreciation starts when the asset is in location and condition as intended by management.

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

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

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

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

Work-in-progress is not depreciated.

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

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

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

2.8 Intangible assets – computer software

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

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

2.9 Capitalisation of borrowing costs

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

2.10 Impairment of non-financial assets

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

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Fair value less costs ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (CGUs). Impairment test can also be performed on a single asset when the fair value less costs of development or the value in use can be determined reliably. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

- Property and equipment (see Note 2.7 and Note 30)
- Intangible assets see Note (2.8 and Note 31)
- Disclosure on significant assumptions (see Note 3)

2.11 Accounting for leases

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

The Bank as lessee

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

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

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

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

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

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

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

2.12 Provisions, contingent assets and contingent liabilities

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

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

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

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

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

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

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

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

2.13 Taxation

(i) Direct tax

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

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

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

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

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

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(ii) Indirect tax

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

2.14 Employee benefits

(i) Defined contribution plans

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

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

The Bank and its employees also contribute to the National Social Security Fund. These contributions are determined by local statutes and the Bank's contributions are charged to profit or loss in the year which they relate to.

(ii) Termination benefits

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

2.14 Employee benefits *(continued)*

(iii) Short-term benefits

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

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

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

2.15 Dividends

Dividends in ordinary shares are credited to a separate component of equity in the period in which they are declared.

2.16 Equity

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

(i) Share issue costs

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

(ii) Dividends on ordinary shares

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

Proposed dividends are presented separately within equity until declared.

2.17 Earnings per share

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

2.18 Equity-linked transactions

Equity compensation plans

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

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

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

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

2.19 Segment reporting

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

Transactions between segments are priced at market-related rates.

2.20 Fiduciary activities

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

2.21 Hyperinflation

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

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

Non-monetary assets and liabilities are also restated at the date of initial application by applying to their cost and accumulated depreciation a general price index from the date the items were acquired to the date of initial application. The resulting adjustments determined at the beginning of the period are recognised directly in equity as an adjustment to opening retained earnings.

Restated retained earnings are derived from all other amounts in the restated statement of financial position.

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

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

2.22 Letters of credit acceptances

Letters of credit acceptances arise in two ways:

(i) Issuing bank

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

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

(ii) Confirming bank

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

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

3. Critical accounting estimates and judgements in applying accounting policies

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

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

3.1 Going concern

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

3.2 Impairment of financial assets carried at fair value through other comprehensive income (FVOCI)

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

3.3 Impairment of financial assets at amortised cost

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

3.4 Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets is determined using valuation techniques. Wherever possible, models use only observable market data. Where required, these models incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments.

The total amount of the change in fair value estimated using valuation techniques not based on observable market data that was recognised in profit or loss for the year ended 31 December 2020 was a profit of KShs nil (2019: KShs nil).

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

3.5 Development costs

The Bank capitalises software development costs for intangible assets in accordance with the accounting policy detailed in Note 2.8. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone and where the Bank is able to demonstrate its intention and ability to complete and use the software.

3.6 Share-based payment

The Bank has a number of cash and equity-settled share incentive schemes which are issued to qualifying employees based on the rules of the schemes. The Bank uses the Black-Scholes option pricing model to determine the fair value of awards on grant date for its equity-settled share incentive schemes. The valuation of the Bank's obligation with respect to its cash-settled share incentive scheme obligations is determined with reference to the Standard Bank Group share price, which is an observable market input. In determining the expense to be recognised for both the cash and equity-settled share schemes, the Bank estimates the expected future vesting of the awards by considering staff attrition levels. The Bank also makes estimates of the future vesting of awards that are subject to non-market vesting conditions by taking into account the probability of such conditions being met. Refer to Note 43 for further details regarding the carrying amount of the liabilities arising from the Bank's cash-settled share incentive schemes and the expenses recognised in profit or loss.

3.7 Income taxes

The Bank is subject to direct taxation in two jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Bank recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in Notes 34 and 35, respectively, in the period in which such determination is made.

Deferred tax assets

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

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

Note 34 summarises the details of the carrying amount of the deferred tax assets. Accounting policy 2.13 provides further detail regarding the Bank's deferred tax accounting policy.

3.8 Hyperinflation

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

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

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

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

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

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

Date	Base year	General price index	Inflation rate %
31 December 2020	2019	**9 902.46**	**89.30**
31 December 2019	2018	5 834.35	69.14

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

	2020 KShs million	2019 KShs million
Impact on statement of profit or loss		
Profit for the year before hyperinflation	**5 027**	6 279
Net monetary gain/(loss) (Note 10)*	**197**	(57)
Profit for the year after hyperinflation	**5 224**	6 222

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

3.9 Provisions

The accounting policy for provisions is set out in accounting policy 2.12. The principal assumptions taken into account in determining the value at which provisions are recorded at, in the Bank's statement of financial position, include determining whether there is an obligation as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the obligation.

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

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

ECL measurement period

Personal and Business Banking (PBB)

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

Corporate and Investment Banking (CIB)

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

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

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

PBB

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

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

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

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

CIB

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

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

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

Forward-looking expectations

- The Bank Economics Research team determines the macroeconomic outlook and a Bank view of commodities over a planning horizon of at least three years. The outlook is provided to the legal entity's Chief Financial Officer for review and asset and liability committee for approval.
- Macroeconomic outlooks take into account various variables such as GDP, central bank policy interest rates, inflation, exchange rates and treasury bill rates.
- Narratives for each of the country economic outlooks, being bear, base and bull cases, are compiled and typically include consideration of the country's economic background, sovereign risk, foreign exchange risk, financial sector, liquidity and monetary policy stance.
- Probabilities are assigned to each of the bear, base and bull cases based on primary macroeconomic drivers and are reviewed monthly.
- The forward-looking economic expectations are updated on a bi-annual basis or more regularly when deemed appropriate.

PBB

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

CIB

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

Lifetime LGD work out

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

Default

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

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

Write-off policy

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

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

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

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

Curing

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

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

Debt financial investments

In terms of IFRS 9, this impairment provision is calculated per exposure for the shorter of 12 months or the remaining lifetime of the exposure.

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

The requirement to hold ECL on off-balance sheet financial instruments, such as guarantees and letters of credit, resulted in a requirement to hold additional credit impairment provisions which were not held in terms of IAS 39.

Out of the above factors that drive the ECL, the most significant source of uncertainty is credit ratings allocated to counterparties which drive this assigned probability of default. The PDs in turn incorporate assessment for significant increase in credit risk, default risk assessment, forward-looking information and probability weighted scenarios. At 31 December 2020, had the average credit ratings for all counterparties shifted one notch down, expected credit losses would have increased by KShs 1 380 367 360 (2019: KShs 1 579 303 000). On the other hand, if the credit ratings had shifted one notch up, the expected credit losses would have decreased by KShs 665 015 002 (2019: KShs 278 190 000).

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

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

Credit impairment losses on loans and advances

Specific loan impairments

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

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Where the net present value of estimated cash flows to differ by +/-1%, the impairment loss is to be estimated at KShs 77 158 420 higher or KShs 77 158 420 lower (2019: KShs 76 285 000 higher or KShs 76 285 000 lower) respectively.

3.11 COVID-19 related operational losses

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

4. Financial risk management

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

The Bank has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risks
- Operational risks

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

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

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

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

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

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

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

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

4.1 Capital management

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of the statement of financial position, are:
- to comply with the capital requirements set by the regulator, Central Bank of Kenya;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

It uses two approaches of measuring capital for capital management.

(a) Economic capital assessment

Economic capital is the Bank's internal measure of required capital and it incorporates granular risk assessments and portfolio concentration effects that may be absent from the regulatory capital assessment process. The Bank aggregates the individual risk type economic capital measurements conservatively assuming no inter-risk diversification. Economic capital is compared to available financial reserves to perform an assessment of capital adequacy based on internal measures.

(b) Regulatory capital assessment

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

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

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

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

The Bank is required at all times to maintain:
- a minimum level of regulatory capital of KShs 1 billion as at 31 December 2020 (2019: KShs 1 billion);
- a core capital (tier 1) of not less than 10.5% (2019: 10.5%) of total risk-weighted assets plus risk weighted off-statement of financial position items;
- a core capital (tier 1) of not less than 8% (2019: 8%) of its total deposit liabilities; and
- a total capital (tier 1 + tier 2) of not less than 14.5% (2019: 14.5%) of its total risk-weighted assets plus risk adjusted off-statement of financial position items.

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.1 Capital management *(continued)*

(b) Regulatory capital assessment *(continued)*

The Bank has complied with these requirements. The Bank's capital adequacy level was as follows:

	2020 KShs million	2019 KShs million
Tier 1 capital (core capital)		
Share capital	3 412	3 412
Share premium	3 445	3 445
Retained earnings	34 781	30 011
Less: Deferred tax asset	(699)	(710)
Total tier 1 capital (core capital)	40 939	36 158
Tier 2 capital		
Regulatory credit risk reserve	–	938
Qualifying subordinate liabilities	5 504	6 599
Total Tier 2 capital	5 504	7 537
Total capital (tier 1 + tier 2)	46 443	43 695
Risk-weighted assets		
Operational risk	39 795	36 363
Market risk	7 658	4 102
Credit risk on-statement of financial position	172 496	164 176
Credit risk off-statement of financial position	36 523	33 583
Total risk – weighted assets	256 472	238 224
Capital adequacy ratios	%	%
Core capital/total deposit liabilities	18.5	18.4
Minimum statutory ratio	8.0	8.0
Core capital/total risk-weighted assets	16.0	15.2
Minimum statutory ratio	10.5	10.5
Total capital/total risk-weighted assets	18.1	18.3
Minimum statutory ratio	14.5	14.5

4.2 Credit risk

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

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

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

4.2.1 Governance committees

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

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

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

4.2.2 General approach to managing credit risk

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

The Bank manages credit risk through:

- maintaining a strong culture of responsible lending and a robust risk policy and control framework;
- identifying, assessing and measuring credit risk clearly and accurately across the Bank, from the level of individual facilities up to the total portfolio;
- defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions;
- monitoring the Bank's credit risk relative to limits; and
- ensuring that there is expert scrutiny and independent approval of credit risks and their mitigation.

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

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

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

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

4.2.3 Management reporting

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

- quarterly Board Credit Committee Report;
- quarterly Board Audit Committee Report;
- quarterly Board Risk Committee Report;
- monthly Credit Risk Management Committee Report;
- regulatory returns;
- half-year results; and
- annual financial statements.

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

4.2.4 Credit risk measurement

(a) Loans and advances, including loan commitments and guarantees

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

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

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components:

- The "probability of default" by the client or counterparty on its contractual obligations
- Current exposures to the counterparty and its likely future development, from which the Bank derives the "exposure at default"
- The likely recovery ratio on the defaulted obligations (the "loss given default")

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.4 Credit risk measurement *(continued)*

(a) Loans and advances, including loan commitments and guarantees *(continued)*

Probability of default (PD)

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

Loss given default (LGD)

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

Exposure at default (EAD)

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

(b) Debt securities

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

Relationship between the bank master rating and external rating

Stanbic Bank Kenya Limited's Internal Rating Scale	Moody's Investor Services	Standard & Poor's	Fitch	Grading	Credit Quality
1 – 4	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	Investment grade	Normal monitoring
5 – 7	A1, A2, A3	A+, A, A-	A+, A, A-		
8 – 12	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-		
13 – 21	Ba1, Ba2, Ba3, B1, B2, B3	BB+, BB, BB-, B+, B, B-	BB+, BB, BB-, B+, B, B-	Sub-investment grade	Close monitoring
22 – 25	Caa1, Caa2, Caa3, Ca	CCC+, CCC, CCC-	CCC+, CCC, CCC-		
Default	C	D	D	D	D

4.2.5 Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below:

(a) Credit tailored to customer profile

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

- Corporate and Investment Banking (CIB)
- Personal and Business Banking (PBB)

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

CIB, Sovereign and Bank portfolios

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

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

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

PBB: Retail portfolio

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.5 Risk limit control and mitigation policies *(continued)*

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

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

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

(c) Master netting arrangements

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

(d) Derivatives

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

(e) Collateral

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

Personal and Business Banking	
Mortgage lending	First ranking legal charge over the property financed
Vehicle and asset finance	Joint registration of vehicles
Other loans and advances	Debentures over the Company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, Directors' personal guarantees and company guarantees

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

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

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

Valuation of collateral

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

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

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

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

In the retail portfolio, 76% (2019: 82%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures above 50% collateral coverage category is 100% (2019: 100%). Of the Bank's total exposure, 54% (2019: 48%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

						Collateral coverage – total		
	Total exposure KShs million	Unsecured exposure KShs million	Secured exposure KShs million	Netting agreements KShs million	Secured exposure after netting KShs million	Greater than 0% to 50% KShs million	Greater than 50% to 100% KShs million	Greater than 100% KShs million
31 December 2020								
Asset class								
Corporate	87 035	15 695	71 340	–	71 340	–	71 340	–
Sovereign	87 601	87 601	–	–	–	–	–	–
Loans and advances to banks	38 113	38 113	–	–	–	–	–	–
Group	27 172	27 172	–	–	–	–	–	–
Other banks	10 941	10 941	–	–	–	–	–	–
Retail	89 562	21 629	67 933	–	67 933	–	67 933	–
Retail mortgage	34 783	–	34 783	–	34 783	–	34 783	–
Other retail	54 779	21 629	33 150	–	33 150		33 150	–
Total	302 311	163 038	139 273	–	139 273	–	139 273	–
Less: Impairments for loans and advances	(18 436)							
Total exposure	283 875							

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.5 Risk limit control and mitigation policies *(continued)*

(e) Collateral *(continued)*

Valuation of collateral (continued)

	Total exposure KShs million	Unsecured exposure KShs million	Secured exposure KShs million	Netting agreements KShs million	Secured exposure after netting KShs million	Collateral coverage – total: Greater than 0% to 50% KShs million	Greater than 50% to 100% KShs million	Greater than 100% KShs million
31 December 2019								
Asset class								
Corporate	79 763	7 137	72 626	–	72 626	–	72 626	–
Sovereign	70 033	70 033	–	–	–	–	–	–
Loans and advances to banks	38 354	38 354	–	–	–	–	–	–
Group	27 516	27 516	–	–	–	–	–	–
Other banks	10 838	10 838	–	–	–	–	–	–
Retail	87 224	15 391	71 833	–	71 833	–	71 833	–
Retail mortgage	25 580	–	25 580	–	25 580	–	25 580	–
Other retail	61 644	15 391	46 253	–	46 253	–	46 253	–
Total	275 374	130 915	144 459	–	144 459	–	144 459	–
Less: Impairments for loans and advances	(14 174)							
Total exposure	261 200							

The Bank holds collateral on loans and advances. The tables above represent the collateral cover held on various types of loans and advances. Other deposits and margin balances held against off-balance sheet facilities are included in other liabilities in Note 38(a).

Foreclosed collateral

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

	2020 KShs million	2019 KShs million
Nature of assets		
Residential property	120	50
Assets financed under VAF	174	262
	294	312

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

Renegotiated financial assets

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

	2020 KShs million	2019 KShs million
Vehicle and asset finance	3 786	947
Other loans and advances	36 489	4 485
	40 275	5 432

4.2.6 Default and provisioning policy

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

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

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

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

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

4.2.7 Credit quality

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

Financial instruments whose carrying amounts represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 22. The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both the loan and advances portfolio and debt securities based on the following:

- 58% of the total maximum exposure is derived from loans and advances to customers (2019: 61%); 29% represents investments in debt securities (2019: 25%)
- 74% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2019: 75%)
- 86% of the loans and advances portfolio are considered to be neither past due nor impaired (2019: 88%)
- 99.8% of all the debt securities, which the Bank has invested in, are issued by the Central Bank of Kenya (2019: 99.0%)

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.7 Credit quality *(continued)*

(b) Credit quality by class

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

		SB 1 – 12		SB 13 – 20		SB 21 – 25		Default							
	Gross carrying amount KShs million	Stage 1 KShs million	Stage 2 KShs million	Stage 1 KShs million	Stage 2 KShs million	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Purchased/ originated credit impaired KShs million	Total gross carrying amount of default exposures KShs Million	Securities and expected recoveries on default exposures KShs million	Interest in suspense on default exposures KShs million	Balance sheet expected credit loss on default exposures KShs million	Gross default coverage %	Non-performing exposures %
Year ended 31 December 2020															
Loans and advances to customers															
PBB	**89 561**	**–**	**–**	**59 526**	**–**	**165**	**19 420**	**10 450**	**–**	**10 450**	**4 483**	**1 231**	**4 736**	**57**	**12**
Mortgage loans	**34 783**	**–**	**–**	**25 660**	**–**	**–**	**6 526**	**2 597**	**–**	**2 597**	**1 401**	**440**	**755**	**46**	**7**
Vehicle and asset finance	**13 127**	**–**	**–**	**9 119**	**–**	**–**	**2 240**	**1 768**	**–**	**1 768**	**173**	**296**	**1 299**	**90**	**13**
Card debtors	**515**	**–**	**–**	**294**	**–**	**–**	**197**	**24**	**–**	**24**	**6**	**–**	**18**	**75**	**5**
Other loans and advances	**41 136**	**–**	**–**	**24 453**	**–**	**165**	**10 457**	**6 061**	**–**	**6 061**	**2 903**	**495**	**2 664**	**52**	**15**
CIB	**87 035**	**20 275**	**–**	**45 734**	**5 315**	**82**	**1 042**	**14 587**	**–**	**14 587**	**5 702**	**2 946**	**6 231**	**63**	**17**
	176 596	**20 275**	**–**	**105 260**	**5 315**	**247**	**20 462**	**25 037**	**–**	**25 037**	**10 185**	**4 177**	**10 967**	**60**	**14**
Loans and advances to banks	**38 109**	**26 581**	**–**	**11 528**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**–**
Gross carrying amount	**214 705**	**46 856**	**–**	**116 788**	**5 315**	**247**	**20 462**	**25 037**	**–**	**25 037**	**10 185**	**4 177**	**10 971**	**52**	**12**
Less: Total expected credit losses for loans and advances	**(18 419)**														
Net carrying amount of loans and advances measured at amortised cost	**196 286**														
Year ended 31 December 2019															
Loans and advances to customers															
PBB	87 226	–	–	59 548	–	–	21 824	5 854	–	5 854	2 652	816	3 041	58	7
Mortgage loans	25 581	–	–	16 226	–	–	7 511	1 844	–	1 844	1 002	293	527	38	7
Vehicle and asset finance	15 146	–	–	10 982	–	–	2 768	1 396	–	1 396	340	203	925	71	9
Card debtors	652	–	–	416	–	–	214	22	–	22	4	–	18	82	3
Other loans and advances	45 847	–	–	31 924	–	–	11 331	2 592	–	2 592	1 306	320	1 571	65	6
CIB	79 761	10 438	–	44 684	10 277	58	812	13 492	–	13 492	6 521	2 414	4 775	45	17
	166 987	10 438	–	104 232	10 277	58	22 636	19 346	–	19 346	9 173	3 230	7 816	49	12
Loans and advances to banks	38 354	26 826	–	11 528	–	–	–	–	–	–	–	–	1	–	–
Gross carrying amount	205 341	37 264	–	115 760	10 277	58	22 636	19 346	–	19 346	9 173	3 230	7 817	49	9
Less: Total expected credit losses for loans and advances	(14 172)														
Net carrying amount of loans and advances measured at amortised cost	191 169														

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

4.2.7 Credit quality *(continued)*

(b) Credit quality by class *(continued)*

		SB 1 – 12		SB 13 – 20		SB 21 – 25		Default	
	Gross carrying amount KShs million	Stage 1 KShs million	Stage 2 KShs million	Stage 1 KShs million	Stage 2 KShs million	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Purchased/ originated credit impaired
Year ended 31 December 2020 Financial investments measured at amortised									
Corporate	**168**	**168**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sovereign	**23 023**	**23 023**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Bank	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Mutual funds and unit-linked investments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Gross carrying amount	**23 191**								
Less: Total expected credit losses for financial investments at amortised cost	**(17)**								
Net carrying amount	**23 174**								
Financial investments at fair value through OCI									
Corporate	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sovereign	**30 664**	**30 664**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Bank	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Mutual funds and unit-linked investments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Gross carrying amount	**30 664**								
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	**(4)**								
Net carrying amount	**30 660**								
Year ended 31 December 2019 Financial investments measured at amortised									
Corporate	661	661	–	–	–	–	–	–	–
Sovereign	14 231	14 231	–	–	–	–	–	–	–
Bank	–	–	–	–	–	–	–	–	–
Mutual funds and unit-linked investments	–	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–	–
Gross carrying amount	14 892								
Less: Total expected credit losses for financial investments at amortised cost	(2)								
Net carrying amount	14 890								
Financial investments at fair value through OCI									
Corporate	–	–	–	–	–	–	–	–	–
Sovereign	20 980	20 980	–	–	–	–	–	–	–
Bank	–	–	–	–	–	–	–	–	–
Mutual funds and unit-linked investments	–	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–	–
Gross carrying amount	20 980								
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	(2)								
Net carrying amount	20 978								

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

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary.

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

	Performing (early arrears)			Non-performing		
	1 to 29 days KShs million	30 to 59 days KShs million	60 to 89 days KShs million	90 to 180 days KShs million	More than 180 days KShs million	Total KShs million
31 December 2020						
Personal and Business Banking	**6 834**	**2 067**	**842**	**–**	**–**	**9 743**
Mortgage lending	**2 385**	**542**	**402**	**–**	**–**	**3 329**
Vehicle and asset finance	**1 340**	**554**	**79**	**–**	**–**	**1 973**
Other loans and advances	**3 109**	**971**	**361**	**–**	**–**	**4 441**
Corporate and Investment Banking	**4 325**	**114**	**2**	**–**	**–**	**4 441**
Total recognised financial instruments	**11 159**	**2 181**	**844**	**–**	**–**	**14 184**
31 December 2019						
Personal and Business Banking	7 532	2 799	8 539	–	–	18 870
Mortgage lending	1 626	748	303	–	–	2 677
Vehicle and asset finance	1 867	998	241	–	–	3 106
Other loans and advances	4 039	1 053	7 995	–	–	13 087
Corporate and Investment Banking	1 753	198	–	–	–	1 951
Total recognised financial instruments	9 285	2 997	8 539	–	–	20 821

4.3 Market risk

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

4.3.1 Governance committees

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

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

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

This process entails analysis of new business plans, new products, new pricing models, new risk models and regular reviews by Market Risk staff of financial and management accounts statement of financial position, statement of profit or loss, portfolio structure hierarchies, accounting classification and accounting elections jointly with financial control, risk self-assessments jointly with operational risk, price testing reports and profit and loss decomposition reports.

(ii) Measurement of market risk

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.3 Market risk *(continued)*

4.3.1 Governance committees *(continued)*

(iii) Management of market risk

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

(iv) Reporting of market risk

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

4.3.2 Market risk exposure on banking operations

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

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

4.3.3 Approved regulatory capital approaches

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

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

4.3.4 Trading book market risk

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

4.3.5 Approach to managing market risk in the trading book

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

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

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

(a) VaR and SVaR

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

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

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

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

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

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

Limitations of historical VaR are acknowledged globally and include the following:

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

(b) Stop-loss triggers

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

(c) Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical and hypothetical simulations. Daily losses experienced during the year ended 31 December 2020 did not exceed the maximum tolerable losses as represented by the Bank's stress scenario limits.

(d) Back-testing

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

(e) Specific business unit and product controls

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

4.3.6 Foreign exchange risk

Definition

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

Approach to managing foreign currency risk

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.3 Market risk *(continued)*

4.3.6 Foreign exchange risk *(continued)*

Approach to managing foreign currency risk *(continued)*

The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2020.

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

	USD	GBP	EUR	Others	Total
At 31 December 2020					
Assets					
Cash and bank balances with banks abroad	15 905	492	1 186	1 553	19 136
Loans and advances	59 244	942	6 360	15	66 561
Investment in government securities	2 554	–	–	–	2 554
Balances due from group companies	17 885	5 191	–	637	23 713
Other foreign currency assets	3 232	–	321	149	3 702
Total foreign-denominated financial assets	98 820	6 625	7 867	2 354	115 666
Liabilities					
Amounts due to banking institutions abroad	12 011	7	83	472	12 573
Deposits	82 768	7 353	7 172	1 156	98 449
Borrowings	5 504	–	–	–	5 504
Balances due to group companies	12 432	–	2 691	–	15 123
Other foreign currency liabilities	12 446	3	700	1 078	14 227
Total foreign-denominated financial liabilities	125 161	7 363	10 646	2 706	145 876
Net on balance sheet financial position	(26 341)	(738)	(2 779)	(352)	(30 210)
Off-balance sheet net notional position	26 456	724	3 162	127	30 469
Overall net position	115	(14)	383	(225)	259
At 31 December 2019					
Assets					
Cash and bank balances with banks abroad	18 831	1 089	435	1 815	22 170
Loans and advances	62 073	850	3 812	19	66 754
Balances due from group companies	21 939	–	–	564	22 503
Other foreign currency assets	3 177	98	274	326	3 875
Total foreign-denominated financial assets	106 020	2 037	4 521	2 724	115 302
Liabilities					
Amounts due to banking institutions abroad	14 433	147	7 093	386	22 059
Deposits	68 485	9 676	8 133	987	87 281
Borrowings	5 132	–	–	–	5 132
Balances due to group companies	12 963	–	4 018	–	16 981
Other foreign currency liabilities	11 296	95	387	1 316	13 094
Total foreign-denominated financial liabilities	112 309	9 918	19 631	2 689	144 547
Net on-balance sheet financial position	(6 289)	(7 881)	(15 110)	35	(29 245)
Off-balance sheet net notional position	4 995	7 937	15 752	(213)	28 471
Overall net position	(1 294)	56	642	(178)	(774)

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

	Increase in currency rate in %	Effect on profit before tax KShs million	Effect on equity KShs million	Decrease in currency rate in %	Effect on profit before tax KShs million	Effect on equity KShs million
Year ended 31 December 2020						
Currency						
USD	2.45	3	2	(2.17)	(2)	(2)
GBP	5.53	(1)	(1)	(3.96)	1	–
EUR	2.48	9	7	(3.59)	(14)	(10)
Year ended 31 December 2019						
Currency						
USD	0.98	(13)	(9)	(1.09)	14	10
GBP	4.01	2	2	(2.34)	(1)	(1)
EUR	1.92	12	9	(2.01)	(13)	(9)

4.3.7 Interest rate risk

Interest rate risk in the banking book (IRRBB)

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

IRRBB is further divided into the following sub-risk types:

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

Approach to managing IRRBB

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

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

Measurement

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

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

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

Limits

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.3 Market risk *(continued)*

4.3.7 Interest rate risk *(continued)*

Hedging of endowment risk

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

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

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

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

	Increase in basis points 2020	Sensitivity of net interest income 2020 KShs million	Sensitivity of other comprehensive income 2020 KShs million	Decrease in basis points 2020	Sensitivity of net interest income 2020 KShs million	Sensitivity of other comprehensive income 2020 KShs million
Currency						
KShs	**200**	**242**	**(68)**	**(200)**	**(334)**	**54**
Others*	**100**	**(1)**	**–**	**(100)**	**–**	**–**
Currency						
KShs	200	694	286	(200)	(677)	(229)
Others*	100	(98)	–	(100)	81	–

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

4.4 Liquidity risk

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

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

The Bank's liquidity risk management framework differentiates between:

- Tactical (shorter-term) risk management: Managing intra-day liquidity positions and daily cash flow requirements, and monitoring adherence to prudential and internal requirements and setting deposit rates as informed by ALCO.
- Structural (long-term) liquidity risk management: Ensuring a structurally sound statement of financial position, a diversified funding base and prudent term funding requirements.
- Contingent liquidity risk management: Monitoring and managing early warning liquidity indicators while establishing and maintaining contingency funding plans, undertaking regular liquidity stress testing and scenario analysis, and setting liquidity buffers in accordance with anticipated stress events.

Governance committees

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

Approach to managing liquidity risk

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

(a) Maintaining a structurally sound statement of financial position

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

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

(b) Foreign currency liquidity management

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

(c) Ensuring the availability of sufficient contingency liquidity

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

(d) Preserving a diversified funding base

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

(e) Undertaking regular liquidity stress testing

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

(f) Maintaining adequate liquidity contingency plans or liquidity buffer

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

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

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

The Bank's long-term funding strategy is derived from the projected net asset growth, which includes consideration of personal and business banking and corporate and investment banking asset classes, capital requirements, the maturity profile of existing wholesale funding and anticipated changes in the retail deposit base. Funding requirements and initiatives are assessed in accordance with ALCO requirements for diversification, tenure and currency exposure as well as the availability and pricing of alternative liquidity sources.

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

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

4.4 Liquidity risk *(continued)*

Exposure to liquidity risk

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

	2020 %	2019 %
At 31 December	**56.4**	58.4
Average for the year	**58.8**	54.1
Maximum for the year	**61.5**	59.1
Minimum for the year	**51.0**	44.6
Statutory minimum requirement	**20.0**	20.0

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

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

Maturity analysis for financial assets and financial liabilities

	Carrying value 2020 KShs million	Gross nominal inflow/ (outflow) 2020 KShs million	Redeem-able on demand 2020 KShs million	Maturing within 1 month 2020 KShs million	Maturing after 1 month but within 6 months 2020 KShs million	Maturing after 6 months but within 12 months 2020 KShs million	Maturing after 12 months but within 5 years 2020 KShs million	Maturing After 5 years 2020 KShs million
Non-derivative financial assets								
Cash and balances to banks	**18 077**	**18 077**	**18 077**	**–**	**–**	**–**	**–**	**–**
Financial assets at FVTPL	**33 729**	**34 021**	**–**	**8 791**	**11 954**	**10 118**	**1 579**	**1 579**
Financial assets at FVOCI	**30 664**	**31 711**	**–**	**3 500**	**8 572**	**18 172**	**1 467**	**–**
Financial assets at amortised cost	**23 191**	**27 855**	**–**	**8**	**949**	**949**	**15 511**	**10 438**
Loans and advances to banks	**38 109**	**37 273**	**11 233**	**18 282**	**3 027**	**179**	**4 552**	**–**
Loans and advances to customers	**158 181**	**224 914**	**16 109**	**3 978**	**20 406**	**23 869**	**112 696**	**47 856**
Other assets	**4 164**	**4 164**	**4 164**	**–**	**–**	**–**	**–**	**–**
	306 115	**378 015**	**49 583**	**34 559**	**44 908**	**53 287**	**135 805**	**59 873**
Derivative assets:	**2 956**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Inflows	**–**	**(225)**	**–**	**(2)**	**(20)**	**(38)**	**(165)**	**–**
– Outflows	**–**	**11 642**	**–**	**1 416**	**6 457**	**2 739**	**1 030**	**–**
	2 956	**11 417**	**–**	**1 414**	**6 437**	**2 701**	**865**	**–**
Non-derivative financial liabilities								
Amounts due to other banks	**(42 905)**	**(43 440)**	**–**	**(43 326)**	**(18)**	**(21)**	**(75)**	**–**
Customer deposits	**(217 911)**	**(218 201)**	**(130 620)**	**(73 538)**	**(12 019)**	**(1 122)**	**(895)**	**(7)**
Trading liabilities	**(418)**	**(1 000)**	**–**	**(515)**	**(17)**	**(66)**	**(402)**	**–**
Borrowings	**(5 504)**	**(6 591)**	**–**	**(66)**	**(395)**	**(790)**	**(3 502)**	**(1 838)**
Other liabilities	**(5 868)**	**(5 868)**	**(5 868)**	**–**	**–**	**–**	**–**	**–**
	(272 606)	**(275 100)**	**(136 488)**	**(117 445)**	**(12 449)**	**(1 999)**	**(4 874)**	**(1 845)**
Derivative liabilities:	**(2 601)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Inflows	**–**	**(1 481)**	**–**	**(111)**	**(862)**	**(463)**	**(45)**	**–**
– Outflows	**–**	**22**	**–**	**1**	**21**	**–**	**–**	**–**
	(2 601)	**(1 459)**	**–**	**(110)**	**(841)**	**(463)**	**(45)**	**–**

	Carrying value 2019 KShs million	Gross nominal inflow/ (outflow) 2019 KShs million	Redeem-able on demand 2019 KShs million	Maturing within 1 month 2019 KShs million	Maturing after 1 month but within 6 months 2019 KShs million	Maturing after 6 months but within 12 months 2019 KShs million	Maturing after 12 months but within 5 years 2019 KShs million	Maturing After 5 years 2019 KShs million
Non-derivative financial assets								
Cash and balances to banks	17 251	17 251	17 251	–	–	–	–	–
Financial assets held-for-trading	34 162	34 499	–	13 400	19 106	1 971	22	–
Financial assets at FVOCI	20 978	21 150	–	3 000	11 400	6 750	–	–
Financial assets at amortised cost	14 890	22 670	–	8	1 927	1 050	13 223	6 462
Loans and advances to banks	38 353	38 693	4 142	29 989	267	216	4 079	–
Loans and advances to customers	152 817	211 880	21 687	3 769	19 499	22 616	98 865	45 444
Other assets	3 292	3 292	3 292	–	–	–	–	–
	281 743	349 435	46 372	50 166	52 199	32 603	116 189	51 906
Derivative assets:	1 612	–	–	–	–	–	–	–
– Inflows	–	(357)	–	(121)	(132)	(89)	(15)	–
– Outflows	–	1 206	–	440	269	158	296	43
	1 612	849	–	319	137	69	281	43
Non-derivative financial liabilities								
Amounts due to other banks	(30 450)	(29 065)	–	(4 707)	(6 355)	(5 491)	(9 157)	(3 355)
Customer deposits	(195 435)	(195 910)	(170 707)	(9 035)	(10 849)	(4 269)	(1 014)	(36)
Trading liabilities	(1 487)	(1 509)	–	(136)	(479)	(786)	–	(108)
Borrowings	(9 127)	(10 873)	–	(423)	(2 181)	(2 929)	(3 502)	(1 838)
Other liabilities	(12 608)	(12 608)	(12 608)	–	–	–	–	–
	(249 107)	(249 965)	(183 315)	(14 301)	(19 864)	(13 475)	(13 673)	(5 337)
Derivative liabilities:	(2 757)	–	–	–	–	–	–	–
– Inflows	–	(2 453)	–	(385)	(979)	(821)	(226)	(42)
– Outflows	–	143	–	10	52	16	64	1
	(2 757)	(2 310)	–	(375)	(927)	(805)	(162)	(41)

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management *(continued)*

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

The following table sets out the impact of offset, as well as financial assets and financial liabilities that are subject to enforceable master netting arrangement or similar agreement, irrespective of whether they have been offset in accordance with IFRS 9, as required by IFRS 7 disclosure requirements. The gross amounts of financial asset and financial liabilities and their net amounts disclosed in the table below have been measured in the statement of financial position on the following basis:

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

As at 31 December 2020, the Bank had cash margins of KShs 1 321 000 000 (2019: KShs 1 517 139 000) held as collateral against loans and advances to customers. Therefore, the credit facilities secured by cash margins can be settled at net.

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

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

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

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

IFRS 9: *Financial Instruments* requires financial assets and financial liabilities to be offset and the net amount presented in the statement of financial position when, and only when, the Bank has a current legally enforceable right to set off recognised amounts as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

5. Assets and liabilities at fair value

5.1 Fair value hierarchy of instruments measured at fair value

Valuation process

All financial instruments carried at fair value, regardless of classification, are marked to market using models that have been validated independently by the Bank's model validation unit and approved by the market risk methodologies committee.
This control applies to both off-the-shelf models as well as those developed internally by the Bank. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the market risk unit. Such price validation is performed on at least a monthly basis and daily where possible given the liquidity of the underlying price inputs. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to market, are carefully validated and tabled at the monthly price validation forum to ensure these are reasonable and used consistently. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis to the market risk committee and ALCO.

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

Level hierarchy

The table in Note 5.2 shows the analyses financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that available market data is used in the calculation of the fair value of the financial instruments.
The levels have been defined as follows:

- Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2 – fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the assets and liabilities.

Significant unobservable inputs

The fair value of level 3 assets and liabilities is determined using valuation techniques that include reference to recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants. However, such techniques typically have unobservable inputs that are subject to management judgement. These inputs include credit spreads on illiquid issuers, implied volatilities on thinly traded stocks, correlation between risk factors, prepayment rates and other illiquid risk drivers. Exposure to such illiquid risk drivers is typically managed by:

- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver;
- raising day one profit provisions in accordance with IFRS;
- quantifying and reporting the sensitivity to each risk driver; and
- limiting exposure to such risk drivers and analysing this exposure on a regular basis.

5.2 Assets and liabilities measured at fair value on a recurring basis

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

	Note	Level 1 KShs million	Level 2 KShs million	Level 3 KShs million	Total KShs million
At 31 December 2020					
Assets					
Cash and balances with the Central Bank of Kenya	19	**11 656**	**–**	**–**	**11 656**
Financial assets – held-for-trading	21	**–**	**33 729**	**–**	**33 729**
Financial assets – FVOCI	22	**1 078**	**29 586**	**–**	**30 664**
Equity investments	29	**–**	**–**	**18**	**18**
Derivative assets	24	**–**	**2 956**	**–**	**2 956**
		12 734	**66 271**	**18**	**79 023**
Liabilities					
Trading liabilities	21	**–**	**418**	**–**	**418**
Derivative liabilities	24	**–**	**2 601**	**–**	**2 601**
		–	**3 019**	**–**	**3 019**
At 31 December 2019					
Assets					
Cash and balances with the Central Bank of Kenya	19	12 407	–	–	12 407
Financial assets – held-for-trading	21	–	34 162	–	34 162
Financial assets – FVOCI	22	–	20 978	–	20 978
Equity investments	29	–	–	18	18
Derivative assets	24	–	1 612	–	1 612
		12 407	56 752	18	69 177
Liabilities					
Trading liabilities	21	–	1 487	–	1 487
Derivative liabilities	24	–	2 757	–	2 757
		–	4 244	–	4 244

There were no transfers between levels in 2020 and 2019.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

5. Assets and liabilities at fair value *(continued)*

5.2 Assets and liabilities measured at fair value on a recurring basis *(continued)*

Fair value of level 2 financial instruments

The fair value of level 2 financial instruments is determined using valuation techniques which incorporate assumptions that are indirectly supported by prices from observable current market transactions in the same instruments and are based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

Level 2 financial assets and financial liabilities

	Valuation basis/technique	Main assumptions[1]
Derivative instruments	Discounted cash flow model Black-Scholes model Multiple valuation technique	Discount rate Risk-free rate, volatility rate Valuation multiples
Trading assets	Discounted cash flow model Black-Scholes model	Discount rate, liquidity discount rate Risk-free rate, volatility rate
Pledged assets	Discounted cash flow model	Discount rate, liquidity discount rate
Financial instruments	Discounted cash flow model Multiple valuation technique Quoted exit price adjusted for notice period	Discount rate, liquidity discount rate Valuation multiples Discount rate
Cash with Central Bank of Kenya	Prevailing exchange rate	Exchange rate
Investment in equities	Sale price	Discount rate

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

5.3 Assets and liabilities not measured at fair value

Financial assets and financial liabilities

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

	Level 1 KShs million	Level 2 KShs million	Level 3 KShs million	Fair value KShs million	Carrying value KShs million
At 31 December 2020					
Assets					
Cash and balances with the Central Bank of Kenya (Note 19)	6 421	–	–	6 421	6 421
Financial investments – amortised cost	–	20 722	–	20 722	23 191
Loans and advances to banks	–	–	32 196	32 196	38 109
Loans and advances to customers	–	–	164 264	164 264	158 181
Other assets	–	–	4 164	4 164	4 164
	6 421	20 722	200 624	227 767	230 066
Liabilities					
Deposits from customers	–	–	(197 081)	(197 081)	(217 911)
Deposits from banks	–	–	(40 506)	(40 506)	(42 905)
Borrowings	–	–	(4 997)	(4 997)	(5 504)
Other liabilities	–	–	(5 868)	(5 868)	(5 868)
	–	–	(248 452)	(248 452)	(272 188)

	Level 1 KShs million	Level 2 KShs million	Level 3 KShs million	Fair value KShs million	Carrying value KShs million
At 31 December 2019					
Assets					
Cash and balances with the Central Bank of Kenya (Note 19)	4 844	–	–	4 844	4 844
Financial investments – amortised cost	–	17 114	–	17 114	14 890
Loans and advances to banks	–	–	33 221	33 221	38 353
Loans and advances to customers	–	–	156 242	156 242	152 817
Other assets	–	–	3 292	3 292	3 292
	4 844	17 114	192 755	214 713	214 196
Liabilities					
Deposits from banks	–	–	(179 883)	(179 883)	(195 435)
Customer deposits	–	–	(23 682)	(23 682)	(30 450)
Borrowings	–	–	(8 620)	(8 620)	(9 127)
Other liabilities	–	–	(12 608)	(12 608)	(12 608)
	–	–	(224 793)	(224 793)	(247 620)

The valuation techniques used in determining the fair value of financial assets and liabilities classified within level 2 and level 3

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 2 and level 3 assets and liabilities not measured at fair value but for which fair value is disclosed in table 5.3 above:

2020	Valuation basis/technique	Main assumptions
Loans and advances to banks **Loans and advances to customers** **Deposits from banks** **Customer deposits** **Subordinated debt** **Other financial assets**	Discounted cash flow model	Discount rate, liquidity discount rate

6. Segment information

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

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

The Chief Executive with the assistance of the Executive Committee and the ALCO is the Bank's chief operating decision-maker. The Directors have determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. Management considers the business from client turnover perspective.

The Bank has therefore segmented its operations into two: Personal and Business Banking (PBB) and Corporate and Investment Banking (CIB).

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

6. Segment information *(continued)*

PBB

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

- Mortgage lending – provides residential accommodation loans to individual customers;
- Vehicle and asset finances – comprises two areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market;
- Card products – provides card facilities to individuals and businesses; and
- Transactional and lending products – transactions in products associated with the various points of contact channels such as ATMs Internet, and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.

CIB

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

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

Major customers

The Bank does not have any customer that contributes more than 10% of its revenue nor a customer that constitutes more than 10% of deposits or loans (2019: none)

The segment financial results and financial position:

Statement of profit and loss	Total 2020 KShs million	Total 2019 KShs million	CIB 2020 KShs million	CIB 2019 KShs million	PBB 2020 KShs million	PBB 2019 KShs million
Interest income	20 277	20 944	11 289	11 601	8 988	9 343
Interest expense	(7 542)	(7 663)	(5 415)	(5 134)	(2 127)	(2 529)
Net interest income	**12 735**	13 281	**5 874**	6 467	**6 861**	6 814
Fees and commission income	4 214	5 017	1 765	2 303	2 449	2 714
Fees and commission expense	(570)	(533)	(215)	(178)	(355)	(355)
Net fees and commission income	**3 644**	4 484	**1 550**	2 125	**2 094**	2 359
Trading revenue and net income from financial assets at FVOCI	6 327	5 560	6 327	5 560	–	–
Net other operating income	44	753	41	745	3	8
Trading and other income	**6 371**	6 313	**6 368**	6 305	**3**	8
Total income	**22 750**	24 078	**13 798**	14 897	**8 958**	9 181
Credit impairment losses	(4 876)	(3 151)	(2 593)	(1 576)	(2 283)	(1 575)
Employee benefits expense	(5 757)	(6 435)	(2 955)	(2 741)	(2 802)	(3 694)
Depreciation and amortisation expense	(752)	(646)	(224)	(210)	(528)	(436)
Depreciation on right-of-use assets	(458)	(357)	(159)	(60)	(299)	(297)
Other operating expenses	(4 624)	(5 876)	(2 270)	(3 945)	(2 354)	(1 931)
Finance costs	(47)	(147)	(47)	(147)	–	–
Profit before income tax	**6 236**	7 466	**5 544**	6 218	**692**	1 248
Income tax expense	(1 012)	(1 244)	(826)	(1 307)	(186)	63
Profit for the year	**5 224**	6 222	**4 718**	4 911	**506**	1 311

Statement of financial position	Total 2020 KShs million	Total 2019 KShs million	CIB 2020 KShs million	CIB 2019 KShs million	PBB 2020 KShs million	PBB 2019 KShs million
Assets						
Cash and balances with Central Bank of Kenya	18 077	17 251	12 384	11 978	5 693	5 273
Financial investments	87 584	70 030	87 584	70 030	–	–
Derivative assets	2 956	1 612	2 956	1 612	–	–
Loans and advances to banks	38 109	38 353	38 109	38 353	–	–
Loans and advances to customers	158 181	152 817	76 683	70 859	81 498	81 958
Other investments	18	18	18	18	–	–
Property, equipment and intangibles	3 035	3 209	989	1 158	2 046	2 051
Right-of-use assets	1 480	1 316	514	223	966	1 093
Deferred income tax	4 864	4 421	3 107	3 005	1 757	1 416
Other assets	4 678	3 704	547	3 027	4 131	677
Total assets	**318 982**	292 731	**222 891**	200 263	**96 091**	92 468
Liabilities						
Customer deposits	217 911	195 435	99 662	95 194	118 249	100 241
Amounts due to other banks	42 905	30 450	42 905	30 450	–	–
Lease liabilities	1 386	1 371	658	621	728	750
Current tax liability	392	389	307	386	85	3
Deferred tax liability	1	25	–	6	1	19
Derivative liabilities	2 601	2 757	2 601	2 757	–	–
Trading liabilities	418	1 487	418	1 487	–	–
Other liabilities	6 008	12 750	3 537	9 731	2 471	3 019
Borrowings	5 504	9 127	3 166	5 340	2 338	3 787
Total liabilities	**277 126**	253 791	**153 254**	145 972	**123 872**	107 819
Shareholders' equity	**41 856**	38 940	**23 753**	23 674	**18 103**	15 266
Funding	–	–	45 884	30 617	(45 884)	(30 617)
Total equity and liabilities	**318 982**	292 731	**222 891**	200 263	**96 091**	92 468

The Bank is domiciled in Kenya and has a branch in South Sudan. The revenue and non-current assets by country of operations are included in the sections below:

Statement of profit and loss	Total 2020 KShs million	Total 2019 KShs million	Kenya 2020 KShs million	Kenya 2019 KShs million	South Sudan 2020 KShs million	South Sudan 2019 KShs million
Interest income	20 277	20 944	20 271	20 940	6	4
Interest expense	(7 542)	(7 663)	(7 446)	(7 628)	(96)	(35)
Net interest income	**12 735**	13 281	**12 825**	13 312	**(90)**	(31)
Fees and commission income	4 214	5 017	3 301	4 246	913	771
Fees and commission expense	(570)	(533)	(530)	(530)	(40)	(3)
Net fees and commission income	**3 644**	4 484	**2 771**	3 716	**873**	768
Trading revenue and net income from financial assets at FVOCI	6 327	5 560	5 496	5 198	831	362
Net other operating income	44	753	44	739	–	14
Trading and other income	**6 371**	6 313	**5 540**	5 937	**831**	376
Total income	**22 750**	24 078	**21 136**	22 965	**1 614**	1 113
Credit impairment losses	(4 876)	(3 151)	(4 877)	(3 146)	1	(5)
Employee benefits expense	(5 757)	(6 435)	(5 132)	(6 087)	(625)	(348)
Depreciation and amortisation	(752)	(646)	(736)	(641)	(16)	(5)
Depreciation on right-of-use assets	(458)	(358)	(327)	(316)	(131)	(42)
Other operating expenses	(4 624)	(5 875)	(4 116)	(5 511)	(508)	(364)
Finance costs	(47)	(147)	(23)	(52)	(24)	(95)
Profit before income tax	**6 236**	7 466	**5 925**	7 212	**311**	254
Income tax expense	(1 012)	(1 244)	(1 024)	(1 157)	12	(87)
Profit for the year	**5 224**	6 222	**4 901**	6 055	**323**	167

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

6. Segment information *(continued)*

Statement of financial position	Total 2020 KShs million	Total 2019 KShs million	Kenya 2020 KShs million	Kenya 2019 KShs million	South Sudan 2020 KShs million	South Sudan 2019 KShs million
Assets						
Cash and balances with Central Bank of Kenya	**18 077**	17 251	**17 110**	15 798	**967**	1 454
Financial investments	**87 584**	70 030	**87 584**	70 030	**–**	–
Derivative assets	**2 956**	1 612	**2 956**	1 612	**–**	–
Loans and advances to banks	**38 109**	38 353	**23 880**	24 554	**14 229**	13 799
Loans and advances to customers	**158 181**	152 817	**158 163**	152 802	**18**	14
Other investments	**18**	18	**18**	18	**–**	–
Property, equipment and intangibles	**3 035**	3 209	**2 867**	3 078	**168**	131
Right-of-use assets	**1 480**	1 316	**947**	946	**533**	370
Deferred tax asset	**4 864**	4 421	**4 864**	4 408	**–**	13
Other assets and prepayments	**4 678**	5 569	**4 640**	5 569	**38**	–
Total assets	**318 982**	294 596	**303 029**	278 815	**15 953**	15 781
Liabilities						
Customer deposits	**217 911**	195 435	**207 368**	185 937	**10 543**	9 498
Amounts due to other banks	**42 905**	30 451	**41 317**	28 757	**1 588**	1 694
Lease liability	**1 386**	1 370	**1 038**	988	**348**	382
Deferred tax liability	**1**	25	**–**	–	**1**	25
Current tax liability	**392**	389	**389**	380	**3**	9
Trading liabilities	**418**	1 487	**418**	1 487	**–**	–
Derivative liabilities	**2 601**	2 757	**2 601**	2 757	**–**	–
Borrowings	**5 504**	9 127	**5 504**	9 127	**–**	–
Other liabilities	**6 008**	14 613	**3 677**	11 433	**2 331**	3 180
Total liabilities	**277 126**	255 654	**262 312**	240 866	**14 814**	14 788
Shareholders' equity	**41 856**	38 942	**40 717**	37 949	**1 139**	993
Total equity and liabilities	**318 982**	294 596	**303 029**	278 815	**15 953**	15 781

7. Interest income

	2020 KShs million	2019 KShs million
Loans and advances to customers	**14 921**	16 244
Financial investments – (FVOCI)	**2 146**	1 944
Financial investments – (amortised cost)	**2 380**	2 146
Loans and advances to banks	**830**	610
Total interest income	**20 277**	20 944
Interest expense		
Current accounts	**(1 556)**	(1 440)
Savings and term deposit accounts	**(4 699)**	(3 854)
Deposits and placements from other banks	**(567)**	(1 396)
Interest on borrowed funds	**(547)**	(848)
Interest expense on lease liabilities	**(173)**	(125)
Total interest expense	**(7 542)**	(7 663)
Net interest income	**12 735**	13 281

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

8. Fees and commission income

	2020 KShs million	2019 KShs million
Points of representation transaction fees	**1 563**	1 579
Documentation and administration fees	**241**	347
Electronic banking fees	**541**	645
Knowledge-based and client administration fees	**1 110**	1 706
Card-based commission	**219**	283
Foreign service fees	**486**	403
Other bank-related fees and commission	**54**	54
	4 214	5 017

The net fees and commission earned by the Bank on trust and fiduciary activities where the Bank holds or invests assets on behalf of its customers is KShs 298 974 575 (2019: KShs 288 001 164).

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

	2020 KShs million	2019 KShs million
9. Fees and commission expense		
Card-based commission expenses	**212**	199
Brokerage fees	**91**	107
Other bank-related fees and commission expenses	**267**	227
	570	533
10. Trading revenue		
Net foreign exchange income	**6 037**	5 387
Gain/(loss) in net monetary position	**197**	(57)
	6 234	5 330
11(a) Net income from financial instruments at fair value through profit or loss		
Fixed income – financial assets – held-for-trading	**93**	173
	93	173
11(b) Other gains and losses on financial instruments		
Net gain on disposal of financial assets – FVTPL	**17**	717
	17	717
12. Other operating income		
Other income	**27**	36
	27	36
13. Employee benefits expense		
Salaries and wages	**5 317**	5 247
Voluntary early retirement costs	**–**	773
Retirement benefit costs	**440**	415
	5 757	6 435
Included in retirement benefit costs are:		
Defined contribution scheme	**436**	412
National Social Security Fund	**4**	3
	440	415
Average staff numbers		
Management	**354**	341
Supervisory	**416**	442
Clerical and other categories	**208**	241
Total	**978**	1 024

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

	Note	2020 KShs million	2019 KShs million
14. Breakdown of expenses by nature			
Profit before tax has been arrived at after charging:			
Employees benefits expense	13	**5 757**	6 435
Audit fees		**20**	21
Directors' fees	45.6.2	**45**	38
Franchise fees	45.9	**675**	734
Advance payment guarantee claim		**–**	1 505
Depreciation of property and equipment	30(a)	**472**	445
Depreciation on right-of-use assets – land	30(b)	**3**	3
Depreciation on right-of-use assets	32	**458**	357
Amortisation of intangible assets	31	**277**	198
15. Finance costs			
Bank charges		**47**	90
		47	90
16. Income tax expense			
Current income tax		**1 337**	2 442
Current year charge (Note 35(a))		**1 337**	2 442
Deferred income tax		**(325)**	(1 198)
Current year charge (credit) (Note 34(a))		**(317)**	(1 223)
Current year charge (Note 34(b))		**(8)**	25
Income tax expense		**1 012**	1 244

Reconciliation of tax expense to expected tax base based on accounting profit

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

	2020 KShs million	2019 KShs million
Profit before income tax	**6 236**	7 466
Tax at statutory tax rate of 25% (2019: 30%)	**1 559**	2 240
Tax effect of:		
Income not subjected to tax	**(1 052)**	(790)
Expenses not deductible for tax purposes	**375**	426
Previous year deferred income tax underprovision	**160**	–
Previous year current income tax overprovision		(630)
Effect of different tax rate in South Sudan	**(7)**	(2)
Changes in tax rates	**(23)**	–
Income tax expense	**1 012**	1 244

17. Earnings per share – basic and diluted

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2020	2019
Earnings (profit after tax)		
Earnings for the purposes of basic earnings per share (KShs million)	**5 224**	6 222
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share ('million)	**171**	171
Earnings per share (KShs) basic and diluted	**30.63**	36.48

There were no dilutive potential ordinary shares as at 31 December 2020 or 31 December 2019. Therefore, diluted earnings per share are the same as basic earnings per share.

	2020 KShs million	2019 KShs million
18. Dividend		
The calculation of dividends per share is based on:		
Dividends for the year attributable to ordinary shareholders:		
Interim dividend paid (KShs million)	**–**	500
Final dividend proposed (KShs million)	**1 400**	2 100
	1 400	2 600
Number of ordinary shares in issue (million)	**171**	171
Dividends per share – KShs	**8.21**	15.24

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

A final dividend per share in respect of the year ended 31 December 2020 of KShs 8.21 (2019: KShs 12.31) per share amounting to a total of KShs 1 400 000 000 (2019: KShs 2 100 000 000) is to be proposed in the next Annual General Meeting. These financial statements do not reflect this as a dividend payable. However, the proposed dividend has been transferred to a separate category of equity.

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

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

19. Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

The table below categorises the Bank's assets and liabilities as at 31 December 2020 between those that are financial and non-financial.

All financial assets and liabilities have been classified according to their measurement category with disclosure and their fair value.

	Fair value through profit or loss – default KShs million	Fair value through profit or loss – designated KShs million	Amortised cost KShs million	Fair value through OCI KShs million	Other non-financial assets/ liabilities KShs million	Total carrying amount KShs million	Fair value KShs million
Year ended 31 December 2020							
Assets							
Cash and balances with Central Bank of Kenya	11 656	–	6 421	–	–	18 077	18 077
Financial assets – held-for-trading	33 729	–	–	–	–	33 729	33 729
Financial assets – FVOCI	–	–	–	30 664	–	30 664	30 664
Financial assets – amortised cost	–	–	23 191	–	–	23 191	20 722
Derivative assets	2 956	–	–	–	–	2 956	2 956
Loans and advances to banks	–	1 309	36 800	–	–	38 109	32 196
Loans and advances to customers	–	–	158 181	–	–	158 181	164 264
Other financial assets	–	–	4 678	–	–	4 678	4 678
Investment securities	18	–	–	–	–	18	18
Other non-financial assets	–	–	–	–	9 379	9 379	–
	48 359	1 309	229 271	30 664	9 379	318 982	307 304
Liabilities							
Deposits from customers	–	–	(217 911)	–	–	(217 911)	(197 081)
Deposits from banks	–	–	(42 905)	–	–	(42 905)	(40 506)
Derivative liabilities	(2 601)	–	–	–	–	(2 601)	(2 601)
Trading liabilities	(418)	–	–	–	–	(418)	(418)
Borrowings	–	–	(5 504)	–	–	(5 504)	(4 997)
Other financial liabilities	–	–	(6 008)	–	–	(6 008)	(6 008)
Other non-financial liabilities	–	–	–	–	(1 779)	(1 779)	–
	(3 019)	–	(272 328)	–	(1 779)	(277 126)	(251 611)

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

19. Classification of assets and liabilities *(continued)*

Accounting classifications and fair values of assets and liabilities *(continued)*

	Fair value through profit or loss – default KShs million	Fair value through profit or loss – designated KShs million	Amortised cost KShs million	Fair value through OCI KShs million	Other non-financial assets/ liabilities KShs million	Total carrying amount KShs million	Fair value KShs million
Year ended 31 December 2019							
Assets							
Cash and balances with Central Bank of Kenya	12 407	–	4 844	–	–	17 251	17 251
Financial assets – held-for-trading	34 162	–	–	–	–	34 162	34 162
Financial assets – FVOCI	–	–	–	20 978	–	20 978	20 978
Financial assets – amortised cost	–	–	14 890	–	–	14 890	17 114
Derivative assets	1 612	–	–	–	–	1 612	1 612
Loans and advances to banks	–	3 052	35 300	–	–	38 352	33 221
Loans and advances to customers	–	–	152 817	–	–	152 817	156 242
Other financial assets	–	–	3 704	–	–	3 704	3 704
Investment securities	18	–	–	–	–	18	18
Other non-financial assets	–	–	–	–	8 921	8 921	–
	48 199	3 052	211 555	20 978	8 921	292 705	284 302
Liabilities							
Deposits from customers	–	–	(195 435)	–	–	(195 435)	(179 883)
Deposits from banks	–	–	(30 450)	–	–	(30 450)	(23 682)
Derivative liabilities	(2 757)	–	–	–	–	(2 757)	(2 757)
Trading liabilities	(1 487)	–	–	–	–	(1 487)	(1 487)
Borrowings	–	–	(9 127)	–	–	(9 127)	(8 620)
Other financial liabilities	–	–	(12 750)	–	–	(12 750)	(12 750)
Other non-financial liabilities	–	–	–	–	(1 760)	(1 760)	–
	(4 244)	–	(247 762)	–	(1 760)	(253 766)	(229 179)

20. Cash and balances with Central Bank of Kenya

	2020 KShs million	2019 KShs million
Cash in hand	**2 877**	2 737
Balances with Central Bank of Kenya	**15 200**	14 514
	18 077	17 251

Banks are required to maintain a prescribed minimum cash reserve ratio (CRR) including cash in hand and balances with Central Bank of Kenya. The minimum cash reserve is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. At 31 December 2020, the cash reserve requirement was 4.25% of the eligible deposits (2019: 5.25%). The decline in CRR is mainly due to the decrease in reserving ratio required by the Central Bank of Kenya from 5.25% to 4.25%.

The cash reserve requirement balance for the year ended 31 December 2020 is KShs 8 779 084 750 (2019: KShs 9 700 376 333). The Central Bank allows a daily minimum of 3% (2019: 3%) of eligible deposits when the average total reserving for the month is above the CRR. The applicable daily minimum for the Bank therefore is KShs 6 197 000 990 as at 31 December 2020 (2019: KShs 5 543 072 190). The Bank complied with the CRR requirement throughout the reporting period.

21. Financial assets and liabilities at fair value through profit and loss (FVTPL)

(a) Financial assets – (FVTPL)

	2020 KShs million	2019 KShs million
Government treasury bills and bonds	**33 729**	34 162
Corporate bonds	**–**	–
	33 729	34 162
Maturity analysis		
Maturing within 1 month	**8 600**	13 354
Maturing after 1 month but within 6 months	**11 651**	15 105
Maturing after 6 months but within 12 months	**9 625**	5 543
Maturing after 12 months	**3 853**	160
	33 729	34 162

The maturities represent periods to contractual redemption of financial assets at fair value through profit or loss recorded. Financial assets at fair value through profit or loss had a redemption value at 31 December 2020 of KShs 33 954 619 000 (2019: KShs 34 625 634 000). The weighted average effective interest yield on debt securities held-for-trading at 31 December 2020 was 8.73% (2019: 7.61%).

(b) Financial liabilities – (FVTPL)

	2020 KShs million	2019 KShs million
Unlisted	**418**	1 487
	418	1 487
Maturity analysis		
Maturing within 1 month	**58**	139
Maturing after 1 month but within 6 months	**–**	464
Maturing after 6 months but within 12 months	**50**	781
Maturing after 12 months	**310**	103
	418	1 487

The maturities represent periods to contractual redemption of trading liabilities recorded. Dated trading liabilities had a redemption value at 31 December 2020 of KShs 405 590 000 (2019: KShs 1 448 797 000). The weighted average effective interest cost on debt securities held-for-trading at 31 December 2020 was 9.56% (2019: 8.30%).

22. Financial investments – (FVOCI)

	2020 KShs million	2019 KShs million
Financial investments – (FVOCI)	**30 091**	20 403
Pledged assets – (FVOCI)	**573**	575
	30 664	20 978

22(a) Financial assets – (FVOCI)

	2020 KShs million	2019 KShs million
Debt securities – at FVOCI:		
Listed	**1 078**	–
Unlisted	**29 013**	20 405
Expected credit loss	**(4)**	(2)
	30 086	20 403
Comprising:		
Government bonds	**1 078**	–
Government treasury bills	**29 009**	20 403
	30 087	20 403

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

	2020 KShs million	2019 KShs million
22. Financial investments – (FVOCI) *(continued)*		
22(a) Financial assets – (FVOCI) *(continued)*		
Maturity analysis		
Maturing within 1 month	**3 460**	2 976
Maturing after 1 month but within 6 months	**8 328**	9 042
Maturing after 6 months but within 12 months	**17 221**	8 385
Maturing after 12 months but within 5 years	**1 078**	–
	30 087	20 403

Financial investment securities had a redemption value at 31 December 2020 of KShs 31 100 000 000 (2019: KShs 21 684 000 000). The weighted average effective interest cost on debt securities held-for-trading at 31 December 2020 was 8.24% (2019: 8.30%).

	2020 KShs million	2019 KShs million
22(b) Pledged assets – (FVOCI)		
Debt securities	**573**	575
Expected credit loss	**–**	–
	573	575
Maturity analysis		
Maturing after 1 month but within 6 months	**573**	–
Maturing after 12 months but within 5 years	**–**	575
	573	575

Dated pledged assets at fair value through OCI had a redemption value at 31 December 2020 of KShs 534 000 000 (2019: KShs 534 000 000).

The weighted average effective interest yield on investment securities at FVOCI on 31 December 2020 was 11.18% (2019: 7.77%).

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

22.1 Reconciliation of expected credit losses for debt financial investments measured at fair value through OCI:

			Statement of profit or loss movements					
	Opening ECL 1 Jan 2020 KShs million	Total transfers between stages KShs million	ECL on new exposure raised KShs million	Sub-sequent changes in ECL KShs million	Change in ECL due to derecog-nition KShs million	Net ECL raised/ (released)[1]	Impair-ment accounts written off KShs million	Closing ECL 31 Dec 2020 KShs million
2020								
Financial investments at FVOCI								
Sovereign	**(2)**	**–**	**(4)**	**–**	**2**	**(2)**	**–**	**(4)**
Stage 1	**(2)**	**–**	**(4)**	**–**	**2**	**(2)**	**–**	**(4)**
Total	**(2)**	**–**	**(4)**	**–**	**2**	**(2)**	**–**	**(4)**

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

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

	Balance at beginning of year KShs	Reclassi-fications KShs	Net change in fair value KShs	Realised fair value adjustments and reversal to profit or loss KShs	Total fair value movements KShs	Exchange and other movements KShs	Balance at end of year KShs
31 December 2020							
Financial investments	**(34)**	**–**	**(1)**	**34**	**33**	**–**	**(1)**
Sovereign	**(34)**	**–**	**(1)**	**34**	**33**	**–**	**(1)**

			Statement of profit or loss movements					
	Opening ECL 1 Jan 2019 KShs million	Total transfers between stages KShs million	ECL on new exposure raised KShs million	Sub-sequent changes in ECL KShs million	Change in ECL due to derecog-nition KShs million	Net ECL raised/ (released)[1]	Impair-ment accounts written off KShs million	Closing ECL 31 Dec 2019 KShs million
2019								
Financial investments at FVOCI								
Sovereign	(1)	–	(2)	–	–	(2)	1	(2)
Stage 1	(1)	–	(2)	–	–	(2)	1	(2)
Total	(1)	–	(2)	–	–	(2)	1	(2)

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

	Balance at beginning of year KShs	Reclassi-fications KShs	Net change in fair value KShs	Realised fair value adjustments and reversal to profit or loss KShs	Total fair value movements KShs	Exchange and other movements KShs	Balance at end of year KShs
31 December 2019							
Financial investments	(22)	–	(12)	–	(12)	–	(34)
Sovereign	(22)	–	(12)	–	(12)	–	(34)

	2020 KShs million	2019 KShs million
23. Financial investments – (amortised cost)		
Pledged assets – (amortised cost)	**3 676**	4 186
Financial assets – (amortised cost)	**19 515**	10 704
	23 191	14 890
(a) Pledged assets – (amortised cost)		
Amortised cost debt securities	**3 677**	4 186
Expected loss	**(1)**	–
	3 676	4 186
Maturity analysis		
Maturing after 1 months but within 6 months	**514**	
Maturing after 6 months but within 12 months	**210**	–
Maturing after 12 months but within 5 years	**2 952**	3 686
	3 676	4 186

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

23. Financial investments – (amortised cost) *(continued)*

(a) Pledged assets – (amortised cost) *(continued)*

Dated pledged assets at amortised cost had a redemption value at 31 December 2020 of KShs 3 570 000 000 (2019: KShs 4 070 000 000). The weighted average effective interest yield on pledged assets on 31 December 2020 was 11.45% (2019: 11.05%).

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

	2020 KShs million	2019 KShs million
(b) Financial assets – (amortised cost)		
Debt securities:		
Listed	19 531	10 706
Gross financial investments at amortised cost	19 531	10 706
Allowances for impairments		
Expected credit loss for financial investments measured at amortised cost (IFRS 9)	(16)	(2)
Credit impairment allowances	(16)	(2)
Net financial investments at amortised cost	19 515	10 704
Comprising:		
Government bonds	19 515	10 704
Government treasury bills	–	–
	19 515	10 704
Maturity analysis:		
Maturing within 1 month	–	–
Maturing after 1 month but within 6 months	–	661
Maturing after 6 months but within 12 months	–	275
Maturing after 12 months but within 5 years	10 995	4 765
Maturing after 5 years	8 520	5 003
	19 515	10 704

Dated held to collect assets had a redemption value at 31 December 2020 of KShs 19 504 870 000 (2019: KShs 10 537 975 000).

The weighted average effective interest yield on held to collect investment securities at 31 December 2020 was 11 .01% (2019: 11.88%).

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

			Statement of profit or loss movements						
	Opening ECL 1 Jan 2020 KShs million	Total transfers between stages KShs million	ECL on new exposure raised KShs million	Sub-sequent changes in ECL KShs million	Change in ECL due to derecog-nition KShs million	Net ECL raised/ (released)[1]	Impair-ment accounts written off KShs million	Exchange and other movements	Closing ECL 31 Dec 2020 KShs million
Financial investments Amortised cost									
Sovereign	(2)	–	(15)	2	2	(11)	–	(3)	(16)
Stage 1	(2)	–	(15)	2	2	(11)	–	(3)	(16)
Pledged assets	–	–	(1)	–	–	(1)	–	–	(1)
Stage 1	–	–	(1)	–	–	(1)	–	–	(1)
Total	(2)	–	(16)	2	2	(12)	–	(3)	(17)

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

			Statement of profit or loss movements						
	Opening ECL 1 Jan 2019 KShs million	Total transfers between stages KShs million	ECL on new exposure raised KShs million	Sub-sequent changes in ECL KShs million	Change in ECL due to derecog-nition KShs million	Net ECL raised/ (released)[1]	Impair-ment accounts written off KShs million	Exchange and other movements	Closing ECL 31 Dec 2019 KShs million
Sovereign	(1)	–	–	–	1	1	–	–	–
Stage 1	(1)	–	–	–	1	1	–	–	–
Financial Investments Amortised cost									
Sovereign	(16)	–	(1)	1	14	14	–	–	(2)
Stage 1	(16)	–	(1)	1	14	14	–	–	(2)
Stage 2	–	–	–	–	–	–	–	–	–
Total	(17)	–	(1)	1	15	15	–	–	(2)

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

24. Derivative assets and derivative liabilities

All derivatives are classified as held-for-trading.

24.1 Use and measurement of derivative instruments

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

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

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

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

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

- Interest rate swap contracts which generally entail the contractual exchange of fixed and floating interest payments in a single currency, based on a notional amount and an interest reference rate.
- Options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified amount of a financial instrument or commodity at a predetermined price. The seller receives a premium from the purchaser for this right. Options may be traded over the counter (OTC) or on a regulated exchange.
- Forwards and futures are contractual obligations to buy or sell financial instruments on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the OTC market, whereas futures are standardised contracts transacted on regulated exchanges.

24.2 Derivatives held-for-trading

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

(a) Foreign exchange derivatives

Foreign exchange derivatives are primarily used to economically hedge foreign currency risks on behalf of clients and for the Bank's own positions. Foreign exchange derivatives primarily consist of foreign exchange forwards and swaps, foreign exchange futures and foreign exchange options.

(b) Interest rate derivatives

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

24. Derivative assets and derivative liabilities *(continued)*

24.3 Day one profit or loss

Where the fair value of an instrument differs from the transaction price, and the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation model whose variables include only data from observable markets, the difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If the fair value of the financial instrument cannot be evidenced by comparison with other observable current market transactions in the same instrument or non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the valuation model is deferred and subsequently recognised in accordance with the Bank's accounting policies (refer to accounting policy 2.5 – Financial instruments).

24.4 Fair values

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

24.5 Notional amount

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

	2020			2019		
		Fair values			Fair values	
	Notional contract amount KShs million	Assets KShs million	Liabilities KShs million	Notional contract amount KShs million	Assets KShs million	Liabilities KShs million
Foreign exchange derivatives						
Currency forwards	**59 914**	**1 077**	**983**	49 309	123	670
Currency swaps	**43 509**	**413**	**245**	45 396	164	455
Currency options	**10 595**	**416**	**187**	18 702	296	191
Total over the counter derivatives	**114 018**	**1 906**	**1 415**	113 407	583	1 316
Interest rate derivatives						
Cross-currency interest rate swaps	**33 247**	**1 050**	**1 186**	66 102	1 029	1 441
Total over the counter derivatives	**33 247**	**1 050**	**1 186**	66 102	1 029	1 441
Total derivative assets held-for-trading	**147 265**	**2 956**	**2 601**	179 509	1 612	2 757
Current	**118 915**	**1 798**	**1 481**	141 880	549	1 361
Non-current	**28 350**	**1 158**	**1 120**	37 629	1 063	1 396
Total	**147 265**	**2 956**	**2 601**	179 509	1 612	2 757

25. Loans and advances to banks

	2020 KShs million	2019 KShs million
Balances due from banks	**10 941**	10 838
Balances due from group companies (Note 45.1)	**27 172**	27 516
Gross loans and advances to banks	**38 113**	38 354
Impairment stages 1 and 2 (performing loans)	**(4)**	(1)
Impairment stage 3 (non-performing loans)	**–**	–
Credit impairment allowances	**(4)**	(1)
Net loans and advances to banks	**38 109**	38 353
Maturity analysis:		
Redeemable on demand	**11 247**	35 304
Maturing within 1 month	**20 249**	–
Maturing after 1 month but within 12 months	**2 743**	49
Maturing after 12 month but within 5 years	**3 870**	3 000
Net loans and advances to banks	**38 109**	38 353

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

			Statement of profit or loss movements							
	Opening ECL 1 Jan 2020 KShs million	Total transfers between stages KShs million	ECL on new exposure raised KShs million	Changes in ECL due to modifi-cations KShs million	Sub-sequent changes in ECL KShs million	Change in ECL due to derecog-nition KShs million	Net ECL raised/ (released)[1]	Impair-ment accounts written off KShs million	Exchange and other move-ments	Closing ECL 31 Dec 2020 KShs million
Bank	**1**	**–**	**2**	**–**	**1**	**–**	**3**	**–**	**–**	**4**
Stage 1	**1**	**–**	**2**	**–**	**1**	**–**	**3**	**–**	**–**	**4**
Total	**1**	**–**	**2**	**–**	**1**	**–**	**3**	**–**	**–**	**4**

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

			Statement of profit or loss movements							
	Opening ECL 1 Jan 2019 KShs million	Total transfers between stages KShs million	ECL on new exposure raised KShs million	Changes in ECL due to modifi-cations KShs million	Sub-sequent changes in ECL KShs million	Change in ECL due to derecog-nition KShs million	Net ECL raised/ (released)[1]	Impair-ment accounts written off KShs million	Exchange and other move-ments	Closing ECL 31 Dec 2019 KShs million
Bank	1	–	–	–	3	–	3	–	(3)	1
Stage 1	1	–	–	–	3	–	3	–	(3)	1
Total	1	–	–	–	3	–	3	–	(3)	1

26. Loans and advances to customers

26.1 Net loans and advances

	2020 KShs million	2019 KShs million
Mortgage lending	**34 783**	25 580
Vehicle and asset finance	**13 127**	15 146
Overdraft and other demand lending	**16 109**	19 185
Term lending	**112 062**	106 427
Card lending	**515**	650
Gross loans and advances to customers	**176 596**	166 988
Allowances for impairments		
Expected credit loss for loans and advances measured at amortised cost (IFRS 9) (Note 26.2)	**(18 415)**	(14 171)
Credit impairment allowances	**(18 415)**	(14 171)
Net loans and advances	**158 181**	152 817
Maturity analysis:		
Redeemable on demand	**13 088**	17 668
Maturing within 1 month	**8 646**	6 809
Maturing after 1 month but within 6 months	**25 544**	16 179
Maturing after 6 months but within 12 months	**13 998**	6 612
Maturing after 12 months but within 5 years	**77 440**	65 153
Maturing after 5 years	**19 465**	40 396
Net loans and advances	**158 181**	152 817

The weighted average effective interest rate on loans and advances to customers as at 31 December 2020 was 8.79% (2019: 10.06%). The Bank extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment sales and overdrafts.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

26. Loans and advances to customers *(continued)*

26.2 Net loans and advances *(continued)*

Reconciliation of expected credit losses for loans and advances to customers measured at amortised cost

			Income statement movements								
	Opening ECL 1 Jan 2020 KShs	**Total transfers between stages KShs**	**ECL on new exposure raised KShs**	**Subsequent changes in ECL KShs**	**Change in ECL due to derecognition KShs**	**Net ECL raised/ (released)[1] KShs**	**Impairment accounts written off KShs**	**Exchange and other movements KShs**	**Closing ECL 31 Dec 2020 KShs**	**Interest in suspense KShs**	**Total KShs**
Customers											
Mortgage loans	**1 154**	**–**	**10**	**222**	**–**	**232**	**(4)**	**(17)**	**1 365**	**145**	**1 510**
Stage 1	**23**	**36**	**4**	**(43)**	**–**	**(3)**	**–**	**–**	**20**	**–**	**20**
Stage 2	**311**	**(42)**	**4**	**57**	**–**	**19**	**–**	**–**	**330**	**–**	**330**
Stage 3	**820**	**6**	**2**	**208**	**–**	**216**	**(4)**	**(17)**	**1 015**	**145**	**1 160**
Vehicle and asset finance	**1 713**	**–**	**82**	**493**	**–**	**575**	**(61)**	**10**	**2 237**	**226**	**2 463**
Stage 1	**96**	**40**	**28**	**(87)**	**–**	**(19)**	**–**	**–**	**77**	**–**	**77**
Stage 2	**489**	**(95)**	**40**	**(6)**	**–**	**(61)**	**–**	**10**	**438**	**–**	**438**
Stage 3	**1 128**	**55**	**14**	**586**	**–**	**655**	**(61)**	**–**	**1 722**	**226**	**1 948**
Card debtors	**83**	**–**	**–**	**74**	**–**	**74**	**(76)**	**7**	**88**	**–**	**88**
Stage 1	**24**	**10**	**–**	**(7)**	**–**	**3**	**–**	**–**	**27**	**–**	**27**
Stage 2	**41**	**(11)**	**–**	**5**	**–**	**(6)**	**–**	**–**	**35**	**–**	**35**
Stage 3	**18**	**1**	**–**	**76**	**–**	**77**	**(76)**	**7**	**26**	**–**	**26**
Other loans and advances	**3 022**	**–**	**717**	**720**	**–**	**1 437**	**(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	**1 891**	**80**	**480**	**722**	**–**	**1 282**	**(403)**	**47**	**2 817**	**176**	**2 993**
Corporate	**8 199**	**–**	**777**	**1 885**	**(2)**	**2 660**	**(1 240)**	**55**	**9 674**	**401**	**10 075**
Stage 1	**657**	**(122)**	**221**	**(171)**	**–**	**(72)**	**–**	**(25)**	**560**	**–**	**560**
Stage 2	**353**	**28**	**75**	**(117)**	**(2)**	**(16)**	**–**		**337**	**–**	**337**
Stage 3	**7 189**	**94**	**481**	**2 173**	**–**	**2 748**	**(1 240)**	**80**	**8 777**	**401**	**9 178**
Total	**14 171**	**–**	**1 586**	**3 394**	**(2)**	**4 978**	**(1 784)**	**102**	**17 467**	**948**	**18 415**

			Income statement movements								
	Opening ECL 1 Jan 2019 KShs	Total transfers between stages KShs	ECL on new exposure raised KShs	Subsequent changes in ECL KShs	Change in ECL due to derecognition KShs	Net ECL raised/ (released)[1] KShs	Impairment accounts written off KShs	Exchange and other movements KShs	Closing ECL 31 Dec 2019 KShs	Interest in suspense KShs	Total KShs
Customers											
Mortgage loans	842	–	24	237	–	261	(1)	(1)	1 101	53	1 154
Stage 1	22	28	5	(4)	–	1	–	–	23	–	23
Stage 2	181	(12)	18	112	–	130	–	–	311	–	311
Stage 3	639	(16)	1	129	–	130	(1)	(1)	767	53	820
Vehicle and asset finance	1 473	–	144	200	–	343	(192)	(2)	1 640	73	1 713
Stage 1	110	72	42	(56)	–	(14)	–	–	96	–	96
Stage 2	479	(91)	74	(75)	–	(2)	–	12	489	–	489
Stage 3	884	19	28	331	–	359	(192)	(14)	1 055	73	1 128
Card debtors	51	–	6	76	–	82	(48)	(4)	83	–	83
Stage 1	17	5	3	3	–	6	–	–	24	–	24
Stage 2	16	(5)	3	21	–	24	–	1	41	–	41
Stage 3	18	–	–	52	–	52	(48)	(5)	18	–	18
Other loans and advances	2 029	–	492	586	–	1 078	(155)	4	2 970	52	3 022
Stage 1	175	100	140	(64)	–	76	–	–	251	–	251
Stage 2	675	(115)	160	24	–	185	–	21	880	–	880
Stage 3	1 179	15	192	626	–	817	(155)	(17)	1 839	52	1 891
Corporate	6 855	–	1 017	621	(189)	1 449	(724)	25	7 609	590	8 199
Stage 1	450	35	307	45	(137)	215	–	(8)	657	–	657
Stage 2	140	(38)	237	(53)	(19)	165	–	47	353	–	353
Stage 3	6 265	3	473	629	(33)	1 069	(724)	(14)	6 599	590	7 189
Total	11 250	–	1 683	1 720	(189)	3 213	(1 120)	22	13 403	768	14 171

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

	2020 KShs million	2019 KShs million
26. Loans and advances to customers *(continued)*		
26.3 Loans impairment charge		
Loans impairment charge/(credit) for financial investments	**14**	(15)
Loans impairment for non-performing customer loans	**4 978**	2 427
Loans impairment for performing customer loans	**–**	786
Loans impairment charge/(credit) for performing bank loans (Note 25.1)	**3**	3
Loans impairment for non-performing off-balance sheet letters of credit and guarantees (Note 44.3)	**–**	18
Loans impairment for performing off-balance sheet letters of credit and guarantees (Note 44.3)	**2**	84
Amounts recovered and cured during the year	**(121)**	(152)
Net impairment charge on loans and advances	**4 876**	3 151

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

26.4 Vehicle and asset finance

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

	2020 KShs million	2019 KShs million
Maturity analysis:		
Not later than 1 year	**2 199**	1 320
Later than 1 year and not later than 5 years	**10 070**	13 791
Later than 5 years	**858**	35
	13 127	15 146

26.5 Loans and advances to employees

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

	2020 KShs million	2019 KShs million
At start of year	**3 894**	4 195
New loans issued	**1 073**	1 186
Interest	**336**	205
Loan repayments	**(1 505)**	(1 692)
At end of year	**3 798**	3 894
27. Other assets and prepayments		
Uncleared effects	**3 011**	1 711
Prepayments	**514**	413
Off-market loan adjustment	**585**	688
Due from group companies (Note 45.7)	**402**	688
Other receivables	**166**	204
	4 678	3 704

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

28. Investment in subsidiaries

Investment in subsidiary relates to 100% ownership of Stanbic Bank Nominees Limited amounting to KShs 2 000.

Stanbic Nominees Limited was dormant during the two financial years.

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

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

	2020 KShs million	2019 KShs million
29. Other investments		
Unquoted:		
Equity investment at fair value through profit and loss (default)	**18**	18
At 31 December	**18**	18

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

	Premises KShs million	Equipment, furniture and fittings KShs million	Motor vehicles KShs million	Work in progress (WIP) KShs million	Total KShs million
30(a) Property and equipment					
31 December 2020					
Opening net carrying amount	**254**	**1 625**	**36**	**387**	**2 302**
Additions	**–**	**338**	**5**	**62**	**405**
Transfer from work in progress	**–**	**324**	**–**	**(324)**	**–**
Transfer to intangible assets (Note 31)	**–**	**–**	**–**	**(1)**	**(1)**
Disposals	**–**	**–**	**(14)**	**–**	**(14)**
Depreciation charge on disposal	**–**	**–**	**14**	**–**	**14**
Translation differences	**–**	**–**	**–**	**(12)**	**(12)**
Depreciation charge	**(13)**	**(444)**	**(15)**	**–**	**(472)**
Hyperinflation adjustment	**–**	**19**	**–**	**–**	**19**
Closing net carrying amount	**241**	**1 862**	**26**	**112**	**2 241**
At 31 December 2020					
Cost	**388**	**5 092**	**148**	**112**	**5 740**
Accumulated depreciation	**(147)**	**(3 230)**	**(122)**	**–**	**(3 499)**
Net carrying amount	**241**	**1 862**	**26**	**112**	**2 241**
Tuesday, 31 December 2019					
Opening net carrying amount	267	1 684	55	181	2 187
Additions	–	208	–	333	541
Transfer from work in progress	–	127	–	(127)	–
Transfer from intangible assets (Note 31)	–	35	–	–	35
Disposals	–	–	(17)	–	(17)
Depreciation charge on disposal	–	–	14	–	14
Translation differences	–	–	–	–	–
Depreciation charge	(13)	(416)	(16)	–	(445)
Hyperinflation adjustment	–	(13)	–	–	(13)
Closing net carrying value	254	1 625	36	387	2 302
At 31 December 2019					
Cost	388	4 411	157	387	5 343
Accumulated depreciation	(134)	(2 786)	(121)	–	(3 041)
Net carrying amount	254	1 625	36	387	2 302

Work in progress is composed of refurbishments and equipment for branches and projects that had not been completed as at year end. The total amount disclosed as property and equipment is non-current. As at 31 December 2020 and 31 December 2019, there were no items of property and equipment pledged by the Bank to secure liabilities.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

30(a) Property and equipment *(continued)*

Revaluation of land and buildings

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

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

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

30(b) Right-of-use assets – land

	2020 KShs million	2019 KShs million
Cost		
At start and end of year	85	85
Amortisation		
At start of year	(40)	(37)
Charge for the year	(3)	(3)
At end of year	(43)	(40)
Net carrying amount as at 31 December 2020	42	45

This relates to land leased by the Bank from the Government of Kenya for a lease term period of 99 years.

31. Intangible assets

	Work in progress KShs million	Computer software KShs million	Total KShs million
Year ended 31 December 2020			
Cost			
At start of year	–	3 089	3 089
Additions	66	100	166
Transfer from work in progress	(63)	63	–
Transfer from property and equipment (Note 30)		1	1
At end of year	3	3 253	3 256
Amortisation			
At start of year	–	(2 227)	(2 227)
Amortisation for the year	–	(277)	(277)
Translation differences	–		–
At end of year	–	(2 504)	(2 504)
Net carrying amount at end of year	3	749	752
At 31 December 2020			
Cost	3	3 253	3 256
Accumulated amortisation	–	(2 504)	(2 504)
Net carrying amount	3	749	752

	Work in progress KShs million	Computer software KShs million	Total KShs million
Year ended 31 December 2019			
Cost			
At start of year	312	2 749	3 061
Additions	2	61	63
Transfer from work in progress	(279)	279	–
Transfer to property and equipment (Note 30)	(35)	–	(35)
At end of year	–	3 089	3 089
Amortisation			
At start of year	–	(2 029)	(2 029)
Amortisation for the year	–	(198)	(198)
Translation differences		–	–
At end of year	–	(2 227)	(2 227)
Net carrying amount	–	862	862
At 31 December 2019			
Cost	–	3 089	3 089
Accumulated amortisation	–	(2 227)	(2 227)
Net carrying amount	–	862	862

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

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

The total amount disclosed as intangible assets is non-current and relates to computer software. Work in progress relates to computer software for upgrades in core banking and the flow credit workflow system had not been completed as at year end.

As at 31 December 2020, the intangible assets had an average remaining useful life of three years.

32. Right-of-use assets

	Buildings KShs million	Branches KShs million	ATM space KShs million	Others KShs million	Total KShs million
31 December 2020					
Cost					
At start of year	78	1 574	33	32	1 717
Additions	167	57	24	80	328
Translation difference	–	229	–	–	229
At end of year	245	1 860	57	112	2 274
Depreciation					
At start of year	47	318	13	24	402
Depreciation charge for the year	52	363	14	29	458
Translation difference	–	(66)	–	–	(66)
At end of year	99	615	27	53	794
Right-of-use assets	146	1 245	30	59	1 480

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

32. Right-of-use assets (continued)

	Buildings KShs million	Branches KShs million	ATM space KShs million	Others KShs million	Total KShs million
31 December 2019					
Cost					
At start of year	–	–	–	–	–
IFRS 16 transition adjustment	78	1574	33	32	1 717
At end of year	78	1 574	33	32	1 717
Depreciation					
At start of year	–	–	–	–	–
Depreciation charge for the year	47	273	13	24	357
Translation difference	–	45	–	–	45
At end of year	47	318	13	24	402
Right-of-use assets	31	1 256	20	8	1 315

The Group leases property for use as branches, offices, ATMs and parking spaces. The leases of offices and ATM spaces are typically for periods of between two and 10 years, with options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

33. Lease liabilities

	2020 KShs million	2019 KShs million
Non-current	**1 371**	1 136
Current	**15**	235
	1 386	1 371

Reconciliation of lease liabilities arising from financing activities:

	Buildings KShs million	Branches KShs million	ATM space KShs million	Others KShs million	Total KShs million
31 December 2020					
At start of year	**40**	**1 304**	**20**	**7**	**1 371**
Additions	**167**	**58**	**24**	**79**	**328**
Interest charged to profit or loss	**16**	**140**	**7**	**12**	**173**
Translation difference	**–**	**1**	**3**	**9**	**12**
Cash flows:					
– Operating activities (interest paid)	**(16)**	**(140)**	**(7)**	**(12)**	**(173)**
– Payments under leases	**(32)**	**(254)**	**(11)**	**(25)**	**(325)**
At end of year	**175**	**1 109**	**36**	**70**	**1 386**
31 December 2019					
At start of year	–	–	–	–	–
IFRS 16 transition adjustment	77	1 574	34	32	1 717
Interest charged to profit or loss	6	114	3	2	125
Cash flows:					
– Operating activities (interest paid)	(6)	(114)	(3)	(2)	(125)
– Payments under leases	(37)	(270)	(14)	(25)	(346)
At end of year	40	1 304	20	7	1 371

	2020 %	2019 %
Weighted average effective interest rate at the reporting date was:	**9.44**	9.44

	2020 KShs million	2019 KShs million
Maturity analysis of lease liabilities is as follows:		
Within 1 year	**15**	235
From 1 year to 5 years	**1 338**	889
More than 5 years	**33**	247
	1 386	1 371

The lease liabilities are unsecured.

34(a(i) Deferred income tax asset

	Note	2020 KShs million	2019 KShs million
		2020	2019
At start of year		**(4 422)**	(3 206)
Credit to statement of profit or loss	16	**(317)**	(1 223)
Other temporary differences		**(157)**	–
Debit/(credit) to other comprehensive income	34(a)(ii)	**32**	6
Other exchange differences		**–**	1
At end of year		**(4 864)**	(4 422)

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

	1.1.2020	(Credited)/ charged to statement of profit or loss	Credited to OCI	31.12.2020
Year ended 31 December 2020				
Arising from:				
Property and equipment	**67**	**(117)**	**–**	**(50)**
Expected credit loss charges	**(3 206)**	**(623)**	**–**	**(3 829)**
Right-of-use assets	**8**	**(34)**	**–**	**(26)**
Unrealised gain on bonds – FVOCI	**14**	**–**	**32**	**46**
Unrealised gain on bonds – held-for-trading	**(318)**	**451**	**–**	**133**
Other provisions	**(972)**	**(151)**	**–**	**(1 123)**
South Sudan differed tax asset	**(15)**	**–**	**–**	**(15)**
Net deferred income tax asset	**(4 422)**	**(474)**	**32**	**(4 864)**
Year ended 31 December 2019				
Arising from:				
Property and equipment	49	18	–	67
Expected credit loss charges	(2 628)	(578)	–	(3 206)
Right-of-use assets	–	8	–	8
Unrealised gain on bonds – FVOCI	8	–	6	14
Unrealised gain on bonds – held-for-trading	(111)	(207)	–	(318)
Other provisions	(515)	(457)	–	(972)
South Sudan deferred tax asset	(9)	(6)	–	(15)
Net deferred income tax asset	(3 206)	(1 222)	6	(4 422)

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

34(b) Deferred income tax liability

	2020 KShs million	2019 KShs million
At start of year	**25**	–
Debit to statement of profit or loss (Note 16)	**(8)**	25
Translation difference	**(16)**	–
At end of year	**1**	25

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

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

	1.1.2020	(Credited)/ charged to statement of profit or loss	Translation difference	31.12.2020
Year ended 31 December 2020				
Arising from:				
Property and equipment	**5**	**(2)**	**–**	**3**
Right-of-use assets	**20**	**(6)**	**(16)**	**(2)**
Net deferred income tax liability	**25**	**(8)**	**(16)**	**1**
Year ended 31 December 2019				
Arising from:				
Property and equipment	–	5	–	5
Right-of-use assets	–	20	–	20
Net deferred income tax liability	–	25	–	25

35. Current income tax

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

	2020 KShs million	2019 KShs million
(a) Current income tax payable		
As at 1 January	**389**	1 097
South Sudan tax payable (Note 35(b))	**3**	–
Current tax charge (Note 16)	**1 337**	2 442
Income tax paid	**(1 337)**	(3 164)
Exchange difference on translation	**–**	14
As at 31 December	**392**	389

The amount above relates to current income tax recoverable in Kenya and is current.

	2020 KShs million	2019 KShs million
(b) Current income tax payable/(recoverable)		
As at 1 January		
Current tax charge	**(3)**	–
Transfer to tax payable account (Note 35(a))	**3**	–
Prior year provision	**–**	–
As at 31 December	**–**	–

The amount above relates to current income tax payable in South Sudan and is current.

36. Customer deposits

	2020 KShs million	2019 KShs million
Current accounts	**130 240**	111 693
Call deposits	**9 305**	10 590
Savings accounts	**58 030**	43 598
Term deposits	**17 484**	24 728
Letters of credit acceptances	**2 852**	4 826
	217 911	195 435
Maturity analysis:		
Redeemable on demand	**130 620**	165 881
Maturing within 1 month	**73 525**	9 502
Maturing after 1 month but within 6 months	**11 893**	13 315
Maturing after 6 months but within 12 months	**1 076**	5 816
Maturing after 12 months	**797**	921
	217 911	195 435

Deposit products include current accounts, savings accounts, call deposits and fixed deposits. The weighted average effective interest rate on customer deposits as at 31 December 2020 was 1.67% (2019: 1.79%).

37. Amounts due to other banks

	2020 KShs million	2019 KShs million
Deposits from banks	**16 689**	11 900
Balances due to group companies (Note 45.2)	**26 216**	18 550
	42 905	30 450
Maturity analysis:		
Redeemable on demand	**21 869**	3 138
Maturing within 1 month	**176**	6 610
Maturing after 1 month but within 6 months	**9 418**	3 178
Maturing after 6 months but within 12 months	**2 185**	4 561
Maturing after 12 months	**9 257**	12 963
	42 905	30 450

Included in balances due to group companies are borrowings of KShs 13 610 584 528 (2019: KShs 16 958 318 000) maturing in one year. Interest on these borrowings is at libor + 1.91% (2019: libor + 1.91%).

38(a) Other liabilities and accruals

	2020 KShs million	2019 KShs million
Accruals	**2 910**	2 619
Deferred bonus scheme (Note 38(b))	**78**	115
Unpresented bank drafts	**56**	113
Margin on guarantees and letters of credit	**1 321**	1 516
Items in transit	**59**	115
Due to group companies (Note 45.8)	**427**	339
Sundry creditors	**1 017**	7 791
Expected credit losses on off-balance sheet items (Note 44.3)	**140**	141
	6 008	12 749

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

38(b) Deferred bonus scheme (DBS)

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

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

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

The provision in respect of liabilities under the scheme amounts to KShs 78 446 000 at 31 December 2020 (2019: KShs 114 849 000) and the amount charged for the year was KShs 50 989 553 (2019: KShs 63 316 000).

	Units	
Reconciliation	2020	2019
Units outstanding at beginning of year	59 152	52 238
Granted	32 923	40 842
Exercised	(25 762)	(59 626)
Lapsed	–	(745)
Transfers	521	26 443
Units outstanding at end of year	66 834	59 152
Weighted average fair value at grant date (ZAR)*	152.64	182.43
Expected life (years)	2.51	2.51

** South African Rand*

39. Borrowings

	Notional value KShs million	Carrying value KShs million	Interest rate %	Date of issue	Maturity date
At 31 December 2020					
Subordinated debt – USD 30m	3 052	3 285	6.82	28 Feb 2018	28 Feb 2028
Subordinated debt – USD 20m	2 018	2 219	6.28	30 Jan 2019	12 Dec 2028
Total	5 070	5 504			
At 31 December 2019					
CfC Stanbic Bond	4 000	3 998	12.95	15 Dec 2014	15 Dec 2021
Subordinated debt – USD 30m	3 052	3 055	6.82	28 Feb 2018	28 Feb 2028
Subordinated debt – USD 20m	2 018	2 074	6.28	30 Jan 2019	12 Dec 2028
Total	9 070	9 127			

There were no charges placed on any of the Bank's assets in relation to these borrowings.

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

Interest expense incurred in the above borrowings was KShs 546 694 865 (2019: KShs 848 548 820). The weighted average effective interest rate on borrowings as at 31 December 2020 was 9.93% (2019: 9.38%).

The Bank has borrowed two subordinated debt facilities as follows:

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

(b) USD 20 million obtained from the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in 2019. The Bank complied with all covenants relating to this facility throughout the reporting year.

	2020 KShs million	2019 KShs million
Reconciliation of liabilities arising from financing activities:		
At start of year	9 127	7 064
Interest charged to profit or loss	547	848
Foreign exchange loss/(gain)	386	18
Cash flows:		
– Operating activities (interest paid)	(558)	(832)
– Proceeds from borrowings	–	2 029
– Repayments of borrowings	(3 998)	–
At end of year	5 504	9 127

40. Share capital

	2020		2019	
	Number of shares (million)	Share capital KShs million	Number of shares (million)	Share capital KShs million
Authorised share capital				
Authorised share capital at KShs 20 each	187	3 745	187	3 745
At 31 December	187	3 745	187	3 745

	2020		2019	
	Number of shares (million)	Share capital KShs million	Number of shares (thousands)	Share capital KShs million
Issued share capital				
Balance as at 1 January	171	3 412	171	3 412
At 31 December	171	3 412	171	3 412
Unissued shares	16	333	16	333

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

41. Share premium

	2020 KShs million	2019 KShs million
At 1 January	3 445	3 445
At 31 December	3 445	3 445

42. Nature and purpose of reserves

42.1 Revaluation reserve on financial assets at fair value through other comprehensive income

The fair value reserve comprises the cumulative net change in the fair value of FVOCI financial assets until the investment is derecognised or impaired. The reserve is non-distributable.

42.2 Revaluation reserve on land and buildings

The revaluation reserve represents solely the surplus on the revaluation of buildings and freehold land net of deferred income tax and is non-distributable. This reserve arose from the merger between CfC Bank Limited and Stanbic Bank Limited in 2008.

42.3 Foreign currency translation reserve

Currency translation reserve comprises all the foreign exchange differences arising from the translation of the financial results of foreign operations.

42.4 Regulatory reserve

The regulatory reserve represents an appropriation from retained earnings to comply with the Prudential Guidelines of the Central Bank of Kenya on loan loss provisions. The balance represents the excess of impairment provisions determined in accordance with the Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. The reserve is non-distributable.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

	2020 KShs million	2019 KShs million
43. Share-based payment reserve		
At start of year	**36**	35
Equity growth scheme for the year	**–**	1
Vested during the year	**(36)**	–
At end of year	**–**	36

The Bank's share incentive scheme enables key management personnel and senior employees of the Bank to benefit from the performance of SBG shares.

The Bank has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights. The share appreciation rights granted during the year were valued using Black Scholes pricing model. Each grant was valued separately.

At 31 December 2020, the total amount included in staff costs for Group Share Incentive Scheme was KShs nil (2019: KShs 1 014 677) and for Equity Growth Scheme was KShs nil (2019: KShs 258 572).

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

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

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

	Option price range (ZAR)	Number of options	
Group Share Incentive Scheme	2020	2020	2019
Options outstanding at beginning of year		**36 250**	60 000
Granted		**–**	22 750
Transfers		**–**	–
Exercised	**98.80 – 111.94**	**(16 250)**	(46 000)
Lapsed		**–**	(500)
Options outstanding at end of year		**20 000**	36 250

The weighted average SBG share price for the year to 31 December 2020 was ZAR 116.16 (2019: ZAR 183.51).

The following options granted to employees had not been exercised at 31 December 2020:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
25 000	**107.55**	**107.55**	**Year to 31 December 2021**

The following options granted to employees had not been exercised at 31 December 2019:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
11 250	111.94	111.94	Year to 31 December 2020
25 000	98.80 – 107.55	101.65	Year to 31 December 2021
36 250			

	Number of rights	
	2020	2019
Equity Growth Scheme		
Rights outstanding at beginning of year	**5 375**	3 000
Transfers	**–**	2 375
Exercised	**–**	–
Lapsed	**–**	–
Rights outstanding at end of year[1]	**5 375**	5 375

[1] At 31 December 2020 the Bank would need to issue 1 196 (2019: 2 223) SBG shares to settle the outstanding appreciated rights value.

The following rights granted to employees had not been exercised at 31 December 2020:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5 375	**98.80**	**98.80**	**Year to 31 December 2021**
5 375			

The following rights granted to employees had not been exercised at 31 December 2019:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5 375	98.80	98.80	Year to 31 December 2021
5 375			

Commitments were with respect to:

	2020 KShs million	2019 KShs million
44. Contingent liabilities		
Letters of credit and acceptances	**3 427**	7 379
Guarantees	**67 497**	62 099
Unutilised facilities	**11 331**	9 948
	82 255	79 426

44.1 Nature of contingent liabilities

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by the customers.

Guarantees are generally written by a bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of customers' default.

An acceptance is an undertaking by the Bank to pay a bill of exchange drawn on a customer. The Bank expects most of the acceptances to be presented, and to be reimbursed by the customer almost immediately.

The off-balance sheet facilities are classified based on their credit quality as determined using the Bank's internal credit rating and scoring models.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

44. Contingent liabilities *(continued)*

44.2 Segmental analysis of off-balance sheet liabilities

	2020 KShs million	2020 %	2019 KShs million	2019 %
Agriculture	**1 406**	**2**	1 071	1
Manufacturing	**5 751**	**7**	4 785	6
Construction	**20 311**	**25**	18 423	23
Energy	**274**	**0**	98	–
Transport and communication	**1 581**	**2**	1 270	2
Distribution/wholesale	**14 287**	**17**	15 803	20
Financial services	**38 255**	**47**	36 243	46
Tourism	**–**	**0**	121	–
Other activities and social service	**390**	**0**	1 611	2
	82 255	**100**	79 425	100

44.3 Expected credit losses on off-balance sheet items

	Opening ECL 1 Jan 2020 KShs	Total transfers between stages KShs	Statement of profit or loss movements: ECL on new exposure raised KShs	Derecognition KShs	Subsequent changes in ECL KShs	Net ECL raised/ (released)[1] KShs	Impairment accounts written off KShs	Exchange and other movements KShs	Closing ECL 31 Dec 2020 KShs
Off balance sheet									
Stage 1	**62**	**35**	**42**	**(16)**	**–**	**26**	**–**	**–**	**123**
Letters of credit	**10**	**–**	**3**	**(4)**	**6**	**5**	**–**		**15**
Guarantees	**52**	**35**	**39**	**(12)**	**(6)**	**21**	**–**	**–**	**108**
Stage 2	**79**	**(35)**	**2**	**(30)**	**4**	**(24)**	**–**	**(3)**	**17**
Letters of credit	**9**	**–**	**–**	**(2)**	**–**	**(2)**	**–**	**(3)**	**4**
Guarantees	**70**	**(35)**	**2**	**(28)**	**4**	**(22)**	**–**	**–**	**13**
Total ECL	**141**	**–**	**44**	**(46)**	**4**	**2**	**–**	**(3)**	**140**

	Opening ECL 1 Jan 2019 KShs	Total transfers between stages KShs	Statement of profit or loss movements: ECL on new exposure raised KShs	Derecognition KShs	Subsequent changes in ECL KShs	Net ECL raised/ (released)[1] KShs	Impairment accounts written off KShs	Exchange and other movements KShs	Closing ECL 31 Dec 2019 KShs
Off balance sheet									
Stage 1	41	–	54	(33)	–	21	–	–	62
Letters of credit	6	–	5	(1)	–	4	–	–	10
Guarantees	35	–	49	(32)	–	17	–	–	52
Stage 2	17	–	71	(8)	–	63	–	(1)	79
Letters of credit	9	–	–	–	–	–	–	–	9
Guarantees	8	–	71	(8)	–	63	–	(1)	70
Stage 3	80	–	18	–	–	18	(98)	–	–
Letters of credit	19	–	–	–	–	–	(19)	–	–
Guarantees	61	–	18	–	–	18	(79)	–	–
Total ECL	138	–	143	(41)	–	102	(98)	(1)	141

44.4 Legal proceedings

In the conduct of its ordinary course of business, the Bank is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The Directors are satisfied, based on present information and the assessed probability of claims arising, that the Bank has adequate insurance programmes and provisions in place to meet such claims. The amounts provided for in other liabilities are KShs 253 000 000 (2019: KShs 25 000 000).

45. Related party transactions and balances

The Bank is a wholly owned subsidiary of Stanbic Holdings Plc, which is in turn a subsidiary of Stanbic Africa Holdings Limited (SAHL), incorporated in South Africa. The ultimate parent of the Bank is Standard Bank Group Limited, which is incorporated in the United Kingdom.

There are other companies which are related to Stanbic Bank Kenya Limited through common shareholdings or common directorships.

In the normal course of business, nostro and vostro accounts are operated and placements of both foreign and local currencies are made with the parent company and other group companies at interest rates in line with the market. Outstanding balances at the year end are unsecured. There have been no guarantees provided or received for any related party balances.

For the year ended 31 December 2020, the Bank has made provision for doubtful debts relating to long outstanding amounts owed by related parties KShs 275 290 000 (2019: KShs 275 290 000) as indicated on Note 45.7.

The relevant balances are as shown below:

	2020 KShs million	2019 KShs million
45.1 Loans and advances to group banks		
Stanbic Bank Uganda Limited	**27**	2
Stanbic Bank Tanzania Limited	**13**	685
Standard Bank (Mauritius) Limited	**3**	–
Standard Bank of South Africa Limited	**6 285**	4 938
Standard Bank Isle of Man	**20 844**	21 891
	27 172	27 516
Interest income earned on the above is:	**396**	465
45.2 Deposits due to group to banks		
Standard Bank of South Africa Limited	**12 590**	1 404
Standard Bank Namibia Limited	**1**	9
Stanbic Bank Uganda Limited	**3**	126
Stanbic Bank Zambia Limited	**2**	1
Stanbic Bank Botswana Limited	**–**	1
Standard Bank (Mauritius) Limited	**617**	710
Standard Bank Isle of Man Limited	**12 993**	16 281
Stanbic Bank Tanzania Limited	**9**	18
Stanbic Bank Malawi	**1**	–
	26 216	18 550
Interest expense incurred on the above is:	**417**	603

The weighted average effective interest rate on loans and advances to group companies as at 31 December 2020 is 2.43% (2019: 2.46%) and on amounts due to group companies was 1.41% (2019: 2.14%).

	2020 KShs million	2019 KShs million
45.3 Deposits due to group companies non-bank		
Stanbic Holdings Plc	**133**	137
SBG Securities Limited	**572**	413
The Heritage Insurance Company Limited	**268**	332
STANLIB Kenya Limited	**–**	136
Liberty Life Assurance Kenya Limited	**106**	401
Stanbic Insurance Agency Limited	**142**	261
Liberty Kenya Holdings Limited	**10**	–
SBG Nominees Limited	**1**	–
Stanbic Africa Holdings Limited	**13**	–
	1 245	1 680
Interest expense incurred on the above is:	**10**	55

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

	2020 KShs million	2019 KShs million
45. Related party transactions and balances *(continued)*		
45.4 Trading liabilities with group companies non-bank		
SBG Securities Limited	–	404
	–	404

45.5 Due to subsidiary

Amounts due to subsidiary relates to Stanbic Nominees Limited amounting to KShs 2 000.

45.6 Key management compensation

Key management personnel include the members of the Stanbic Bank Kenya Limited Board of Directors and prescribed officers effective for 2020 and 2019. Non-executive Directors are included in the definition of key management personnel as required by IAS 24: *Related Party Disclosures.* The definition of key management includes the close family members of key management personnel and any entity over which key management exercise control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by that person in their dealings with the Bank. They include the person's domestic partner and children, the children of the person's domestic partner, and dependants of the person or the person's domestic partner.

45.6.1 Loans and advances to key management

The aggregate amount of loans to directors, affiliates and their families as at 31 December 2020 is KShs nil (2019: KShs 199 952 000).

Loans include mortgage loans, instalment sale and finance leases and credit cards. No specific credit impairments have been recognised in respect of loans granted to key management (2019: KShs nil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

	2020 KShs million	2019 KShs million
45.6.2 Key management remuneration		
Fees for services as a director	45	38
Salaries and other short-term employment benefits	77	98
Post-employment pension	4	3
Share-based payments	18	16
	144	155
45.7 Other receivable from related companies		
SBG Securities Limited	8	41
Liberty Life Assurance Kenya Limited	–	3
The Heritage Insurance Company Limited	–	1
Stanbic Holdings Plc	6	12
Stanbic Bank Uganda Limited	–	4
Stanbic Bank Tanzania Limited	297	297
Standard Bank of South Africa Limited	296	508
Mozambique: Standard Bank s.a.r.l.	–	1
Stanbic Bank Malawi Limited	–	3
Standard Bank de Angola S.A.	9	8
Stanbic Insurance Agency Limited	8	76
Stanbic Bank Zambia Limited	2	1
Standard Bank Jersey Limited	1	4
Standard Bank Isle of Man Limited	–	4
Stanbic Foundation	50	–
	677	963
Provisions on regional costs balances	(275)	(275)
	402	688
Movement analysis		
At 1 January	963	1 121
Additions	1 013	1 344
Receipts	(1 299)	(1 502)
Closing balance	677	963
Provisions on regional costs balances	(275)	(275)
At 31 December	402	688

	2020 KShs million	2019 KShs million
45.8 Other payables due to related companies		
Standard Bank of South Africa Limited	425	331
Stanbic Bank Uganda Limited	2	5
Standard Bank Jersey Limited	–	3
	427	339
Interest expense incurred on the above is:	–	–

45.9 Related party expenses

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

	2020 KShs million	2019 KShs million
Franchise fees	675	734
Information technology	257	199
Other operating costs	121	127
	1 053	1 060
46. Notes to the statement of cash flow		
46.1 Cash flows from operating activities		
Reconciliation of profit before income tax to cash flows from operating activities:		
Net income before income tax	6 236	7 466
Adjusted for:		
– Amortisation of intangible assets (Note 31)	277	198
– Depreciation – property and equipment (Note 30(a))	472	445
– Depreciation – right-of-use asset – land (Note 30(b))	3	3
– Depreciation – right-of-use asset (Note 32)	458	357
– Change in fair value of derivatives	(1 500)	780
– Interest charged on borrowings (Note 39)	547	848
– Share-based payment expense (Note 43)	–	1
– Gain on disposal of property and equipment	–	(4)
– Other temporary differences	(157)	–
Cash flow from operating activities	6 336	10 094
46.2 Analysis of cash and cash equivalents		
Cash and balances with CBK	9 298	7 551
Treasury bills	56 245	44 068
Loans and advances to banks	33 948	35 247
Amounts due to other banks	(4 065)	(1 681)
Cash and cash equivalents at year end	95 426	85 185

For the purpose of presentation of cash flows in the financial statements, the cash and cash equivalents include balances with Central Bank of Kenya net of cash reserve ratio, net of balances from banking institutions and treasury bills with a maturity period of three months or less from the contract date.

	2020 KShs million	2019 KShs million
47. Capital commitments		
Capital commitments for the acquisition of property and equipment are summarised below:		
Authorised and contracted for	142	278
Authorised but not contracted for	963	615

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

48. Operating leases

The Bank has entered into a number of commercial leases for it premises and office equipment. These leases have an average life of six years with a renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases such as those concerning dividends or additional debt.

At 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	2020 KShs million	2019 KShs million
Less than one year	27	15
Between one and five years	18	11
More than five years	–	–
	45	26

49. Fiduciary activities

	2020 KShs million	2019 KShs million
Assets held on behalf of individuals, trusts, retirement benefit plans and other institutions	365 573	341 824

50. Subsequent event

There have been no other events or transactions subsequent to 31 December 2020 to the date of these financial statements that would have a material effect on the financial statements at that date or for the year then ended, and would require adjustment of or disclosure in the financial statements or notes thereto in accordance with IAS 10: *Events After the Balance Sheet Date.*

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