Stanbic Bank Kenya Limited

(Formerly CfC Stanbic Bank Limited)

Annual Report and Financial Statements

For the year ended 31 December 2016

Table of Contents

Corporate information

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

* South African
** South African and British

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

Report of the Directors

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

The annual report and financial statements have been prepared in accordance with section 147 to 163 of the repealed companies Act Cap 486, which remain inforce under the transition rules contained in the sixth schedule, the transition and saving provisions of the companies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

Principal activities

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

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

Results

The Bank’s results for the year ended 31 December 2016 are shown in the statement of profit or loss on page 10.

Dividends

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

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

The total number of issued shares at year-end was 170,577,426 (2014: 170,577,426).

The results for the year are set out fully on pages 10 to 116 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 2.

Events subsequent to the end of the reporting period

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

Management by third parties

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

Auditor

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

Approval of financial statements

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

By Order of the Board,

LN Mbindyo
Company Secretary
23 February 2017

Statement of Directors' responsibilities

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

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

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii. Selecting suitable accounting policies and then apply them consistently; and
iii. Making judgements and accounting estimates that are reasonable in the circumstances

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

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

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

…………………………………	…………………………………
Chairman	Director
Name Fred M. Ojiambo, MBS, SC	Name: Peter M. Gethi

…………………………………
Chief Executive
Name: PHILIP ODERA

Independent auditor's report

To the Shareholders of Stanbic Bank Kenya Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Stanbic Bank Kenya Limited (the Company) set out on pages 10 to 116 which comprise the statement of financial position at 31 December 2016 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statements, which include a summary of a significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Stanbic Bank Kenya Limited at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015.

Basis for opinion

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

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

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

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Credit risk and impairment of loans and advances to customers and other banks	
As explained in Note 3.2 to the financial statements, the directors make complex and subjective judgements over valuation of loans and advances. Because of the significance of the judgement involved and the size of loans and advances which is approximately 65% of the total assets, the audit of loan impairment provisions is an area of focus.	We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the identification of loans and advances that were impaired and the calculation of the impairment provisions.

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

Key audit matter	How our audit addressed the Key audit matter
Credit risk and impairment of loans and advances to customers and other banks (continued) The business is structured into two segments, Corporate and Investment Banking (CIB) and Personal and Business Banking (PBB). For CIB accounts, impairment for non-performing loans and advances is calculated individually for each loan as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the loan. Where no evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment using an unidentified corporate impairment model. The key inputs to the unidentified CIB impairment model are the estimated emergence period and probability of default based on qualitative and quantitative assessment of the portfolio. A standard loss given default rate is also applied across the portfolio. For PBB customers, the key inputs to the model are the roll-rates and probability of default (PD) based on the facility category. Each type of facility also carries a varied loss given default factor. When non-performing loans are identified, the specific impairment provisions are calculated based on the individual non-performing facilities. Unidentified impairment provisions at the portfolio level using models which are internally developed.	We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the identification of loans and advances that were impaired and the calculation of the impairment provisions. In addition, we examined a sample of loans and advances which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate by using external evidence in respect of the relevant counterparties. Where impairment was individually calculated, we tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner including, where relevant, how forbearance had been considered. Where impairment is specific, we examined the forecast of future cash flows prepared by management to support the calculation of the impairment, assessing the assumptions and comparing estimates to external evidence where available. Where impairment was calculated using a model, we tested the basis and operation of those models and the data and assumptions used. Our audit procedures included the following; - Comparison of the principal assumptions made with our own knowledge of other practices and actual experience. - Testing the operation of the models used to calculate the impairment including, in some cases, developing independent expectations and comparing results. - Considering the potential effect of events which were not captured by management's models and evaluating how management has responded to these events by making further adjustments to the models where appropriate. Overall, we found that management's explanations were consistent with the evidence we obtained.

Key audit matter	How our audit addressed the Key audit matter
Hyperinflationary accounting for South Sudan branch As explained in Note 2.21 to the financial statements, the Bank has applied hyperinflationary accounting for the South Sudan branch. Although one of the indicators that an economy is hyperinflationary under IAS 29 is the cumulative inflation rate over a three year period exceeds a rate of 100%, the determination of whether an economy is hyperinflationary is a matter of judgment. The group accounting policy requires the application of hyperinflation accounting where an economy's three-year cumulative inflation rate and the monthly year-on-year inflation exceed a rate of 100%. Based on the policy, the directors have applied hyperinflation accounting for the South Sudan branch for the period ending 31 December 2016. As a result, the group rebased the financial statements of the branch; which has a South Sudanese Pound functional currency for inclusion in the Bank's financial statements for the year ending 31 December 2016. Our audit focused on the appropriateness of the price indices used in rebasing the financial information and the correct application of the requirements of IAS 29 in the financial statements.	We reviewed the bank's accounting policies regarding financial reporting in hyperinflationary economies and assessed whether the policies were in line with the provisions of IAS 29; We tested reasonableness of the price index used by the Bank, together with the related assumptions; We tested the computation including rebasing monetary loss for compliance with the principles of IAS 29; and We evaluated the disclosures in the financial statements for compliance with the requirements of IAS 29.
Information technology (IT) systems and controls over financial reporting The Company's financial accounting and reporting processes are heavily dependent on complex IT systems and applications. Specifically, the calculation, recording, and financial reporting of transactions and balances related to revenue, interest costs, fees and commissions, loans and advances, investments in securities and customers deposits are significantly dependent on IT automated systems and processes. There is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial accounting and reporting. We examined the framework of governance over the Company's IT organization and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. Where necessary, we also carried out direct tests of certain aspects of the security of the Company's IT systems including access management and segregation of duties. We re-performed the significant automated computations and compared our results with those from the system and the general ledger. We tested the significant system interfaces to ensure the accuracy and completeness of the data transfer. The combination of these tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the continued and proper operation of the Company's IT systems for the purpose of the audit of the financial statements.

Other information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal requirements

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

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

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

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

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

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

24 February 2017

Statement of profit or loss

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

The notes set out on pages 16 to 116 form an integral part of these financial statements.

Statement of other comprehensive income

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

The notes set out on pages 16 to 116 form an integral part of these financial statements.

Statement of financial position

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

The notes set out on pages 16 to 116 form an integral part of these financial statements.

The financial statements on pages 10 to 116 were approved for issue by the Board of Directors on 23 February 2017 and signed on its behalf by:

Chairman
Name Fred N. Ojiambo, MBS, SC

Chief Executive
Name: PHILIP ODERA

Director
Name: Peter N. Gethi

Company Secretary
Name: Lillian Mbindyo

Statement of changes in equity

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

The notes set out on pages 16 to 116 form an integral part of these financial statements.

Statement of changes in equity (continued)

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

The notes set out on pages 16 to 116 form an integral part of these financial statements.

Statement of cash flows

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

The notes set out on pages 16 to 116 form an integral part of these financial statements.

Notes

1. General information

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

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

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

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

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

2. Summary of significant accounting policies

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

a) Basis of preparation

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

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

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

- purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 2.5);
- property and equipment and intangible assets are accounted for using the cost model (accounting policy 2.7 and 2.8);
- the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy 3.2).
- Hyperinflation-The South Sudan economy has been considered to be hyperinflationary. Accordingly, the results, cash flows and financial position of the, have been expressed in terms of the measuring unit current at the reporting date (accounting policy 2.21)

b) Functional and presentation currency

The annual financial statements are presented in Kenya Shillings (KShs) which is the functional and presentation currency of the Bank. All amounts are stated in thousands of shillings (KShs 000), unless indicated otherwise.

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

2	**Summary of significant accounting policies (continued)**
c)	**Changes in accounting policies and disclosures**
i)	***Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank***

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

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

Amendment to IAS 7 – Cash flow statements, in January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities. The standard is effective for accounting periods beginning on or after 1 January 2017. Early adoption is permitted. The Bank is in the process of determining IAS 7 full impact.

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

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

2.	**Summary of significant accounting policies (continued)**
c)	**Changes in accounting policies and disclosures (continued)**
i	***Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (continued)***

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

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

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

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

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

2.	**Summary of significant accounting policies (continued)**
c)	**Changes in accounting policies and disclosures (continued)**
i	***Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (continued)***
	IFRS 16 – Leases, IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The application of the standard is however exempt for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture). A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios). IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Bank is assessing the impact of IFRS 15. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2. Summary of significant accounting policies (continued)

2.1 Translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Foreign operations

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

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

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

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

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

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

2.	Summary of significant accounting policies (continued)
2.2	**Net interest income**
	Interest income and expense (with the exception of those borrowing costs that are capitalised – refer to accounting policy 2.9 – Capitalisation of borrowing costs) are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss which are included under trading income. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate. Where the estimates of payments or receipts on financial assets (except those that have been reclassified – refer to accounting policy 2.5 – Financial instruments) or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income. Where financial assets have been impaired, interest income continues to be recognised as interest in suspense on the impaired value based on the original effective interest rate. Fair value gains and losses on realised debt financial instruments, including amounts reclassified from OCI in respect of available-for-sale debt financial assets, and excluding those classified as held-for-trading, are included in net interest income. Dividends received on preference share investments classified as debt form part of the bank's lending activities and are included in interest income.
2.3	**Non-interest revenue**
a)	**Net fee and commission revenue**
	Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the bank does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income. The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract. Fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.
b)	**Trading revenue**
	Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.
c)	**Other revenue**
	Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, dividends relating to those financial instruments, and remeasurement gains and losses from contingent consideration on disposals and purchases. Gains and losses on equity available-for-sale financial assets are reclassified from OCI to profit or loss on derecognition or impairment of the investments. Dividends on these instruments are recognised in profit or loss.

2. Summary of significant accounting policies (continued)

2.3 Non-interest revenue (continued)

d) Revenue sharing agreements with related companies

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

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

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

2.4 Cash and cash equivalents

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

2.5 Financial instruments

I) initial recognition and measurement

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

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

II) Subsequent measurement

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

a) Held-to-maturity

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

This excludes:

a) those that the bank upon initial recognition designates at fair value through profit or loss;

b) those the bank designates as available for sale; and

c) those that meet the definition of loans and receivables.

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

2. Summary of significant accounting policies (continued)

2.5 Financial instruments(continued)

II) Subsequent measurement continued)

b) Held-for-trading assets and liabilities

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

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

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

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

- this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. Under this criterion, the main classes of financial instruments designated by the bank are loans and advances to banks and customers and financial investments. The designation significantly reduces measurement inconsistencies that would have otherwise arisen. For example, where the related derivatives were treated as held-for-trading and the underlying financial instruments were carried at amortised cost. This category also includes financial assets used to match investment contracts

- groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the bank's key management personnel on a fair-value basis. Under this criterion, certain private equity, and other investment portfolios have been designated at fair value through profit or loss; or

- financial instruments containing one or more embedded derivatives that significantly modify the instruments' cash flows. Subsequent to initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (interest expense) for all debt financial assets (financial liabilities) and in other revenue within non-interest revenue for all equity instruments.

d) Available-for-sale

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

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

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

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

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

II) Subsequent measurement (continued)

e) Loans and advances

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

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

f) Financial liabilities at amortised cost

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

III) Reclassification of financial assets

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

Derivatives or any financial instrument designated at fair value through profit or loss shall not be reclassified out of their respective categories.

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

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

2.	**Summary of significant accounting policies (continued)**
2.5	**Financial instruments(continued)**
	IV) Impairment of financial assets
	a) Assets carried at amortised cost

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

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

- known cash flow difficulties experienced by the borrower
- a breach of contract, such as default or delinquency in interest and/or principal payments
- breaches of loan covenants or conditions
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, and
- where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the bank would not otherwise consider.

The bank first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Non-performing loans include those loans for which the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.5 Financial instruments(continued)

IV) Impairment of financial assets (continued)

b) Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to on-going review to determine whether they are considered to be impaired or past due.
The effective interest rate of renegotiated loans that have not been derecognised (described under the heading Derecognition of financial instruments), is predetermined based on the loan's renegotiated terms.

c) Available-for-sale financial assets

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

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

V) Offsetting financial instruments

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

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

VI) Derivative financial instruments

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

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

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

VII) Borrowings

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

2. Summary of significant accounting policies (continued)

2.5 Financial instruments(continued)

VIII) Financial guarantee contracts

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

IX) Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the bank has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the bank is recognised as a separate asset or liability.

The bank enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.
When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss.
In all other instances, the renegotiated asset or liability's effective interest rate is predetermined taking into account the renegotiated terms.

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.6 Fair value

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

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

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

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

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.7 Property and equipment

Equipment and owner-occupied properties, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any.
Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the bank and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised the income statement as incurred.

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

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

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

There has been no significant change to the estimated useful lives and depreciation methods from those applied in the previous financial year.
An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.
The assets' residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.

2.8 Intangible assets – computer software

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

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

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

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

2. Summary of significant accounting policies (continued)

2.9 Capitalisation of borrowing costs

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

2.10 Impairment of non-financial assets

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

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

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

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

2.11 Leases

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

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

I) Bank as lessee

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

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

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

2.	Summary of significant accounting policies (continued)
2.11	Leases (continued)
	II) Bank as lessor
	Leases, where the bank transfers substantially all the risks and rewards incidental to ownership, are classified as finance leases. All other leases are classified as operating leases. Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances in the statement of financial position. Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return. The tax benefits arising from investment allowances on assets leased to clients are accounted for in the direct taxation line. Operating lease income from properties held as investment properties, net of any incentives given to lessees, is recognised on the straight-line basis or a more representative basis where applicable over the lease term. When an operating lease is terminated before the lease period has expired, any payment required by the bank by way of a penalty is recognised as income in the period in which termination takes place.
2.12	Provisions, contingent assets and contingent liabilities
	Provisions are recognised when the bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in provision due to passage of time is recognised as an expense. Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. A provision for restructuring is recognised when the bank has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the bank recognises any impairment loss on the assets associated with that contract. Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the bank, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the bank’s control. Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit. Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote.

2.	Summary of significant accounting policies (continued)
2.13	**Taxation**
	I) Direct tax
	Current tax includes all domestic and foreign taxes based on taxable profits and capital gains tax. Current tax is determined for current period transactions and events and deferred tax is determined for future tax consequences. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised for all taxable temporary differences, except :• the initial recognition of goodwill • the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses, and • investments in subsidiaries, associates and jointly controlled arrangements (excluding mutual funds) where the bank controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. They are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.
	II) Dividends tax
	Taxes on dividends declared by the bank are recognised as part of the dividends paid within equity as dividend tax represents a tax on the shareholder and not the bank. Dividends tax withheld by the bank on dividends paid to its shareholders and payable at the reporting date to the Kenya Revenue Authority (where applicable) is included in trade and other payables in the statement of financial position.
	III) Indirect taxation
	Indirect taxes, including non-recoverable VAT, skills development levies and other duties for banking activities, are recognised in profit or loss and included in administrative expenses.

2.	**Summary of significant accounting policies (continued)**
2.14	**Employee benefits**
	I) Defined contribution plan
	The bank operates a number of defined contribution plans, based on a percentage of pensionable earnings funded by both employer companies and employees, the assets of which are generally held in separate trustee-administered funds. Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees. The bank employees also contribute to the National Social Security Fund, these contributions are determined by local statutes and the Bank's contributions are charged to profit or loss in the year which they relate to.
	II) Termination benefits
	Termination benefits are recognised as an expense when the bank is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.
	III) Short-term benefits
	Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.
2.15	**Dividends**
	Dividends in ordinary shares are charged to equity in the period in which they are declared.
2.16	**Equity**
	Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.
	I) Share issue costs
	Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.
	II) Distributions on ordinary shares
	Distributions are recognised in equity in the period in which they are declared. Distributions declared after the reporting date is disclosed in the distributions note. Proposed dividends are disclosed separately within equity until declared.
2.17	**Earnings per share**
	.Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary share shareholders and the weighted average number of ordinary shared outstanding for the effects of all dilutive potential shareholders if any.

2. Summary of significant accounting policies (continued)

2.18 Equity-linked transactions

Equity compensation plans

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

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

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

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

2.19 Segment reporting

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

Transactions between segments are priced at market-related rates.

2.20 Fiduciary activities

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

2.21 Hyperinflation

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

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

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

2.	**Summary of significant accounting policies (continued)**
2.21	**Hyperinflation (continued)**
	From the date of initial application and in subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. Items in the statement of financial position not already expressed in terms of the measuring unit current at the reporting period, such as non-monetary items carried at cost or cost less depreciation, are restated by applying a general price index. The restated cost, or cost less depreciation, of each item is determined by applying to its cost and accumulated depreciation the change in the general price index calculated from the later of the beginning of the reporting period and the date of acquisition up to the end of the reporting period. An impairment loss is recognised in profit or loss if the restated amount of a non-monetary item exceeds its estimated recoverable amount. Restated retained earnings are derived from all other amounts in the restated statement of financial position. All items recognised in the income statement are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred. Gains or losses on the net monetary position are recognised in profit or loss within trading income . All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting period.
2.22	**Letters of Credit Acceptances**
	Letters of credit acceptances arise in two ways i) Issuing Bank: At initial recognition where the bank is the issuing bank .the banks recognises a contingent liability for the amount that the issuing bank may be required to pay out to the confirming bank or beneficiary should the terms and conditions underlying the contract be met. On the date that all terms and conditions underlying the contract are met: The banks recognises a financial asset (at fair value) on balance sheet as part of loans and advances for the contractual right to receive cash from the applicant. Concurrency the bank recognises a financial liability (at fair value) on balance sheet as part of deposits for the contractual obligation to deliver cash to the beneficiary or the confirming bank, depending on the structure of the arrangement. ii) Confirming Bank At initial recognition where the bank is the issuing bank .the banks recognises for amount that the confirming bank may be required to pay out to the beneficiary should the terms and conditions underlying the contract be met. The bank concurrently recognizes a contingent asset for the amount that the confirming bank may be entitled to receive from the issuing bank. On the date that all terms and conditions underlying the contract are met: The banks recognises a financial asset (at fair value) on balance sheet as part of loans and advances for the contractual right to receive cash from the issuing bank and concurrently recognises a financial liability (at fair value) on balance sheet as part of deposits for the contractual obligation to deliver cash to the beneficiary.

3. Critical accounting estimates and judgements in applying accounting policies

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

3.1 Going concern

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

3.2 Credit impairment losses on loans and advances

I) Portfolio loan impairments

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

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

The impairment for performing and non-performing but not specifically impaired loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

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

II) Specific loan impairments

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

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

3.	**Critical accounting estimates and judgements in applying accounting policies (continued)**
3.2	**Impairment of available–for–sale investment**
	The Bank reviews its debt securities classified as available–for–sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.
3.3	**Fair value of financial instruments**
	The fair value of financial instruments that are not quoted in active markets is determined using valuation techniques. Wherever possible, models use only observable market data. Where required, these models incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments. The total amount of the change in fair value estimated using valuation techniques not based on observable market data that was recognised in profit or loss for the year ended 31 December 2016 was a profit of KShs nil (2015: KShs nil). Additional disclosures on fair value measurements of financial instruments are set out in notes 2.6 and 5.
3.4	**Development costs**
	The Bank capitalises development costs for an intangible assets in accordance with the accounting policy detailed in note 2.8. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone and where the bank is able to demonstrate its intention and ability to complete and use the software.
3.5	**Income taxes**
	The bank is subject to direct taxation in two jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The bank recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in note 32 and note 33, respectively, in the period in which such determination is made. **Deferred tax assets** Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and on-going developments will determine the recognition of deferred tax. The most significant management assumption is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the entities in the bank in order to utilise the deferred tax assets. Note 32 summarises the details of the carrying amount of the deferred tax assets. Accounting policy 2.13 provides further detail regarding the bank's deferred tax accounting policy.

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

3.6 Share-based payment

The bank has a number of cash and equity-settled share incentive schemes which are issued to qualifying employees based on the rules of the schemes. The bank uses the Black-Scholes option pricing model to determine the fair value of awards on grant date for its equity-settled share incentive schemes. The valuation of the bank's obligation with respect to its cash-settled share incentive scheme obligations is determined with reference to the SBG share price, which is an observable market input. In determining the expense to be recognised for both the cash and equity-settled share schemes, the bank estimates the expected future vesting of the awards by considering staff attrition levels. The bank also makes estimates of the future vesting of awards that are subject to non-market vesting conditions by taking into account the probability of such conditions being met. Refer to note 36 (b) for further details regarding the carrying amount of the liabilities arising from the bank's cash-settled share incentive schemes and the expenses recognised in the income statement.

3.7 Provisions

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

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

3.8 Hyperinflation

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

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

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

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

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

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

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

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

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

4. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risks
- Operational risks.

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

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

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

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

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

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

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

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

4. Financial risk management (continued)

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.

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

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

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

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

The Bank is required at all times to maintain:

- A minimum level of regulatory capital of KShs 1 billion as at 31 December 2016;
- A core capital (tier 1) of not less than 10.5 %(2015: 10.5%) of total risk weighted assets plus risk weighted off-statement of financial position items;
- A core capital (tier 1) of not less than 10.5% (2015: 10.5%)of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 14.5% (2015: 14.5%) of its total risk weighted assets plus risk adjusted off statement of financial position items.

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

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

The bank has complied with these requirements

4. Financial risk management (continued)

4.1 Capital management (continued)

The Bank's capital adequacy level was as follows:

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

4. Financial risk management (continued)

4.2 Credit risk

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

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

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

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

4.2.1 Governance committees

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

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

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

4.2.2 General approach to managing credit risk.

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

The Bank manages credit risk through:

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

4.	**Financial risk management (continued)**
4.2	**Credit risk(continued)**
4.2.2	**General approach to managing credit risk (continued)**
	Primary responsibility for credit risk management resides with the Bank's business lines. This is complemented with an independent credit risk function embedded within the business units, which is in turn supported by the overarching group risk function. Impairment provisions are provided for losses that have been incurred at the statement of financial position date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Bank's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. The exposure to any one borrower including banks is further restricted by sub-limits covering on - and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.
4.2.3	**Management reporting** A number of reports are prepared as management information on credit risk. Various analysis of the data are done and a variety of reports are prepared on a monthly and quarterly basis. Some of these reports include: ▪ Monthly BCRC Report ▪ Quarterly Board Audit Report ▪ Quarterly Board Risk Report ▪ Regulatory returns ▪ Half-year results ▪ Annual financial statements These reports are distributed to Standard Bank Group controlling divisions, regulators and are available for inspection by authorised personnel.

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.4 Credit risk measurement

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

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

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

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

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

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

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

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

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

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

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

Notes (continued)

4.	Financial risk management (continued)
4.2	Credit risk (continued)
4.2.4	Credit risk measurement (continued)

Relationship between the bank master rating and external ratings

Core Banking system rating scale	Moody's Investor Services	Standard & Poor's	Fitch	Grading	Credit quality
1-4	Aaa, Aa1, Aa2,Aa3	AAA,AA+,AA,AA-	AAA, AA+,AA,AA-	Investment grade	Normal monitoring
5-7	A1, A2, A3	A+, A, A-	A+ A, A-		
8-12	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-		
13-21	Ba1, Ba2, Ba3, B1, B2, B3	BB+, BB, BB-, B+, B, B-	BB+,BB, BB-, B+,B, B-	Sub- investment grade	
22-25	Caa1, Caa2, Caa3,Ca	CCC+,CCC,CCC-	CCC+,CCC,CCC-		Closing monitoring
Default	C	D	D	D	D

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below:

(a) Credit tailored to customer profile

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

- Corporate and Investment Banking
- Personal and Business Banking

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

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

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

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

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

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

(a) Credit tailored to customer profile (continued)

Personal and Business Banking (PBB) Retail portfolio

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

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

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

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

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

(c) Master netting arrangements

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

(d) Derivatives

For derivative transactions, the bank typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure, where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market 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.

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

(e) Collateral

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

Personal and Business Banking	
Mortgage lending	First ranking legal charge over the property financed.
Instalment sales	Joint registration of vehicles.
Other loans and advances	Debentures over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees
Corporate and Investment Banking	
Corporate lending .	All assets debenture over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees

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

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

Valuation of collateral

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

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

Collateral includes:

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

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

In the retail portfolio, 80% (2015: 79%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures above 50% collateral coverage category is 100% (2015: 71%). Of the bank's total exposure, 14% (2015: 42%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

(e) Collateral (continued)

						Collateral coverage - Total		
31 December 2016	**Total exposure**	**Unsecured exposure**	**Secured exposure**	**Netting agreements**	**Secured exposure after netting**	**Greater than 0% to 50%**	**Greater than 50% to 100%**	**Greater than 100%**
Asset class								
Corporate	94,310,513	8,706,507	85,604,007	-	85,604,007	-	85,604,007	
Sovereign	59,833,277	59,833,277		-	-	-	-	-
Bank	16,884,257	16,884,257		-	-	-	-	-
Retail	58,058,106	11,156,019	46,902,087	-	46,902,087	-	28,765,239	-
-Retail mortgage	18,136,848		18,136,848	-	18,136,848	-		-
-Other retail	39,921,258	11,156,019	28,765,239	-	28,765,239		28,765,239	
Total	**229,086,153**	**96,580,059**	**132,506,094**	**-**	**132,506,094**	**-**	**114,369,246**	**-**
Add: Financial assets not exposed to credit risk	5,383,409							
Add: Coins and bank notes	1,571,639							
Add: Other financial assets	3,811,770							
Less: Impairments for loans and advances	(3,591,243)							
Less: Unrecognised off balance sheet items	(30,573,965)							
Total exposure	**200,304,354**							
Reconciliation to balance sheet								
Cash and balances with central banks	8,621,228							
Derivative assets	2,472,190							
Financial assets - available-for-sale	34,037,537							
Financial assets – held for trading	15,995,195							
Pledged assets - available-for-sale	2,894,456							
Other financial assets	3,811,770							
Net loans and advances	132,471,978							
Total on – balance sheet exposure	**200,304,354**							

Notes (continued)

4.	**Financial risk management (continued)**
4.2	**Credit risk (continued)**
4.2.5	**Risk limit control and mitigation policies (continued)**
(e)	**Collateral (continued)**

31 December 2015	**Total exposure**	**Unsecured exposure**	**Secured exposure**	**Netting agreements**	**Secured exposure after netting**	**Collateral coverage - Total: Greater than 0% to 50%**	**Greater than 50% to 100%**	**Greater than 100%**
Asset class								
Corporate	96,527,969	3,869,097	92,658,872	-	92,658,872	5,666,386	81,892,739	5,099,747
Sovereign	53,111,448	53,111,448	-	-	-	-	-	-
Bank	23,114,332	23,114,332	-	-	-	-	-	-
Retail	51,477,884	10,606,843	40,871,041	-	40,871,041	2,280,152	36,538,751	2,052,137
-Retail mortgage	18,032,916	-	18,032,916	-	18,032,916	-	18,032,916	-
-Other retail	33,444,968	10,606,843	22,838,125	-	22,838,125	2,280,152	18,505,835	2,052,137
Total	**224,231,633**	**90,701,720**	**133,529,913**	**-**	**133,529,913**	**7,946,538**	**118,431,490**	**7,151,884**
Add: Financial assets not exposed to credit risk	10,630,652							
Add: Coins and bank notes	9,562,545							
Add: Other financial assets	1,068,107							
Less: Impairments for loans and advances	(2,430,402)							
Less: Unrecognised off balance sheet items	(37,362,184)							
Total exposure	**195,069,699**							
Reconciliation to balance sheet								
Cash and balances with central banks	11,279,882							
Derivative assets	4,377,196							
Financial assets - available-for-sale	28,947,969							
Financial assets – held for trading	16,251,044							
Pledged assets - available-for-sale	3,439,383							
Other financial assets	2,611,069							
Net loans and advances	128,163,156							
Total on – balance sheet exposure	**195,069,699**							

4.	**Financial risk management (continued)**
4.2	**Credit risk (continued)**
4.2.5	**Risk limit control and mitigation policies (continued)**
(e)	**Collateral (continued)**

Repossessed collateral

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

	2016 KShs' 000	2015 KShs' 000
Nature of assets		
Residential property	33,900	47,600
Other	246,892	178,780
	280,792	**226,380**

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

Renegotiated financial assets

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

	2016 KShs' 000	2015 KShs' 000
Personal and Business Banking		
Instalment sales and finance leases	535,217	407,790
Other loans and advances	7,000,550	533,184
Corporate and Investment Banking		
Corporate lending	-	-
	7,535,767	**940,974**

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.6 Impairment and provisioning policy

The internal and external rating systems described above focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment (see accounting policy 2.5 (iv)).The difference in provisions as required by IFRS and the Central Bank prudential guidelines is recognised in statutory reserves

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position;
- Deterioration in the value of collateral.

The Bank’s policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

The credit quality of financial assets is managed by the Bank using the Bank’s internal credit rating system. The credit rating system utilises both quantitative and qualitative information in arriving at the credit rating. Financial information is used and is key in arriving at the credit rating of individual borrowers. The qualitative information used in generating the credit rating includes quality of management, account operation and the industry in which the customer operates. The key consideration though remains the ability of the customer to meet its financial obligation from its cash flow.

The impairment provision shown in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two grading (doubtful and loss categories).

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.6 Impairment and provisioning policy (continued)

Criteria for classification of loans and advances

Performing loans

Neither past due nor specifically impaired loans: are loans that are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated 1 to 21, and close monitoring loans are generally rated 22 to 25 using the bank's master rating scale.

Early arrears but not specifically impaired loans: include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse conditions persist.

Non-performing loans

Non-performing loans are those loans for which:

- the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition, or
- instalments are due and unpaid for 90 days or more.

Non-performing specifically impaired loans: are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows.

Specifically impaired loans are further analysed into the following categories:

- *Sub-standard:* Items that show underlying well-defined weaknesses and are considered to be specifically impaired.
- *Doubtful:* Items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items.
- *Loss:* Items that are considered to be uncollectible in whole or in part. The bank provides fully for its anticipated loss, after taking collateral into account.

4.2.7 Credit Quality

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

Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 4.2.5. The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both the loan and advances portfolio and debt securities based on the following:

- 61% of the total maximum exposure is derived from loans and advances to customers (2015: 54%); 26% represents investments in debt securities (2015: 25%).
- 86% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2015: 78%);
- 96% of the loans and advances portfolio are considered to be neither past due nor impaired (2015: 96%); and
- 100% of all the debt securities, which the Bank has invested in, are issued by the Central Bank of Kenya (2015: 99%).

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 (b) Credit quality by class

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

Year ended 31 December 2016			Performing loans			Non-performing loans											
			Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans										
							NPL NET OF IIS										
	Total loans and advances to customers KShs'000 2016	Balance sheet impairments for performing loans KShs'000 2016	Normal monitoring KShs'000 2016	Close monitoring KShs'000 2016	Early arrears KShs'000 2016	Non-performing KShs'000 2016	Sub-standard KShs'000 2016	Doubtful KShs'000 2016	Loss KShs'000 2016	Total KShs'000 2016	Securities and expected recoveries on specifically impaired loans KShs'000 2016	Net after securities and expected recoveries on specifically impaired loans KShs'000 2016	Balance sheet impairments for non-performing specifically impaired loans KShs'000 2016	Gross specific impairment coverage %	Total non-performing loans KShs'000 2016	Non-performing loans %	Interest in Suspense KShs'000 2016
	N=A+B+C+L		A	B	C	D	E	F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
Personal and Business Banking	**54,412,989**	**557,425**	**39,123,400**	**6,804,408**	**5,289,665**	**-**	**2,152,939**	**577,497**	**465,081**	**3,195,516**	**1,819,197**	**1,376,319**	**1,376,319**	**43%**	**3,195,516**	**6%**	**394,450**
- Mortgage lending	18,109,187	91,239	13,191,151	2,727,613	1,539,175		650,992	-	256	651,247	528,532	122,715	122,715	19%	651,247	4%	159,772
- Instalment sales and finance leases	12,338,712	181,505	8,547,258	391,217	2,414,834		445,331	539,097	974	985,402	452,178	533,224	533,224	54%	985,402	8%	115,737
- Card debtors	433,312	10,969	374,556	-	43,337		-	-	15,419	15,419	7,907	7,513	7,513	49%	15,419	4%	-
- Other loans and advances	23,531,779	273,712	17,010,434	3,685,578	1,292,319		1,056,616	38,400	448,432	1,543,447	830,580	712,867	712,867	46%	1,543,447	7%	118,941
Corporate and Investment Banking	**64,307,402**	**921,752**	**54,344,347**	**-**	**7,294,814**	**57,866**	**2,602,921**	**7,454**	**-**	**2,610,375**	**2,707,971**	**(97,596)**	**277,172**	**11%**	**2,668,241**	**4%**	**783,115**
- Corporate lending	64,307,402	921,752	54,344,347	-	7,294,814	57,866	2,602,921	7,454	-	2,610,375	2,707,971	(97,596)	277,172	11%	2,668,241	4%	783,115
Gross loans and advances to customers	**118,720,391**	**1,479,177**	**93,467,747**	**6,804,408**	**12,584,479**	**57,866**	**4,755,859**	**584,952**	**465,081**	**5,805,891**	**4,527,169**	**1,278,723**	**1,653,491**	**28%**	**5,863,757**	**5%**	**1,177,565**
Percentage of total book (%)	100.00%	1.25%	78.73%	5.73%	10.60%	0.05%	4.01%	0.49%	0.39%	4.89%	3.81%	1.08%	1.39%		4.94%		0.99%
Less:																	
Balance sheet impairment for performing loans and advances	(1,479,177)																
Balance sheet impairment for non-performing loans and advances	(1,653,491)																
Net loans and advances to customers	**115,587,723**																

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 (b) Credit quality by class (continued)

Year ended 31 December 2015	Total Loans and Advances to Customers (Net of IIS)	Balance sheet impairments for performing loans	Performing loans: Neither past due nor specifically impaired: Normal monitoring	Performing loans: Neither past due nor specifically impaired: Close monitoring	Not specifically impaired: Early arrears	Not specifically impaired: Non-performing	Specifically impaired loans: Non-performing loans: Sub-standard	Specifically impaired loans: Non-performing loans: Doubtful	Specifically impaired loans: Non-performing loans: Loss	Total	Securities and expected recoveries on specifically impaired	Net after securities and expected recoveries on specifically impaired	Balance sheet impairments for non-performing specifically impaired loans	Gross Specific Impairment Coverage	Total non-performing loans	Non-performing loans	Interest in Suspense LCY'000
	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 %	2015 Kshs'000	2015 %	2015 Kshs'000
	N=A+B+C+L-M		A	B	C	D	E	F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
Personal & Business Banking	**51,119,213**	**589,025**	**36,471,461**	**5,992,222**	**6,167,723**	-	**1,903,928**	**261,532**	**620,175**	**2,785,635**	**1,404,643**	**1,380,992**	**1,083,164**	**38.9**	**2,785,635**	**5.4**	**1,642,524**
Mortgage lending	17,891,656	102,202	12,705,282	2,846,400	1,644,624	-	832,832	-	3,778	836,610	576,617	259,993	118,733	14.2	836,610	4.7	141,260
Instalment sales and finance leases	10,952,446	211,999	7,070,353	388,864	2,737,022	-	513,542	251,918	47,857	813,317	367,120	446,197	389,087	47.8	813,317	7.4	57,110
Card debtors	286,220	-	227,248		49,298	-	-	-	9,674	9,674	262	9,412	9,412	97.3	9,674	3.4	-
Other Loans and Advances	21,988,891	274,824	16,468,578	2,756,958	1,736,779	-	557,554	9,614	558,866	1,126,034	460,644	665,390	565,932	50.3	1,026,576	4.7	99,458
Overdrafts	*763,607*	*13,209*	*354,844*	*183,780*	*212,204*	-	*562*	*1,887*	*10,866*	*13,315*	*-5,882*	*19,197*	*18,661*	*140.2*	*13,315*	*1.7*	*536*
Term Loans	*9,854,983*	*159,659*	*8,345,010*	*320,153*	*682,982*	-	*64,787*	*3,067*	*493,355*	*561,209*	*49,515*	*511,694*	*457,323*	*81.5*	*561,209*	*5.7*	*54,371*
Business Term Loans and Overdrafts	*11,370,301*	*101,956*	*7,768,724*	*2,253,025*	*841,593*	-	*492,205*	*4,660*	*54,645*	*551,510*	*417,011*	*134,499*	*89,948*	*16.3*	*551,510*	*4.9*	*44,551*
Corporate & Investment Banking	**56,292,754**	**570,224**	**36,676,994**	**4,176,834**	**13,756,292**	**124,542**	**1,920,102**	**28,115**	-	**1,948,217**	**1,370,103**	**578,114**	**187,989**	**9.6**	**2,072,759**	**3.7**	**390,125**
Corporate loans	56,292,754	570,224	36,676,994	4,176,834	13,756,292	124,542	1,920,102	28,115	-	1,948,217	1,370,103	578,114	187,989	9.6	2,072,759	3.7	390,125
Gross loans and advances	**107,411,967**	**1,159,249**	**73,148,455**	**10,169,056**	**19,924,015**	**124,542**	**3,824,030**	**289,647**	**620,175**	**4,733,852**	**2,774,746**	**1,959,106**	**1,271,153**	**26.9**	**4,858,394**	**4.5**	**2,032,649**
Percentage of total book (%)	**100%**	**1.08%**	**68.10%**	**9.47%**	**18.55%**	**0.12%**	**3.56%**	**0.27%**	**0.58%**	**4.41%**	**2.58%**	**1.82%**	**1.18%**		**4.52%**		**1.89%**
Less: balance sheet impairment for loans and advances	(2,430,402)																
Net loan advances to customers	**104,981,565**																
Add:																	
Cash and bank balances with central ba	11,279,883																
Derivative assets	4,377,196																
Financial assets available for sale	28,947,969																
Financial assets available for trading	16,251,044																
Pledged assets available for sale	3,439,383																
Other financial assets	2,611,069																
Total on balance sheet exposure	**171,888,109**																
Off balance sheet exposure																	
Letters of credit and bank acceptances	5,439,722																
Guarantees	21,965,002																
Irrevocable unutilised facilities	9,957,460																
Total exposure to credit risk	209,250,293																

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

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

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

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

	Performing (Early arrears)			Non - performing		
31 December 2016	**1 to 29 days KShs'000**	**30 to 59 days KShs'000**	**60 to 89 days KShs'000**	**90 to 180 days KShs'000**	**More than 180 days KShs'000**	**Total KShs'000**
Personal and Business Banking	**3,435,980**	**1,342,009**	**511,677**	**-**	**-**	**5,289,666**
Mortgage lending	975,673	372,007	191,496	-	-	1,539,176
Instalment sales and finance leases	1,488,613	737,579	188,642	-	-	2,414,834
Other loans and advances	971,694	232,423	131,539		-	1,335,656
						-
Corporate and Investment Banking	**5,882,040**	**5**	**1,412,770**	**-**	**57,866**	**7,352,681**
Corporate lending	5,882,040	5	1,412,770	-	57,866	7,352,681
Total recognised financial instruments	**9,318,020**	**1,342,014**	**1,924,447**	**-**	**57,866**	**12,642,347**
31 December 2015						
Personal and Business Banking	**4,184,395**	**1,368,090**	**615,238**	**-**	**-**	**6,167,723**
Mortgage lending	1,045,668	347,436	251,522	-	-	1,644,626
Instalment sales and finance leases	1,776,396	730,076	230,550	-	-	2,737,022
Other loans and advances	1,362,331	290,578	133,166	-	-	1,786,075
						-
Corporate and Investment Banking	**13,034,037**	**309,417**	**412,838**	**-**	**124,542**	**13,880,834**
Corporate lending	13,034,037	309,417	412,838	-	124,542	13,880,834
	-					-
Total recognised financial instruments	**17,218,432**	**1,677,507**	**1,028,076**		**124,542**	**20,048,557**

4.	**Financial risk management (continued)**
4.3	**Market risk**
	Market risk is the risk of a change in market value, earnings (actual or effective) or future cash-flows of a portfolio of financial instruments (including commodities), caused by moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these measures.
4.3.1	**Governance committees** The Bank's policy is that all trading activities are undertaken within the Bank's trading operations. The Board grants general authority to take on market risk exposure to the Bank's Assets and Liabilities Committee (ALCO). Market risk management process is required to measure, monitor and control market risk exposures. The Bank manages market risk through following four principles.
(i)	**Identification of market risks in the trading and banking books** This process entails checking that all market risks are identified. It includes an analysis of new business plans, new products, new pricing models, new risk models and regular reviews by Market Risk staff of financial and management accounts balance sheets, income statements, and portfolio structure hierarchies, accounting classification and accounting elections, jointly with financial control, Risk Self Assessments jointly with operational risk, price testing reports and profit and loss decomposition reports.
(ii)	**Measurement of market risk** Measurement of market risks deals specifically and separately with normal market conditions and stress market conditions. Measurement of trading exposures under stress market conditions is effected by subjecting the portfolios to stress testing, e.g. historical scenarios, hypothetical scenarios on individual asset classes and across different asset classes. In order to highlight 'points of weakness' and identify particular sources of trading book exposure vulnerability, these stress tests capture the effects of abnormal movements in market variables (yield curves including basis curves, volatility surfaces, spot and/or rate moves, credit spread curves, recovery rate sensitivities etc.).
(iii)	**Management of market risk** The Bank manages market risk through a specification of risk appetite in form of market risk limits. It uses a suite of risk measurement techniques, including Value at Risk (VaR), Stress Value at Risk (SVar), stress testing, stop loss triggers, back-testing and specific business unit and product controls.
(iv)	**Reporting of market risk** Market Risk has reporting procedures that highlight for attention within Market Risk or by management all forms of exposures i.e. limit breaches or other reports that will periodically be required to submit to different stakeholders e.g. Local ALCO, Local Board, ICAAP stakeholders, Shareholders (Annual financial statements); Rating agencies; Central Bank of Kenya and other regulators.

4.	**Financial risk management (continued)**
4.3	**Market risk (continued)**
4.3.2	**Market risk exposure on banking operations** Banking-related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and the economic value of equity that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk. The Bank's approach to managing Interest Rate Risk in Banking Book (IRRBB) is governed by applicable regulations and is influenced by the competitive environment in which the Bank operates. Treasury and Capital Management team monitors banking book interest rate risk together with the country ALCO. The market risk function is independent of trading operations and it is accountable to ALCO. It is responsible for identifying, measuring, managing, controlling and reporting market risk as outlined in the market risk governance standard, with support from the central market risk function. The market risk function also has the ability to set individual trader mandates. Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk management unit to move exposures back in line with approved market risk appetite, with such breaches being reported to management and ALCO
4.3.3	**Approved regulatory capital approaches** The Bank applies the Standardized Approach for calculating market risk capital. The standardized method uses a "building block" approach, with the capital charge for each risk category calculated separately. Market risk Qualifying Assets includes interest rate risk assets in the trading book and foreign currency and commodities risk assets throughout the bank. Specific Risk refers to potentially adverse movement in the price of an individual loan/debt owing to factors related to the individual issuers. Specific risk does not affect foreign exchange and commodities related instruments. This is because changes in FX rates and commodities prices are completely dependent on general market movements.
4.3.4	**Trading book market risk** Trading book market risk is represented by financial instruments held on the trading book, arising out of normal global markets' trading activity.
4.3.5	**Approach to managing market risk in the trading book** The Stanbic Bank policy is that all trading activities are undertaken within the Bank's trading operations. The market risk functions are independent of trading operations and accountable to ALCO. All VaR and stressed VaR (SVaR) limits require prior approval from ALCO. The market risk functions have the authority to set limits at a lower level. Market risk teams are responsible for identifying, measuring, managing, monitoring and reporting market risk as outlined in the market risk governance standard. Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk functions to move exposures back in line with approved market risk appetite, with such breaches being reported to management and ALCO.

4.	**Financial risk management (continued)**
4.3	**Market risk (continued)**
4.3.5	**Approach to managing market risk in the trading book**

a. VaR and SVaR

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

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

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

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

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

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

Limitations of historical VaR are acknowledged globally and include:

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

b. Stop-loss triggers

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

c. Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical and hypothetical simulations. Daily losses experienced during the year ended 31 December 2016 did not exceed the maximum tolerable losses as represented by the bank's stress scenario limits.

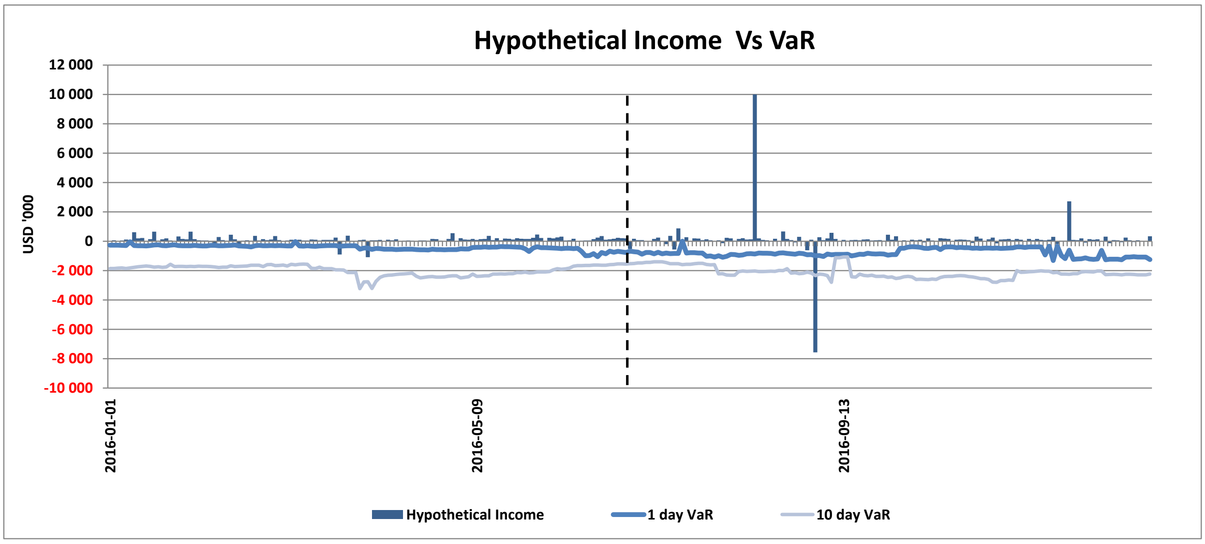
4.	Financial risk management (continued)
4.3	Market risk (continued)
4.3.5	Approach to managing market risk in the trading book (continued)

d. Back-testing

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

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

We categorize a VaR model as green, amber or red and assign regulatory capital multipliers based on this categorization. A green model is consistent with a satisfactory VaR model and is achieved for models that have thirteen or less back-testing exceptions in a 12-month period. All the bank's approved models were assigned green status for the year ended 31 December 2016 (2015: green).



e. Specific business unit and product controls

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

4.	Financial risk management (continued)
4.3	Market risk (continued)
4.3.5	Approach to managing market risk in the trading book (continued)

f. Trading book portfolio characteristics

VaR for the year under review

Trading book market risk exposures arise mainly from residual exposures from client transactions and limited trading for the bank's own account. In general, the bank's trading desks have run low levels of market risk throughout the year ended 31 December 2016

Trading book normal VaR analysis by book (KShs '000)

Desk Name	Maximum	Minimum	Average	31-Dec-2016	31-Dec-2015
Bank wide	151,584	9	46,587	53,491	21,059
FX Trading	155,911	3,616	34,994	41,581	4,498
Consolidated Interest Rate Trading	63,240	8,691	24,113	19,355	20,855
Money Markets Trading	62,749	17,387	26,941	28,524	20,855
Fixed Income Trading	11,605	6	2,817	6	-
Credit Trading	498	224	390	227	409
Derivatives	248	1	24	23	-

Trading book normal VaR analysis by book (KShs '000)

Desk Name	Maximum	Minimum	Average	31-Dec-2015	31-Dec-2014
Bank wide	48,354	12,165	26,682	21,059	27,818
FX Trading	11,654	1,636	4,600	4,498	3,232
Consolidated Interest Rate Trading	49,376	11,654	26,886	20,855	27,882
Money Markets Trading	29,033	11,450	17,890	20,855	13,950
Fixed Income Trading	24,842	-	8,178	-	14,647
Credit Trading	818	307	511	409	724
Derivatives	248	1	24	-	-

Trading book stress VaR analysis by book (KShs '000)

Desk Name	Maximum	Minimum	Average	31-Dec-2016	31-Dec-2015
Bank wide	774,818	755	325,410	310,317	2,866
FX Trading	116,372	29,608	60,659	66,140	414
Consolidated Interest Rate Trading	892,281	65,421	293,119	249,416	2,749
Money Markets Trading	891,496	91,402	315,060	322,731	2,729
Fixed Income Trading	339,149	12	52,032	193	10
Credit Trading	11,969	4,664	9,278	4,707	117
Derivatives	1,654	4	218	158	1

Trading book stress VaR analysis by book (KShs '000)

Desk Name	Maximum	Minimum	Average	31-Dec-2015	31-Dec-2014
Bank wide	2,058,065	7	837,456	2,866	1,322,903
FX Trading	157,841	260	74,831	414	86,270
Consolidated Interest Rate Trading	2,771,007	2,749	876,712	2,749	1,358,199
Money Markets Trading	1,039,358	2,729	510,734	2,729	675,152
Fixed Income Trading	1,225,209	-	443,365	10	663,357
Credit Trading	22,184	115	16,050	117	19,698
Derivatives	102	-	102	1	45

Notes (continued)

4. Financial risk management (continued)

4.3 Market risk (continued)

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

f. Trading book portfolio characteristics (continued)

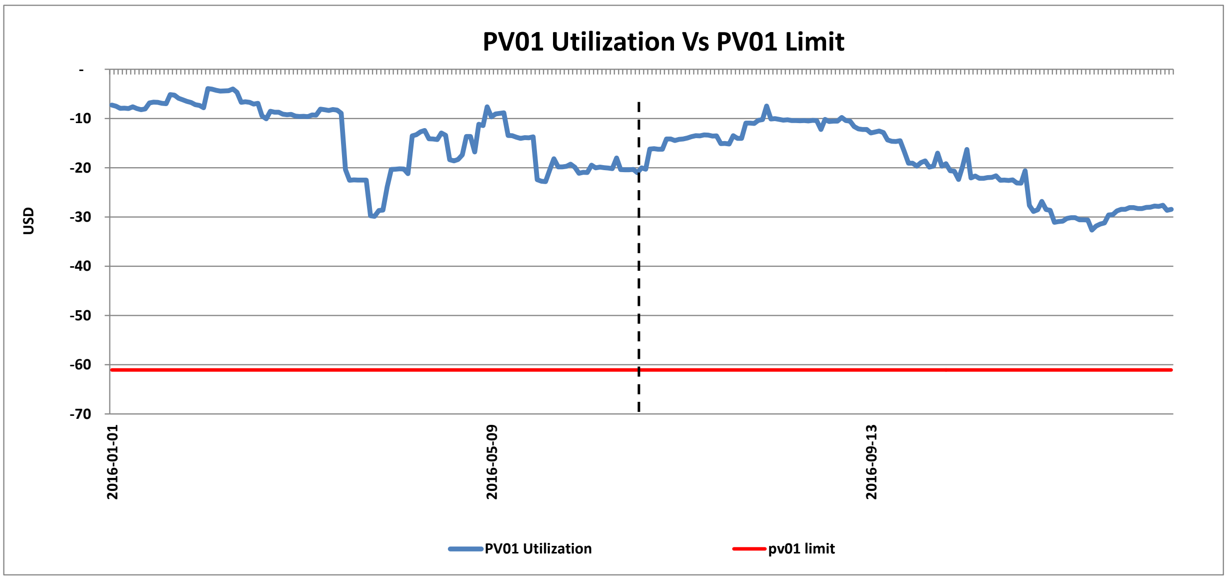
Desk Name	LCY*	EUR	GBP	USD	ZAR	Other FCY**	Total FCY	31 December 2016	31 December 2015
Money Markets Trading	5,818	(2,241)	(914)	(3,756)	0	(48)	(6,959)	(1,141)	(3,600)
Fixed Income Trading	14			(2)			(2)	12	21
Credit Trading	(184)			2			2	(182)	(307)
Derivatives								0	0
FX Trading	130	(69)	(16)	1	(5)	(2)	(91)	39	72
Total Trading	**5,778**	**(2,310)**	**(930)**	**(3,755)**	**(5)**	**(50)**	**(7,050)**	**(1,272)**	**(3,814)**
Money Markets Banking	(16,857)							(16,857)	(17,033)
Treasury Capital Management	(19,332)							(19,332)	3
Total Banking	**(36,189)**							**(36,189)**	**(17,030)**
All Desks (Combined)	**(30,411)**	**(2,310)**	**(930)**	**(3,755)**	**(5)**	**(50)**	**(7,050)**	**(37,461)**	**(20,844)**

*LCY – Local currency

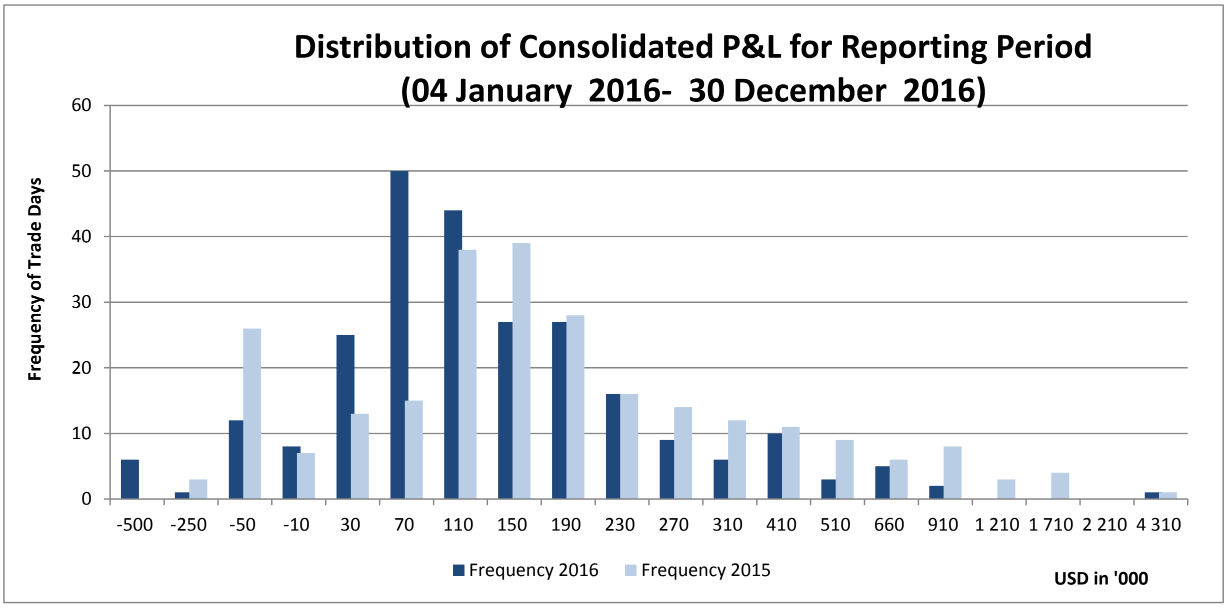
**FCY – Foreign currency

Notes (continued)

4.	**Financial risk management (continued)**
4.3	**Market risk (continued)**
4.3.5	**Approach to managing market risk in the trading book (continued)**
	f. Trading book portfolio characteristics (continued)



Analysis of trading profit



The graph above shows the distribution of daily profit and losses for the period. It captures trading volatility and shows the number of days in which the bank's trading-related revenues fell within particular ranges. The distribution is skewed favorably to the profit side.

For the year ended 31 December 2016, trading profit was positive for 219 out of 251 days. (2015: 217 out of 252 days).

Notes (continued)

4.	Financial risk management (continued)
4.3	Market risk (continued)
4.3.6	Foreign exchange risk

Definition

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

Approach to managing foreign currency risk

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

Hedging is undertaken in such a way that it does not constrain normal operational activities. In particular, the need for capital to fluctuate with risk-weighted assets is taken into account.

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

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

The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2016.

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

At 31 December 2016	USD	GBP	Euro	Others	Total
Assets					
Cash and bank balances	11,441	1,233	535	560	13,769
Loans and advances	59,669	256	4,918	243	65,086
Financial assets – available-for-sale				6	6
Other assets	3,178	22	422	2,574	6,196
Total financial assets	**74,288**	**1,511**	**5,875**	**3,383**	**85,057**
Liabilities					
Amounts due to banking institutions and group companies	33,148	543	57	323	34,071
Customer deposits	45,292	2,636	3,318	822	52,068
Other liabilities	8,618	4	546	2,597	11,765
Total financial liabilities	**87,058**	**3,183**	**3,921**	**3,742**	**97,904**
Net on balance sheet financial position	**(12,770)**	**(1,672)**	**1954**	**(359)**	**(12,847)**
Off balance sheet net notional position	**15,086**	**1,683**	**(1,904)**	**125**	**14,990**
Overall net position	**2,316**	**11**	**50**	**(234)**	**2,143**

4.	Financial risk management (continued)
4.3	Market risk (continued)
4.3.6	Foreign exchange risk (continued)

At 31 December 2015	USD	GBP	Euro	Others	Total
Assets					
Cash and bank balances	15,424	1,608	799	2,686	20,517
Loans and advances	51,700	323	8,408	14	60,445
Financial assets – available-for-sale	-	-	-	59	59
Other assets and prepayments	6,949	-	524	1,816	9,289
Total financial assets	**74,073**	**1,931**	**9,731**	**4,575**	**90,310**
Liabilities					
Amounts due to banking institutions and group companies	49,307	701	172	147	50,327
Customer deposits	41,010	1,538	2,322	2,512	47,382
Other liabilities	7,659	40	623	1,862	10,184
Total financial liabilities	**97,976**	**2,279**	**3,117**	**4,521**	**107,893**
Net on balance sheet financial position	**(23,903)**	**(348)**	**6,614**	**54**	**(17,583)**
Off balance sheet net notional position	**24,575**	**391**	**(6,621)**	**(107)**	**18,239**
Overall net position	**672**	**43**	**(7)**	**(53)**	**656**

The table below indicates the extent to which the Bank was exposed to currency risk as at 31 December on its monetary assets and liabilities denominated in foreign currency. The table shows the sensitivity analysis for each currency to which the Bank has significant exposure and the effect of the change in exchange rate on income statement.

Year ended 31 December 2016 Currency	Increase in currency rate in % 2016	Effect on profit before tax 2016 KShs'000	Effect on equity 2016 KShs'000	Decrease in currency rate in % 2016	Effect on profit before tax 2016 KShs'000	Effect on equity 2016 KShs'000
USD	**1.07%**	64,586	47,352	**1.05%**	63,379	46,467
GBP	**1.72%**	103,821	76,117	**1.89%**	114,082	83,640
EUR	**2.83%**	170,822	125,239	**2.76%**	166,597	122,141
Year ended 31 December 2015 **Currency**	**Increase in currency rate in %** **2015**	**Effect on profit before tax** **2015** **KShs'000**	**Effect on equity** **2015** **KShs'000**	**Decrease in currency rate in %** **2015**	**Effect on profit before tax** **2015** **KShs'000**	**Effect on equity** **2015** **KShs'000**
USD	**1.09%**	7,338	5,137	**1.03%**	-6,891	-4,824
GBP	**1.47%**	632	443	**2.32%**	-997	-698
EUR	**2.74%**	-180	-126	**3.82%**	250	175

4	Financial risk management (continued)
4.3	Market risk (continued)
4.3.7	Interest rate risk

Interest rate risk in the banking book (IRRBB)

Definition

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

IRRBB is further divided into the following sub risk types:

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

Approach to managing IRRBB

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

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

Measurement

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

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.

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.

Currency	Increase in basis points 2016 KShs'000	Sensitivity of net interest income 2016 KShs'000	Sensitivity of other comprehensive income 2016 KShs'000	Decrease in basis points 2016 KShs'000	Sensitivity of net interest income 2016 KShs'000	Sensitivity of other comprehensive income 2016 KShs'000
KShs	350	118,064	-617,187	300	-209,179	529,017
Others*	100	0	0	100	-3,294	0

Currency	Increase in basis points 2015 KShs'000	Sensitivity of net interest income 2015 KShs'000	Sensitivity of other comprehensive income 2015 KShs'000	Decrease in basis points 2015 KShs'000	Sensitivity of net interest income 2015 KShs'000	Sensitivity of other comprehensive income 2015 KShs'000
KShs	350	844,670	(203,213)	300	(901,025)	174,182
Others*	100	8,087	-	100	(6,626)	-

* This is any other currency held by the Bank not denominated in KShs

Notes (continued)

4	Financial risk management (continued)
4.3	Market risk (continued)
4.3.8	Liquidity risk

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

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

The Bank's liquidity risk management framework differentiates between:

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

- **Structural (long-term) liquidity risk management**: ensuring a structurally sound balance sheet, a diversified funding base and prudent term funding requirements.

- **Contingent liquidity risk management:** monitoring and managing early warning liquidity indicators while establishing and maintaining contingency funding plans, undertaking regular liquidity stress testing and scenario analysis, and setting liquidity buffers in accordance with anticipated stress events

Governance committees

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

Approach to managing liquidity risk

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

a) Maintaining a structurally sound statement of financial position;

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

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

b) Foreign currency liquidity management;

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

4	Financial risk management (continued)
4.3	Market risk (continued)
4.3.8	Liquidity risk (continued)

c) Ensuring the availability of sufficient contingency liquidity;
Funding markets are evaluated on an on-going basis to ensure appropriate Bank funding strategies are executed depending on the market, competitive and regulatory environment. The Bank employs a diversified funding strategy.

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

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

f) Maintaining adequate liquidity contingency plans or liquidity buffer;
Portfolios of highly marketable securities over and above regulatory and stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO defined limits on the basis of diversification and liquidity.

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

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

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

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

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

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

4	Financial risk management (continued)
4.3	Market risk (continued)
4.3.8	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:

	2016 %	2015 %
At 31 December	54.6%	73.7
Average for the year	67.5%	54.4
Maximum for the year	74.4%	74.1
Minimum for the year	54.6%	36.1

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

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

Notes (continued)

4	Financial risk management (continued)
4.3	Market risk (continued)
4.3.8	Liquidity risk (continued)
	Maturity analysis for financial assets and financial liabilities

	Carrying value 2016 KShs'000	Gross nominal inflow/(outflow) 2016 KShs'000	Redeemable on demand 2016 KShs'000	Maturing within 1 month 2016 KShs'000	Maturing after 1 month but within 6 months 2016 KShs'000	Maturing after 6 months but within 12 months 2016 KShs'000	Maturing after 12 months but within 5 years 2016 KShs'000	Maturing After 5 years 2016 KShs'000
Non- derivative financial assets								
Cash and balances to banks	**8,621,228**	**8,621,228**	8,082,137	539,091	-	-	-	-
Financial assets held for trading	**15,995,195**	**16,272,449**	-	2,500,000	13,588,724	8,724	174,042	959
Pledged assets – available –for-sale	**2,894,456**	**3,269,088**	-	-	1,583,330	338,818	1,346,940	-
Financial assets- available-for-sale	**34,037,537**	**40,919,356**	-	500,000	23,534,302	5,699,289	2,992,491	8,193,275
Loans and advances to banks	**16,884,257**	**17,383,148**	6,929,429	10,453,720				
Loans and advances to customers	**115,587,723**	**149,678,289**	18,010,452	2,492,451	12,895,566	14,954,705	86,822,797	14,502,319
Other assets	**3,811,770**	**3,811,770**	3,811,770					
	197,832,166	**239,955,328**	**36,833,788**	**16,485,262**	**51,601,922**	**21,001,536**	**91,336,270**	**22,696,553**
Derivative assets:	**2,472,190**							
- Inflows	**-**	3,703,176	-	542,895	1,194,008	418,351	930,716	617,206
- Outflows	**-**	(516,992)		(32,452)	(74,667)	(188,259)	(189,150)	(32,463)
	2,472,190	**3,186,184**	**-**	**510,443**	**1,119,341**	**230,092**	**741,566**	**584,743**
Non- derivative financial liabilities								
Amounts due to other banks	**(36,506,824)**	**(37,551,425)**	(545,947)	(1,912,698)	(906,905)	(10,974,540)	(21,995,087)	(1,216,248)
Customer deposits	**(119,903,557)**	**(119,707,938)**	(100,743,959)	(7,692,769)	(7,539,296)	(3,548,683)	(183,231)	-
Trading liabilities	**(3,867,718)**	**(3,950,391)**		(1,821,997)	(2,128,394)			
Borrowings	**(3,986,138)**	**(6,590,000)**			(259,000)	(259,000)	(6,072,000)	-
Other liabilities	**(5,939,718)**	**(5,939,718)**	(5,939,718)					
Contingent liabilities		**-**						
Capital commitments		**-**						
Operating leases		**-**						
	(170,203,955)	**(173,739,472)**	**(107,229,624)**	**(11,427,464)**	**(10,833,595)**	**(14,782,223)**	**(28,250,318)**	**(1,216,248)**
Derivative liabilities:	**(3,061,063)**							
- Inflows		140,853	-	15,677	50,809	4,638	37,266	32,463
- Outflows		(4,185,754)	-	(645,470)	(1,468,054)	(491,263)	(963,760)	(617,206)
	(3 061 063)	**(4,044,901)**		**(629,793)**	**(1,417,245)**	**(486,625)**	**(926,494)**	**(584,743)**

Notes (continued)

4	Financial risk management (continued)
4.3	Market risk (continued)
4.3.8	Liquidity risk (continued)
	Maturity analysis for financial assets and financial liabilities

	Carrying value 2015 KShs'000	Gross nominal inflow/(outflow) 2015 KShs'000	Redeemable on demand 2015 KShs'000	Maturing within 1 month 2015 KShs'000	Maturing after 1 month but within 6 months 2015 KShs'000	Maturing after 6 months but within 12 months 2015 KShs'000	Maturing after 12 months but within 5 years 2015 KShs'000	Maturing After 5 years 2015 KShs'000
Non- derivative financial assets								
Cash *and* balances to banks	**11,279,882**	**11,279,882**	11,279,882	-	-	-	-	-
Financial assets held for trading	**16,251,044**	**16,725,301**	-	-	8,035,571	6,368,002	2,321,587	141
Pledged assets – available –for-sale	**3,439,383**	**3,961,032**	-	-	487,005	1,681,155	1,792,872	-
Financial assets- available-for-sale	**28,947,969**	**31,056,445**	-	3,248,750	16,740,460	7,022,453	1,685,006	2,359,776
Loans and advances to banks	**23,181,591**	**23,181,591**	10,671,838	12,509,753	-	-	-	-
Loans and advances to customers	**104,981,565**	**149,083,610**	22,670,917	4,938,685	20,103,386	12,696,293	52,983,658	35,690,671
Other assets	**2,611,069**	**2,611,069**	2,611,069	-	-	-	-	-
	190,692,503	**237,898,930**	**47,233,706**	**20,697,188**	**45,366,422**	**27,767,903**	**58,783,123**	**38,050,588**
Derivative assets:	**4,377,196**	**-**	-	-	-	-	-	-
- Inflows	**-**	1,909,870	-	332,264	1,033,097	503,841	38,004	2,665
- Outflows	**-**	(235,147)	-	(989)	(40,299)	(28,180)	(165,599)	(81)
	4,377,196	**1,674,723**	**-**	**331,275**	**992,798**	**475,661**	**(127,595)**	**2,584**
Non- derivative financial liabilities								
Amounts due to other banks	(47,964,264)	(52,280,891)	-	(80,750)	(3,646,759)	(22,883,779)	(21,650,824)	(4,018,779)
Customer deposits	(106,493,201)	(108,444,210)	(62,349,335)	(26,955,982)	(8,467,818)	(9,397,904)	(1,273,171)	-
Trading liabilities	(521,973)	(585,000)	-	(585,000)	-	-	-	-
Borrowings	(6,482,063)	(9,783,304)	-	-	(413,260)	(2,785,113)	(2,326,438)	(4,258,493)
Other liabilities	(5,424,218)	(5,424,218)	(5,424,218)	-	-	-	-	-
Contingent liabilities	(37,362,184)	(37,362,182)	(9,957,460)	(3,321,072)	(10,943,432)	(6,564,897)	(4,910,399)	(1,664,922)
Capital commitments	(208,424)	(208,424)	-	(208,424)	-	-	-	-
Operating leases	(5,118,541)	(5,118,541)	-	-	-	(445,575)	(1,237,280)	(3,435,686)
	(209,574,868)	**(176,726,050)**	**(56,925,117)**	**(31,151,228)**	**(23,471,269)**	**(42,077,268)**	**(31,398,112)**	**(13,377,880)**
Derivative liabilities:	**(3,361,440)**							
- Inflows	**-**	896,493	-	107,514	535,408	232,671	18,235	2,665
- Outflows	**-**	(920,251)	-	(103,692)	(298,232)	(282,614)	(235,632)	(81)
	(3,361,440)	**(23,758)**	**-**	**3,822**	**237,176**	**(49,943)**	**(217,397)**	**2,584**

Notes (continued)

4	**Financial risk management (continued)**
4.3	**Market risk (continued)**
4.3.8	**Liquidity risk (continued)**
	Maturity analysis for financial assets and financial liabilities (continued)

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 comprises cash and cash equivalents and debt securities issued by sovereigns which can be readily sold to meet liquidity requirements. In addition the bank maintains lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central banks.	

Notes (continued)

4 Financial risk management (continued)

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

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

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

	Gross amount of recognised financial assets 2016 KShs'000	Gross amounts of recognised financial liabilities offset in statement of financial position 2016 KShs'000	Net amounts of financial assets presented in the statement of financial position 2016 KShs'000	Financial instruments, financial collateral and cash collateral received 2016 KShs'000	Net amount 2016 KShs'000
Assets					
Loans and advances	137,776,862		132,471,978	2,583,216	129,888,762
Derivative assets	2,472,190		2,472,190	2,472,190	-
	140,249,052	**-**	**134,944,168**	**5,055,406**	**129,888,762**

	Gross amount of recognised financial liabilities 2016 KShs'000	Gross amounts of recognised financial assets offset in statement of financial position 2016 KShs'000	Net amounts of financial assets presented in the statement of financial position 2016 KShs'000	Financial instruments, financial collateral and cash collateral pledged 2016 KShs'000	Net amount 2016 KShs'000
Liabilities					
Deposits	119,903,557		119,903,557	2,583,216	117,320,341
Derivative liabilities	3,061,063		3,061,063		3,061,063
	122,964,620	**-**	**122,964,620**	**2,583,216**	**120,381,404**

	Gross amount of recognised financial assets 2015 KShs'000	Gross amounts of recognised financial liabilities offset in statement of financial position 2015 KShs'000	Net amounts of financial assets presented in the statement of financial position 2015 KShs'000	Financial instruments, financial collateral and cash collateral received 2015 KShs'000	Net amount 2015 KShs'000
Assets					
Loans and advances	104,981,565	-	104,981,565	(5,208,794)	99,772,771
Derivative assets	4,377,196	-	4,377,196	(2,422,497)	1,954,699
	109,358,761	**-**	**109,358,761**	**(7,631,291)**	**101,727,470**

	Gross amount of recognised financial liabilities 2015 KShs'000	Gross amounts of recognised financial assets offset in statement of financial position 2015 KShs'000	Net amounts of financial assets presented in the statement of financial position 2015 KShs'000	Financial instruments, financial collateral and cash collateral pledged 2015 KShs'000	Net amount 2015 KShs'000
Liabilities					
Deposits	106,493,201	-	106,493,201	(5,208,794)	101,284,407
Derivative liabilities	3,361,440	-	3,361,440	-	3,361,440
	109,854,641	**-**	**109,854,641**	**(5,208,794)**	**104,645,847**

Notes (continued)

4 Financial risk management (continued)

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

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

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

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

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

IAS 32 Financial Instruments: Presentation (IAS 32) requires financial assets and financial liabilities to be offset and the net amount presented in the statement of financial position when, and only when, the bank has a current legally enforceable right to set off recognised amounts, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

Notes (continued)

5. Assets and liabilities at fair value

5.1 Fair value hierarchy of instruments measured at fair value

Valuation process

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

Level hierarchy

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

Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the assets and liabilities.

Significant unobservable inputs

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

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

Notes (continued)

5. Assets and liabilities at fair value (continued)

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 2 KShs'000	Total KShs'000
At 31 December 2016			
Assets			
Financial assets – held for trading	21	15,995,195	15,995,195
Financial assets – available-for-sale	22	34,037,537	34,037,537
Pledged assets - available-for-sale	23	2,894,456	2,894,456
Derivative assets	24	2,472,190	2,472,190
		55,399,378	**55,399,378**
Comprising:			
Held-for-trading		18,467,385	18,467,385
Available-for-sale		36,931,993	36,931,993
		55,399,378	**55,399,378**
Liabilities		-	-
Trading liabilities	21	3,867,718	3,867,718
Derivative liabilities	24	3,061,063	3,061,063
		6,928,781	**6,928,781**
Comprising:		**6,928,781**	**6,928,781**
Held-for-trading			

	Note	Level 2 KShs'000	Total KShs'000
At 31 December 2015			
Assets			
Financial assets – held for trading	21	16,251,044	16,251,044
Financial assets – available-for-sale	22	28,947,969	28,947,969
Pledged assets - available-for-sale	23	3,439,383	3,439,383
Derivative assets	24	4,377,196	4,377,196
		53,015,592	53,015,592
Comprising:			
Held-for-trading		20,628,240	20,628,240
Available-for-sale		32,387,352	32,387,352
		53,015,592	53,015,592
Liabilities			
Trading liabilities	21	521,973	521,973
Derivative liabilities	24	3,361,440	3,361,440
		3,883,413	**3,883,413**
Comprising:			
Held-for-trading		**3,883,413**	**3,883,413**

There were no financial assets measured at fair value in level 1 and 3 as at 31 December 2016 and 31 December 2015
There were no transfers between levels in 2016 and 2015.

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

Notes (continued)

5. Assets and liabilities at fair value (continued)

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

Level 2 financial assets and financial liabilities

2016	Valuation basis/technique	Main assumptions[1]
Derivative instruments	Discounted cash flow model	Discount rate
	Black-Scholes model	Risk-free rate, volatility rate
	Multiple valuation technique	Valuation multiples
Trading assets	Discounted cash flow model	Discount rate, liquidity discount rate
	Black-Scholes model	Risk-free rate, volatility rate
Pledged assets	Discounted cash flow model	Discount rate, liquidity discount rate
Financial Assets	Discounted cash flow model	Discount rate, liquidity discount rate
	Multiple valuation technique	Valuation multiples
	Quoted exit price adjusted for notice period	Discount rate

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

Notes (continued)

5. Assets and liabilities at fair value (continued)

5.3 Assets and liabilities not measured at fair value

Level 2 financial assets and financial liabilities

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

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 31 December 2016					
Assets					
Cash and balances with CBK	8,621,228	-	-	-	8,621,228
Loans and advances to banks	6,929,429	-	10,443,277	17,372,706	16,884,257
Loans and advances to customers	18,010,452	-	97,345,584	115,356,036	115,587,723
	33,561,109	**-**	**107,788,861**	**132,728,742**	**141,093,208**
Liabilities					
Deposits from banks	(545,947)	-	(28,318,134)	(28,864,081)	36,506,824
Deposits from customers	(100,743,959)	-	(10,295,199)	(111,039,158)	(119,903,557)
Borrowings	-	(6,095,080)	-	(6,095,080)	(3,986,138)
	(101,289,906)	**(6,095,080)**	**(38,613,333)**	**(145,998,319)**	**(87,382,871)**

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 31 December 2015					
Assets					
Cash and balances with Central Bank of Kenya	11,279,882	-	-	11,279,882	11,279,882
Loans and advances to banks	10,671,838	-	15,600,084	26,271,922	23,181,591
Loans and advances to customers	-	-	113,740,365	113,740,365	104,981,565
	21,951,720	**-**	**129,340,449**	**151,292,169**	**139,443,038**
Liabilities					
Amounts due to other Banks	-	-	(44,113,497)	(44,113,497)	(47,964,264)
Customer deposits	(62,349,335)	-	(35,285,467)	(97,634,802)	(106,493,201)
Borrowings	-	(8,657,793)	-	(8,657,793)	(6,482,063)
	(62,349,335)	**(8,657,793)**	**(79,398,964)**	**(150,406,092)**	**(160,939,528)**

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

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

2016	Valuation basis/technique	Main assumptions
Loans and advances to banks	Discounted cash flow model	Discount rate, liquidity discount rate
Loans and advances to customers	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from banks	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from customers	Discounted cash flow model	Discount rate, liquidity discount rate
Subordinated debt	Discounted cash flow model	Discount rate, liquidity discount rate

Notes (continued)

6. Segment information

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

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

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

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

Personal and Business Banking (PBB)

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

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

Corporate and Investment Banking (CIB)

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

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

Major Customers

The Bank does not have any one major customer that contributes more than 10% of the Bank's revenues. However, the Bank has one major customer whose deposits contribute 5.8% of total deposits as at December 2016 (2015: 8.22%). The interest expense paid to this customer is reported under the Corporate and Investment Banking segment.

Notes (continued)

6. Segment information (continued)

The segment financial results are as follows:

Income statement

	Total KShs'000 2016	Total KShs'000 2015	CIB KShs'000 2016	CIB KShs'000 2015	PBB KShs'000 2016	PBB KShs'000 2015
Interest income	19,263,054	14,665,543	12,094,144	8,753,986	7,168,910	5,911,557
Interest expense	(8,262,713)	(5,490,683)	(6,387,088)	(3,752,224)	(1,875,625)	(1,738,459)
Net interest income	**11,000,341**	**9,174,860**	**5,707,056**	**5,001,762**	**5,293,285**	**4,173,098**
			-		-	
Impairment losses on loans and advances	(2,028,235)	(907,305)	(1,189,709)	(240,239)	(838,526)	(667,066)
Net interest income after loan impairment charges	**8,972,106**	**8,267,555**	**4,517,347**	**4,761,523**	**4,454,759**	**3,506,032**
			-		-	
Fees and commission income	2,884,882	2,945,090	1,289,397	1,279,746	1,595,485	1,665,344
Fees and commission expense	(337,539)	(323,723)	(155,852)	(111,767)	(181,687)	(211,956)
Net fees and commission income	**2,547,343**	**2,621,367**	**1,133,545**	**1,167,979**	**1,413,798**	**1,453,388**
Trading income	4,493,278	4,306,207	4,370,645	3,980,190	122,633	326,017
Net other operating income	15,195	153,137	8,131	20,072	7,064	133,065
Net trading and other income	**4,508,473**	**4,459,344**	**4,378,776**	**4,000,262**	**129,697**	**459,082**
			-		-	
Total income	**16,027,922**	**15,348,266**	**10,029,668**	**9,929,764**	**5,998,254**	**5,418,502**
Employee benefits expense	(5,238,430)	(4,851,926)	(2,277,414)	(2,167,700)	(2,961,016)	(2,684,226)
Depreciation and amortisation expense	(467,748)	(455,304)	(96,755)	(150,631)	(370,993)	(304,673)
Administrative expenses	(4,285,636)	(2,964,017)	(2,538,474)	(1,394,615)	(1,747,162)	(1,569,402)
Profit before income tax	**6,036,108**	**7,077,019**	**5,117,025**	**6,216,818**	**919,083**	**860,201**
Income tax expense	(1,610,705)	(2,379,983)	(1,246,212)	(2,098,232)	(364,493)	(281,751)
Profit for the year	**4,425,403**	**4,697,036**	**3,870,813**	**4,118,586**	**554,590**	**578,450**

Notes (continued)

6. Segment information (continued)

Statement of financial position

	Total KShs'000 2016	Total KShs'000 2015	CIB KShs'000 2016	CIB KShs'000 2015	PBB KShs'000 2016	PBB KShs'000 2015
Assets						
Cash and balances with Central Bank of Kenya	8,621,228	11,279,882	7,871,308	10,239,328	749,920	1,040,554
Financial investments	52,927,189	48,638,396	51,190,443	48,638,396	1,736,746	-
Derivative assets	2,472,191	4,377,196	2,472,191	4,377,196	-	-
Loans and advances to banks	16,884,257	23,181,591	16,341,002	23,181,591	543,255	-
Loans and advances to customers	115,587,723	104,981,565	63,122,632	55,495,189	52,465,091	49,486,376
Investment in subsidiary	10	12	7	2	3	10
Property, equipment and intangibles	3,080,860	2,708,481	1,022,727	799,633	2,058,133	1,908,848
Deferred income tax	1,475,972	434,248	977,062	286,135	498,910	148,113
Current income tax	33,965	365,574	33,965	241,293	-	124,281
Other assets	3,811,769	2,611,069	1,063,476	921,220	2,748,293	1,689,849
Total assets	**204,895,164**	**198,578,014**	**144,094,813**	**144,179,983**	**60,800,351**	**54,398,031**
Liabilities						
Customer deposits	119,903,557	106,493,201	62,647,677	52,855,249	57,255,880	53,637,952
Amounts due to other banks	36,506,824	47,964,264	36,517,365	47,910,844	(10,541)	53,420
Current income tax	1,392,638	80,305	811,553	63,273	581,085	17,032
Trading liabilities	3,867,718	521,973	3,867,718	521,973	-	-
Derivative liabilities	3,061,063	3,361,440	3,061,063	3,361,440	-	-
Borrowings	3,986,138	6,482,063	2,733,649	4,145,719	1,252,489	2,336,344
Other liabilities	5,939,744	5,424,218	4,550,343	3,249,515	1,389,401	2,174,703
Total liabilities	**174,657,682**	**170,327,464**	**114,189,368**	**112,108,013**	**60,468,314**	**58,219,451**
Shareholders' equity	**30,237,482**	**28,250,550**	**17,425,516**	**18,055,195**	**12,811,966**	**10,195,355**
Total equity and liabilities	**204,895,164**	**198,578,014**	**144,094,813**	**144,179,983**	**60,800,351**	**54,398,031**
Additions to property and equipment	373,581	495,168	147,264	132,954	226,317	362,214
Additions to intangible assets	539,803	338,374	201,480	71,879	338,323	266,495
Impairment losses on property and equipment	76,853	25,584	19,601	1,032	57,252	24,552

Notes (continued)

6. Segment information (continued)

The Bank is domiciled in Kenya and the revenue and non-current assets by country of domicile are included in the sections below:

Income statement

	Total KShs'000 2016	Total KShs'000 2015		Kenya KShs'000 2016	Kenya KShs'000 2015		South Sudan KShs'000 2016	South Sudan KShs'000 2015
Interest income	19,263,054	14,665,543		19,259,217	14,653,278		3,837	12,265
Interest expense	(8,262,713)	(5,490,683)		(8,262,711)	(5,490,683)		(2)	-
Net interest income	**11,000,341**	**9,174,860**		**10,996,506**	**9,162,595**		**3,835**	**12,265**
Impairment losses on loans and advances	(2,028,235)	(907,305)		(1,342,006)	(907,305)		(686,229)	-
Net interest income after loan impairment charges	**8,972,106**	**8,267,555**		**9,654,500**	**8,255,290**		**(682,394)**	**12,265**
Fees and commission income	2,884,882	2,945,090		2,649,345	2,661,848		391,147	270,739
Fees and commission expense	(337,539)	(323,723)		(320,881)	(308,378)		(24,154)	(2,842)
Net fees and commission income	**2,547,342**	**2,621,367**		**2,180,349**	**2,353,470**		**366,993**	**267,897**
Trading income	4,493,278	4,306,207		3,069,388	3,537,860		1,423,890	768,347
Net other operating income	15,195	153,137		15,195	32,934		-	120,203
Net trading and other income	**4,508,473**	**4,459,344**		**3,084,583**	**3,570,794**		**1,423,890**	**888,550**
Total income	**16,027,921**	**15,348,266**		**14,919,432**	**14,179,554**		**1,108,489**	**1,168,712**
Employee benefits expense	(5,238,430)	(4,851,926)		(4,908,598)	(4,523,645)		(329,833)	(328,281)
Depreciation and amortisation expense	(467,748)	(455,304)		(460,448)	(413,191)		(7,300)	(42,113)
Administrative expenses	(4,285,636)	(2,964,017)		(3,000,017)	(2,630,836)		(1,285,618)	(333,181)
Profit before income tax	**6,036,108**	**7,077,019**		**6,550,369**	**6,611,882**		**(514,262)**	**465,137**
Income tax expense	(1,610,705)	(2,379,983)		(1,598,678)	(2,290,835)		(12,027)	(89,148)
Profit for the year	**4,425,403**	**4,697,036**		**4,951,691**	**4,321,047**		**(526,289)**	**375,989**

Notes (continued)

6. Segment information (continued)

Statement of financial position

	Total KShs'000 2016	Total KShs'000 2015		Kenya KShs'000 2016	Kenya KShs'000 2015	South Sudan KShs'000 2016	South Sudan KShs'000 2015
Assets							
Cash and balances with Central Bank of Kenya	8,621,228	11,279,883		8,467,161	10,512,095	1,658,560	767,788
Financial investments	52,927,189	48,638,396		52,920,801	48,579,644	6,387	58,752
Derivative assets	2,472,191	4,377,196		2,472,186	4,377,196	4	-
Loans and advances to banks	16,884,257	23,181,590		13,056,320	13,970,754	6,405,533	9,210,836
Loans and advances to customers	115,587,723	104,981,565		115,573,560	104,957,511	14,159	24,054
Investment in subsidiary	10	12		10	12	-	-
Property, equipment and intangibles	3,080,860	2,708,481		3,006,624	2,656,805	74,235	51,676
Deferred income tax asset	1,475,972	434,248		1,475,972	431,215	-	3,033
Current income tax	33,965	365,574		-	365,574	33,965	-
Other assets	3,811,769	2,611,069		5,822,302	2,583,286	167,747	27,783
Total assets	**204,895,164**	**198,578,014**		**202,794,936**	**188,434,092**	**8,360,590**	**10,143,922**
Liabilities							
Customer deposits	119,903,557	106,493,201		115,030,879	99,433,407	4,872,678	7,059,794
Amounts due to other banks	36,506,824	47,964,264		40,000,223	47,213,019	587,222	751,245
Current income tax	1,392,637	80,305		1,384,938	-	7,699	80,305
Trading liabilities	3,867,718	521,973		3,059,755	521,973	1,308	-
Derivative liabilities	3,061,063	3,361,440		3,867,718	3,361,440	-	-
Borrowings	3,986,138	6,482,063		5,580,141	6,482,063	2,539,325	-
Other liabilities	5,939,744	5,424,218		3,986,138	3,825,459	-	1,598,759
Total liabilities	**174,657,682**	**170,327,464**		**172,909,792**	**160,837,361**	**8,008,232**	**9,490,103**
Shareholders' equity	**30,237,482**	**28,250,554**		**29,885,146**	**27,596,727**	**352,357**	**653,823**
Total equity and liabilities	**204,895,163**	**198,578,014**		**202,794,938**	**188,434,088**	**8,360,589**	**10,143,922**
Additions to property and equipment	373,581	495,168		102,065	132,954	271,516	362,214
Additions to intangible assets	539,803	338,374		471,097	71,879	68,706	266,495
Impairment losses on property and equipment	76,853	25,584		76,853	25,584		

Notes (continued)

6. Segment information (continued)

Reconciliation of reportable assets and liabilities

	2016 KShs'000	2015 KShs'000
Assets		
Total assets for reportable segments	211,155,526	203,354,863
Elimination of inter-branch balances	(6,260,363)	(4,776,849)
Entity's total assets	**204,895,163**	**198,578,014**
Liabilities		
Total liabilities for reportable segments	211,155,526	203,354,861
Elimination of inter-branch balances	(6,260,363)	(4,776,847)
Entity's total liabilities	**204,895,163**	**198,578,014**

7. Interest income

Loans and advances to customers	12,097,303	10,486,033
Net income - financial assets - available-for-sale	4,682,207	2,842,722
Loans and advances to banks	2,483,544	1,336,788
	19,263,054	**14,665,543**

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

8. Interest expense

	2016 KShs'000	2015 KShs'000
Current accounts	160,664	127,528
Savings and term deposit accounts	3,538,639	3,173,015
Deposits and loans from banks	3,878,361	1,351,727
Interest on borrowed funds	685,049	838,413
	8,262,713	**5,490,683**

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

9. Fees and commission income

	2016 KShs'000	2015 KShs'000
Points of representation transaction fees	1,088,630	1,165,185
Documentation and administration fees	299,101	175,346
Electronic banking fees	289,805	227,231
Knowledge based fees and commission	760,128	810,405
Card based commission	100,105	67,402
Foreign service fees	325,880	244,275
Other bank related fees and commission	21,232	255,246
	2,884,881	**2,945,090**

Notes (continued)

10. Fees and commission expense

	2016 KShs'000	2015 KShs'000
Points of representation transaction fees	111,358	125,125
Card based commission	60,728	59,232
Other bank related fees and commission	165,453	139,366
	337,539	**323,723**

Other bank related fees and commission includes direct sales agent commissions and card courier fees.

The net fees and commission earned by the bank on trust and fiduciary activities where the bank holds or invests assets on behalf of its customers is KShs 256,760,000 (2015: KShs 290,659,000).

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

11. Trading income

	2016 KShs'000	2015 KShs'000
Net foreign exchange income	3,361,113	3,098,093
Other income – financial assets – held for trading	99,871	140,445
Fixed income – financial assets – held for trading	1,032,294	1,067,669
	4,493,278	**4,306,207**

12. Other operating income

Other income	15,195	153,137
	15,195	**153,137**

13. Employee benefits expense

Salaries and wages	4,888,817	4,531,083
Retirement benefit costs	349,614	320,843
	5,238,431	**4,851,926**
Included in retirement benefit costs are;		
Defined contribution scheme	343,567	315,301
National Social Security Fund	6,047	5,542
	349,614	**320,843**

Notes (continued)

14. Administration and general expenses

	2016 KShs'000	2015 KShs'000
Audit fees	13,585	12,937
Directors' fees	26,155	18,634
Information technology	321,570	319,020
Communication expenses	169,242	168,756
Premises costs	652,258	607,370
Professional fees	656,954	373,100
Stationery and printing costs	45,508	53,255
Marketing and advertising costs	325,008	207,946
Insurance costs	106,409	103,000
Administration and membership fees	36,037	38,953
Training expenses	114,771	106,373
Security expenses	158,414	127,695
Deposit Protection Scheme contribution	171,762	163,724
Leased equipment rental	2,295	1,990
Loss on disposal of fixed assets	75,958	643
Absorbed VAT	312,311	399,277
Impairment of property and equipment	76,853	25,584
Other operating costs	85,128	195,861
	3,350,218	**2,924,118**

Other operating costs relates mainly to travel and entertainment costs incurred in the ordinary course of business.

Notes (continued)

		2016 KShs'000	2015 KShs'000
15	**Finance cost**		
	Bank Charges	61,153	39,899
	Loss in monetary value	1,150,687	-
		1,211,840	**39,899**

		2016 KShs'000	2015 KShs'000
16	**Income tax expense**		
	Current income tax	2,604,749	1,360,980
	Current year charge	2,608,422	1,358,821
	Previous year's charge credit/ debit	(3,673)	2,159
	Deferred income tax	(994,044)	1,019,003
	- Current year charge asset (credit)/ debit	(1,006,951)	1,023,486
	- Current year charge liability	7,699	-
	- Previous year's debit/ (credit)	5,208	(4,483)
	Income tax expense	**1,610,705**	**2,379,983**

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

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

	2016 KShs'000	2015 KShs'000
Profit before income tax	**6,036,107**	**7,077,019**
Tax at statutory tax rate of 30% (2015: 30%)	1,810,832	2,123,106
Tax effect of:		
Income not subjected to tax	(471,698)	90,162
Expenses not deductible for tax purposes	87,445	84,209
Previous year current income tax over provision /(under provision)	15,643	(2,159)
Previous year deferred income tax under provision	(35,356)	(4,483)
Effect of different tax rate in South Sudan	203,839	89,148
Income tax expense	**1,610,705**	**2,379,983**

17. Earnings per share – basic and diluted

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

	2016	2015
Earnings (Profit after tax)		
Earnings for the purposes of basic earnings per share (KShs' 000)	4,425,402	4,697,036
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	170,577	170,577
Earnings per share (KShs) basic and diluted	**25.94**	**27.54**

There were no potentially dilutive shares as at 31 December 2016 or 31 December 2015. Therefore, diluted earnings per share are the same as basic earnings per share.

Notes (continued)

18. Dividend

	2016	2015
The calculation of dividends per share is based on:		
Dividends for the year attributable to ordinary shareholders:		
Interim dividend paid (KShs '000)	700,000	200,000
Final dividend proposed (KShs '000)	1,400,000	1,934,737
	2,100,000	**2,134,737**
Number of ordinary shares at issue date (thousands)	170,577	170,577
Dividends per share – KShs	**12.31**	**12.51**

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

At the Annual General Meeting to be held on 5 May 2017, a final dividend per share in respect of the year ended 31 December 2016 of KShs 8.21 (2015:KShs 11.34) per share amounting to a total of KShs 1,400,000,000 (2015: KShs 1,934,737,000) is to be proposed. These financial statements do not reflect this dividend payable, the proposed dividend has however been transferred to a separate category of equity.

During the year an interim dividend per share of KShs 4.10 (2015: KShs 1.17) per share, amounting to a total of KShs 700,000,000 (2015: KShs 200,000,000) was paid. The total dividend for the year is therefore KShs 12.31 (2015: KShs 12.51) amounting to a total of KShs 2,100,000,000 (2015: KShs 2,134,737,000).

Payment of dividends is subject to withholding tax at a rate of either 10% or 15% depending on the residence of the respective shareholders.

Notes (continued)

19 Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

The table below categorises the bank's assets and liabilities as at 31 December 2016 between that which is financial and non-financial.

All financial assets and liabilities have been classified according to their measurement category with disclosure of the fair value being provided for those items.

2016	Held for Trading KShs'000	Loans and receivables KShs'000	Available-for-sale KShs'000	Other amortised cost KShs'000	Other non-financial assets/liabilities KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	8,621,228	-	-	-	8,621,228	8,621,228
Financial assets – held for trading	15,995,195	-	-	-	-	15,995,195	15,995,195
Financial assets – available-for-sale	-	-	34,037,537	-	-	34,037,537	34,037,537
Pledged assets– available-for-sale	-	-	2,894,456	-	-	2,894,456	2,894,456
Derivative assets	2,472,190	-	-	-	-	2,472,190	2,472,190
Loans and advances to banks	-	17,111,212	-	-	-	17,111,212	17,372,706
Loans and advances to customers	-	115,360,766	-	-	-	115,360,766	115,356,036
Other financial assets	-	3,811,770	-	-	-	3,811,770	3,811,770
Other non - financial assets	-	-	-	-	4,584,668	4,584,668	-
	18,467,385	**144,904,976**	**36,931,993**	**-**	**4,584,668**	**204,889,022**	**200,561,118**
Liabilities							
Customer deposits	-	-	-	(119,903,557)	-	(119,903,557)	(111,039,158)
Amounts due to other banks	-	-	-	(36,506,824)	-	(36,506,824)	(28,864,081)
Derivative liabilities	(3,061,063)	-	-	-	-	(3,061,063)	(3,061,063)
Trading liabilities	(3,867,718)	-	-	-	-	(3,867,718)	(3,867,718)
Borrowings	-	-	-	(3,986,138)	-	(3,986,138)	(6,095,080)
Other financial liabilities	-	-	-	(5,939,718)	-	(5,939,718)	(5,939,718)
Other non - financial liabilities	-	-	-	-	(1,391,102)	(1,391,102)	(1,391,102)
	(6,928,781)	**-**	**-**	**(166,336,237)**	**(1,391,102)**	**(174,656,120)**	**(160,257,920)**

Notes (continued)

19 Classification of assets and liabilities (continued)

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

2015	Held for Trading KShs'000	Loans and receivables KShs'000	Available-for-sale KShs'000	Other amortised cost KShs'000	Other non-financial assets/liabilities KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	11,279,882	-	-	-	11,279,882	11,279,882
Financial assets – held for trading	16,251,044	-	-	-	-	16,251,044	16,251,044
Financial assets – available-for-sale	-	-	28,947,969	-	-	28,947,969	28,947,969
Pledged assets– available-for-sale	-	-	3,439,383	-	-	3,439,383	3,439,383
Derivative assets	4,377,196	-	-	-	-	4,377,196	4,377,196
Loans and advances to banks	-	27,177,339	-	-	-	27,177,339	26,271,922
Loans and advances to customers	-	104,981,565	-	-	-	104,981,565	113,740,365
Other financial assets	-	2,611,069	-	-	-	2,611,069	-
Other non - financial assets	-	-	-	-	3,508,315	3,508,315	-
	20,628,240	**146,049,855**	**32,387,352**		**3,508,315**	**202,573,762**	**204,307,761**
Liabilities							
Customer deposits	-	-	-	(106,493,201)	-	(106,493,201)	(97,634,802)
Amounts due to other banks	-	-	-	(47,964,264)	-	(47,964,264)	(44,113,497)
Derivative liabilities	(3,361,440)	-	-	-	-	(3,361,440)	(3,361,440)
Trading liabilities	(521,973)	-	-	-	-	(521,973)	(521,973)
Borrowings	-	-	-	(6,482,063)	-	(6,482,063)	(8,657,793)
Other financial liabilities	-	-	-	(5,424,218)	-	(5,424,218)	-
Other non - financial liabilities	-	-	-	-	(80,305)	80,305	-
	(3,883,413)	**-**	**-**	**(166,363,746)**	**(80,305)**	**(170,166,854)**	**(154,289,505)**

20. Cash and balances with Central Bank of Kenya

	2016 KShs'000	2015 KShs'000
Cash in hand	1,571,641	2,626,011
Balances with Central Bank of Kenya	7,049,587	8,653,871
	8,621,228	**11,279,882**

Banks are required to maintain a prescribed minimum cash reserve including cash in hand and balances with Central Bank of Kenya. The minimum cash reserve is non-interest earning and is based on the value of deposits as adjusted for by Central Bank of Kenya requirements. At 31 December 2016, the cash reserve requirement was 5.25% of the eligible deposits (2015: 5.25%). The cash reserve requirement balance for the year ended 31 December 2016 is KShs 6,059,435,235 (2015: KShs 5,603,547,000).

21. Financial assets and liabilities held for trading

21 (a) Financial assets – held for trading

	2016 KShs'000	2015 KShs'000
Government treasury bills and bonds	15,851,697	16,065,972
Corporate bonds	143,498	185,072
	15,995,195	**16,251,044**
Maturity analysis		
Maturing within 1 month	2,493,499	-
Maturing after 1 month but within 6 months	4,955,950	7,693,657
Maturing after 6 months but within 12 months	8,442,723	6,431,989
Maturing after 12 months	103,023	2,125,398
	15,995,195	**16,251,044**

The maturities represent periods to contractual redemption of trading assets recorded. Dated trading assets had a redemption value at 31 December 2016 of KShs 16,219,650,000 (2015: KShs 16,915,433,000). The weighted average effective interest yield on debt securities held for trading at 31 December 2016 was 12.4% (2015:13.47%).

21 (b) Financial liabilities - held for trading	2016 KShs'000	2015 KShs'000
Unlisted	3,867,718	521,973
	3,867,718	**521,973**
Maturity analysis		
Maturing within 1 month	1,787,216	521,973
Maturing after 1 month but within 6 months	2,080,502	
	3,867,718	**521,973**

The maturities represent periods to contractual redemption of trading liabilities recorded. Dated trading liabilities had a redemption value at 31 December 2016 of KShs 3,804,511,000 (2015: KShs 500,000,000). The weighted average effective interest cost on debt securities held for trading at 31 December 2016 was 4.24% (2015: 17.00%)

22. Financial assets – available-for-sale

	2016 KShs'000	2015 KShs'000
Debt securities – at fair value:		
Listed	34,037,537	28,947,969
	34,037,537	**28,947,969**
Comprising:		
Government bonds	6,639,183	6,434,015
Government treasury bills	27,398,354	22,513,954
	34,037,537	**28,947,969**

Dated financial investment securities had a redemption value at 31 December 2016 of KShs 35,085,350,000 (2015: KShs 29,823,000,000)

The weighted average effective interest yield on available-for-sale investment securities at 31 December 2016 was 12.24% (2015:12.31%). A fair value loss of KShs 69,471,000 (2015: Loss of KShs 121,528,000) has been recognised in the statement of other comprehensive income on page 11. A realised gain of KShs 13,444,000 (2015: KShs 228,971,000) has been transferred to the statement of profit or loss.

Maturity analysis	2016 KShs'000	2015 KShs'000
Maturing within 1 month	499,133	3,475,545
Maturing after 1 month but within 6 months	22,651,717	16,525,911
Maturing after 6 months but within 12 months	4,952,972	7,285,469
Maturing after 12 months but within 5 years	284,460	688,030
Maturing after 5 years	5,649,255	973,014
	34,037,537	**28,947,969**

The Bank's financial instruments resulted in the following income, expenses and gains and losses recognised in the statement of profit or loss

	2016 KShs'000	2015 KShs'000
Interest income from financial investments held at available-for-sale	4,691,764	2,842,722
Interest income from financial investments held at fair value through profit or loss	1,010,891	1,067,669
Fair value gains on financial instruments at fair value through profit or loss	351,249	140,769

23. Pledged assets - available-for-sale

	2016	2015
Available-for-sale debt securities	**2,894,456**	**3,439,383**
Maturity analysis		
Maturing within 6 months	1,569,523	-
Maturing after 6 months but within 12 months	276,247	1,638,184
Maturing after 12 months but within 5 years	511,277	1,801,199
Maturing after 5 years	537,409	-
	2,894,456	**3,439,383**

Dated pledged assets had a redemption value at 31 December 2016 of KShs 2,770,000,000 (2015: KShs 3,270,000,000).
These transactions are conducted under terms that are usual and customary to security lending, and security borrowings and lending activities.

24 Derivative assets and derivative liabilities

All derivatives are classified as derivatives held-for-trading.

24.1 Use and measurement of derivative instruments

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

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

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

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

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

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

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

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

24.2 Derivatives held-for-trading

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

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

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

24 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 is not able to be evidenced by comparison with other observable current market transactions in the same instrument or non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the valuation model is deferred and subsequently recognised in accordance with the bank's accounting policies (refer to accounting policy 2.5 – Financial instruments).

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

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

	2016			2015		
		Fair values			Fair values	
	Notional contract amount KShs'000	Assets KShs'000	Liabilities KShs'000	Notional contract amount KShs'000'	Assets KShs'000	Liabilities KShs'000
Foreign exchange derivatives						
Currency forwards	15,869,130	167,449	742,879	27,166,604	806,252	344,391
Currency swaps	20,383,990	114,913	158,372	29,290,760	474,439	169,212
Currency options	13,196,814	147,083	117,067	15,591,707	489,350	240,593
Total over-the-counter derivatives	**49,449,934**	**429,445**	**1,018,318**	**72,049,071**	**1,770,041**	**754,196**
Interest rate derivatives						
Interest rate swaps	31,108,019	1,745,515	1,745,515	38,796,546	2,188,147	2,188,236
Cross currency interest rate swaps	2,059,445	297,230	297,230	2,057,432	419,008	419,008
Total over-the-counter derivatives	**33,167,464**	**2,042,745**	**2,042,745**	**40,853,978**	**2,607,155**	**2,607,244**
Total derivative assets held for trading	**82,617,398**	**2,472,190**	**3,061,063**	**112,903,049**	**4,377,196**	**3,361,440**
Current	46,184,751	367,710	1,025,872	64,485,198	1,571,689	670,595
Non-current	36,432,647	2,104,480	2,035,191	48,417,851	2,805,507	2,690,845
Total	**82,617,398**	**2,472,190**	**3,061,063**	**112,903,049**	**4,377,196**	**3,361,440**

25. Loans and advances to banks

	2016 KShs'000	2015 KShs'000
Balances with banks	7,518,832	9,395,335
Balances due from group companies (Note 43.1)	9,759,069	6,850,229
Balances with Bank of South Sudan	-	6,936,027
Gross loans and advances to banks	**17,277,901**	**23,181,591**
Impairment for performing loans	(330,271)	
Impairment for non- performing loans	(63,373)	-
		-
Credit impairment allowances	**(393,644)**	**-**
Net loans and advances to banks	**16,884,257**	**23,181,591**
Maturity analysis:		
Redeemable on demand	6,126,210	8,878,406
Maturing within 1 month	10,758,047	14,303,185
Net loans and advances to banks	**16,884,257**	**23,181,591**

25.2 Impairment reserve

Year ended 31 December 2016	Specific impairment KShs'000	Portfolio impairment KShs'000	Total KShs'000
At start of year	-	-	-
Amounts written off during the year as uncollectible	-	-	-
Amounts recovered during the year	-	-	-
Provision for loans impairment (Note 26.3)	63,373	330,271	393,644
At end of year	**63,373**	**330,271**	**393,644**

Year ended 31 December 2015	Specific impairment KShs'000	Portfolio impairment KShs'000	Total KShs'000
At start of year	-	-	-
Amounts written off during the year as uncollectible	-	-	-
Amounts recovered during the year	-	-	-
Provision for loans impairment (Note 26.3)	-	-	-
At end of year	**-**	**-**	**-**

The provision arises from exposures held with banks which were placed under statutory management in Kenya and the lack of foreign currency in the South Sudan operating environment.

26. Loans and advances to customers

26.1 Net loans and advances	2016 KShs'000	2015 KShs'000
Mortgage lending	15,349,065	12,926,721
Instalment sale	13,166,542	11,947,118
Overdraft and other demand lending	18,010,452	23,167,699
Term lending	71,761,018	59,084,209
Card lending	433,314	286,220
Gross loans and advances to customers	**118,720,391**	**107,411,967**
Allowances for impairments		
Impairment for non-performing loans	(1,653,491)	(1,271,153)
Impairment for performing loans	(1,479,177)	(1,159,249)
Credit impairment allowances	**(3,132,668)**	**(2,430,402)**
Net loans and advances	**115,587,723**	**104,981,565**
Maturity analysis:		
Redeemable on demand	15,027,772	21,383,715
Maturing within 1 month	10,226,706	3,343,504
Maturing after 1 month but within 6 months	10,619,831	13,577,063
Maturing after 6 months but within 12 months	9,354,099	5,460,166
Maturing after 12 months but within 5 years	36,917,927	32,577,385
Maturing after 5 years	33,441,388	28,639,732
Net loans and advances	**115,587,723**	**104,981,565**

The weighted average effective interest rate on loans and advances to customers as at 31 December 2016 was 10.76% (2015: 11.87%). The Bank extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment sales and overdrafts.

26. Loans and advances to customers (continued)

26.2 Impairment reserve

Year ended 31 December 2016	Specific impairment KShs'000	Portfolio impairment KShs'000	Total KShs'000
At start of year	1,271,153	1,159,249	2,430,402
Amounts written off during the year as uncollectible	(733,208)	-	(733,208)
Amounts recovered during the year (Note 26.3)	(591,867)	-	(591,867)
Provision for loans impairment (Note 26.3)	1,708,600	324,395	2,032,995
Exchange difference	(1,187)	(4,467)	(5,654)
At end of year	**1,653,491**	**1,479,177**	**3,132,668**

Year ended 31 December 2015	Specific impairment KShs'000	Portfolio impairment KShs'000	Total KShs'000
At start of year	1,103,066	888,912	1,991,978
Amounts written off during the year as uncollectible	(562,319)	-	(562,319)
Amounts recovered during the year (Note 26.3)	(506,657)	-	(506,657)
Provision for loans impairment (Note 26.3)	1,237,063	270,337	1,507,400
At end of year	**1,271,153**	**1,159,249**	**2,430,402**

26.3 Loans impairment charge

	2016 KShs'000	2015 KShs'000
Loans impairment for non-performing customer loans (Note 26.2)	1,708,600	1,237,063
Loans impairment for performing customer loans (Note 26.2)	324,395	270,337
Loans impairment for non-performing bank loans (Note 25.2)	63,373	-
Loans impairment for performing bank loans (Note 25.2)	331,271	-
Amounts recovered during the year (Note 26.2)	(591,867)	(506,657)
Recoveries of amounts previously written off	(83,960)	(93,438)
Net impairment charge on loans and advances	**1,751,812**	**907,305**

26.4 Impaired loans and advances

	2016 KShs'000	2015 KShs'000
Impaired loans and advances	7,013,116	4,858,394
Provision for impairment losses to customers (Note 26.2)	(1,653,491)	(1,271,153)
Provision for impairment losses to banks (Note 25.2)	(63,373)	-
Recoverable amount of impaired loans and advances	**5,296,252**	**3,587,241**
Interest in suspense	**1,178,514**	**687,954**

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

26. Loans and advances to customers (continued)

26.5 Industry analysis

Total on-balance sheet economic sector credit risk concentrations for loans and advances are presented in the table below:

	2016 KShs'000	%	2015	%
Agriculture	13,780,097	12%	15,865,976	15%
Electricity and water	4,664,183	4%	3,068,322	3%
Manufacturing	17,232,690	15%	19,630,417	19%
Building and construction	2,198,175	2%	1,590,273	2%
Wholesale, retail trade and restaurants	31,951,378	28%	23,444,691	22%
Transport and communication	13,630,463	12%	5,686,427	5%
Finance and insurance	539,889	0%	3,708,618	4%
Real estate and business services	5,304,451	5%	6,820,535	6%
Other activities and social services	26,286,397	22%	25,166,306	24%
	115,587,723	**100%**	**104,981,565**	**100%**

26.6 Segmental analysis of non-performing loans and advances – industry

	2016 KShs'000	%	2015 KShs'000	%
Agriculture	2,623,197	37%	1,690,648	35%
Manufacturing	1,001,861	14%	10,579	-
Building and construction	172,712	2%	128,527	3%
Wholesale, retail trade and restaurants	773,869	11%	722,510	15%
Transport and communication	426,421	6%	289,031	6%
Finance and insurance	199,449	3%	211,551	4%
Real estate and business service	57,869	1%	308,076	6%
Other activities and social service	1,757,738	25%	1,497,472	31%
	7,013,116	**100%**	**4,858,394**	**100%**

26.7 Instalment sale and finance leases

The Bank holds instalment sales contracts with customers where the Bank finances the purchase of assets under a series of contracts which transfer title to the Bank as security for the loan. The Bank receives the lease payments and sets off the payments against the principal loan and interest repayments. While in principal the Bank only finances the purchase of the assets, the agreements that are necessary to execute the arrangement confer a lessor status on the bank.

	2016 KShs'000	2015 KShs'000
Gross investment in Instalment sale and finance leases:		
Not later than 1 year	1,461,570	654,212
Later than 1 year and not later than 5 years	11,698,480	10,854,666
Later than 5 years	122,230	438,276
	13,282,280	**11,947,154**
Unearned finance charge	-	(36)
Net investment in Instalment sale and finance leases	**13,282,280**	**11,947,118**

Notes (continued)

26. Loans and advances to customers (continued)
26.7 Instalment sale and finance leases (continued)

The amount of finance lease receivable included above is nil (2015: KShs 12,380,000).

Impairment provisions of KShs 376,351,000 (2015: KShs 392,013,000) for instalment sale and finance lease receivables are included in the impairment for non-performing loans.

26.8 Loans and advances to employees

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

	2016 KShs'000	2015 KShs'000
At start of year	3,710,046	3,674,792
New loans issued	1,235,293	938,332
Interest	150,065	185,718
Loan repayments	(1,387,367)	(1,088,796)
At end of year	**3,708,037**	**3,710,046**

27. Other assets and prepayments

Uncleared effects	1,203,516	894,482
Prepayments	529,277	335,445
Off market loan adjustment	901,192	624,333
Due from group companies (Note 43.6)	1,075,279	654,102
Other receivables	102,506	102,707
	3,811,770	**2,611,069**

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

28. Investment in subsidiaries

	2016 KShs'000	2015 KShs'000
CfC Stanbic Nominees Limited - 100% ownership	2	2
Stanbic Insurance Agency Limited - 100% ownership	10	10
	12	**12**

CfC Stanbic Nominees Limited was dormant during the two financial years, Stanbic Insurance Agency was incorporated in April 2015 and started its operations in August 2015. The Bank has not prepared consolidated financial statements as it is a wholly owned subsidiary of Stanbic Holdings Plc (formerly CfC Stanbic Holdings Limited) a company incorporated in Kenya, which prepares consolidated financial statements available to the public. The consolidated financial statements can be found on *http://www.stanbicbank.co.ke/kenya/About-Us/Investor-relations*

The principal place of business for both subsidiaries is Stanbic Centre, Chiromo Road.
There were no significant restrictions on the Bank's ability to access the assets and settle liabilities of the subsidiaries. The total amount disclosed as investment in subsidiaries is a non-current asset.

29. Other investments

	2016 KShs'000	2015 KShs'000
Unquoted:		
Equity investment at cost	17,500	17,500
Impairment of equity investment	(17,500)	(17,500)
	-	**-**

The investment is in Anglo African Property Holding Limited where the Bank holds a beneficial interest of 1%.

30. Property and equipment

	Land & Premises KShs'000	Equipment Furniture & Fittings KShs'000	Motor Vehicles KShs'000	Work in Progress (WIP) KShs'000	Total KShs'000
31 December 2016					
Opening net book amount	**361,857**	**1,806,181**	**35,450**	**91,333**	**2,294,821**
Additions	-	259,599	16,848	97,134	373,581
Transfer from work in progress	-	83,441	-	(83,441)	-
Transfer to intangible work in progress	-	10,689	-	-	10,689
Disposals	-	(16,005)	(32,788)	-	(48,793)
Depreciation charge on disposal	-	8,278	18,504	-	26,782
Translation differences	-	(38,911)	(608)	-	(39,519)
Depreciation charge	(15,666)	(320,291)	(11,296)	-	(347,253)
Impairment	-	(76,853)			(76,853)
Hyper inflation adjustment	-	64,191	-	-	64,191
Closing net book value	**346,191**	**1,780,319**	**26,110**	**105,026**	**2,257,646**
At 31 December 2016					
Cost	473,907	3,488,478	155,102	105,026	4,222,513
Accumulated depreciation	(127,717)	(1,708,159)	(128,991)	-	(1,964,867)
Net book amount	**346,190**	**1,780,319**	**26,111**	**105,026**	**2,257,646**

	Land & Premises KShs'000	Equipment Furniture & Fittings KShs'000	Motor Vehicles KShs'000	Work in Progress (WIP) KShs'000	Total KShs'000
31 December 2015					
Opening net book amount	**377,523**	**1,652,570**	**28,775**	**346,870**	**2,405,738**
Additions	-	392,344	33,969	68,855	495,168
Transfer from work in progress	-	104,733	-	(104,733)	-
Transfer to intangible work in progress	-	-	-	(78,180)	(78,180)
Disposals	-	(1,003)	-	-	(1,003)
Depreciation charge on disposal	-	328	-	-	328
Translation differences	-	(30,614)	(2,809)	(123,268)	(156,691)
Depreciation charge	(15,666)	(304,804)	(24,485)	-	(344,955)
Impairment	-	(7,373)	-	(18,211)	(25,584)
Closing net book value	**361,857**	**1,806,181**	**35,450**	**91,333**	**2,294,821**
At 31 December 2015					
Cost	473,907	3,337,632	173,893	91,333	4,076,765
Accumulated depreciation	(112,050)	(1,531,451)	(138,443)	-	(1,781,944)
Net book amount	**361,857**	**1,806,181**	**35,450**	**91,333**	**2,294,821**

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

As at 31 December 2016 and 31 December 2015, there were no items of property and equipment pledged by the bank to secure liabilities.

The impairment loss relates to assets written off during the rebranding exercise and those which can no longer be used by the bank due to refurbishments

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

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

Notes (continued)

31. Intangible assets

Year ended 31 December 2016	Work in progress KShs'000	Computer Software KShs'000	Total KShs'000
Cost			
At 1 January	**48,973**	**1,901,854**	**1,950,827**
Transfer from property and equipment	(10,689)	-	(10,689)
Transfer from work in progress	(24,115)	24,115	-
Additions	87,996	451,807	539,803
Translation Differences	(545)	-	(545)
Effects of Hyperinflation	-	1,479	1,479
As at 31 December	**101,620**	**2,379,255**	**2,480,875**
Amortisation			
At 1 January	-	(1,537,167)	**(1,537,167)**
Amortisation for the year	-	(120,495)	(120,495)
At 31 December	**-**	**(1,657,662)**	**(1,657,662)**
Net Book value At 31 December	**101,620**	**721,593**	**823,213**

Year ended 31 December 2015	Work in progress KShs'000	Computer Software KShs'000	Total KShs'000
Cost			
At 1 January	**-**	**1,534,273**	**1,534,273**
Transfer from property and equipment	78,180	-	78,180
Transfer from work in progress	(38,987)	38,987	-
Additions	9,780	328,594	338 374
At 31 December	**48,973**	**1,901,854**	**1,950,827**
Amortisation			
At 1 January	-	(1,426,818)	(1,426,818)
Amortisation for the year	-	(110,349)	(110,349)
At 31 December	**-**	**(1,537,167)**	**(1,537,167)**
Net Book value At 31 December	**48,973**	**364,687**	**413,660**

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

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

The total amount disclosed as intangible assets is non-current and relates to computer software.
Work in progress relates to computer software for upgrades in mobile banking and telephone system which had not been completed as at year end.

As at 31 December 2016, the intangible assets had a remaining useful life of 10 years.

32. (a) (i) Deferred income tax asset

	2016 KShs'000	2015 KShs'000
At start of year	(434,248)	(1,523,970)
Credit /debit to statement of profit or loss (Note 16)	(1,001,743)	1,019,003
Credit/ debit to other comprehensive income	(39,981)	70,719
At end of year	**(1,475,972)**	**(434,248)**

The total amount disclosed as deferred income tax asset is a non-current asset. Included in the total amount is a deferred income tax asset for Kenya of KShs 1,475,972,000 (2015: Kshs 431,000,000) and the branch in South Sudan of nil in 2016 (2015: KShs 3,000,000).
Deferred income tax (assets)/liabilities and deferred income tax (credit)/charge in the income statement and other comprehensive income are attributable to the following items:-

32. (a) (ii) Deferred income tax asset

Year ended 31 December 2016	1.1.2016 KShs'000	(Credited)/ charged to statement of profit or loss KShs'000	Credited to OCI KShs'000	31.12.2016 KShs'000
Arising from:				
Property and equipment	56,875	(11,279)	-	45,596
Impairment charges on loans and advances	(586,009)	(355,489)	-	(941,498)
Leasing	(21,487)	-	-	(21,487)
Unrealised gain on South Sudan paid up capital	181,053	(89,049)	-	92,004
Unrealised gain on bonds – Available-For-Sale	80,146	12,890	(39,981)	53,055
Unrealised gain on bonds – Held For Trading	316,252	(143,317)	-	172,935
Other provisions	(458,294)	(415,499)	-	(873,793)
Exchange difference on translation	(2,784)	-	-	(2,784)
Net deferred income tax asset	**(434,248)**	**(1,001,743)**	**(39,981)**	**(1,475,972)**

Year ended 31 December 2015	1.1.2015 KShs'000	Charge/ (Credited) to statement of profit or loss KShs'000	Credited to OCI KShs'000	31.12.2015 KShs'000
Arising from:				
Property and equipment	40,907	15,968	-	56,875
Impairment charges on loans and advances	(465,684)	(120,325)	-	(586,009)
Leasing	(319,763)	298,276	-	(21,487)
Unrealised gain on South Sudan paid up capital		181,053	-	181,053
Unrealised gain on bonds – Available-For-Sale	9,427	-	70,719	80,146
Unrealised gain on bonds – Held For Trading	(66,800)	383,052	-	316,252
Other provisions	(715,681)	257,387	-	(458,294)
Exchange difference on translation	(6,376)	3,592	-	(2,784)
Net deferred income tax asset	**(1,523,970)**	**1,019,003**	**70,719**	**(434,248)**

32. (b) Deferred income tax liability

	2016 KShs'000	2015 KShs'000
At start of year	-	-
Debit to statement of profit or loss (Note 16)	7,699	-
Debit to other comprehensive income	-	-
At end of year	**7,699**	**-**

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

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

Included in the total amount is a deferred income tax liability for Kenya of nil (2015: nil) and the branch in South Sudan of 7,699,000 in 2016 (2015: nil).

Year ended 31 December 2016	1.1.2016 KShs'000	Charge/ (Credited) to statement of profit or loss KShs'000	Credited to OCI KShs'000	31.12.2016 KShs'000
Arising from:				
Property and equipment	-	7,699	-	7,699
Net deferred income tax asset	**-**	**7,699**		**7,699**

33 (a) Current income tax (recoverable) /payable

	2016 KShs'000	2015 KShs'000
As at 1 January	(365,574)	(34,594)
Current tax charge (Note 16)	2,603,458	1,270,609
Income tax paid	(852,946)	(1,601,589)
As at 31 December	**1,384,938**	**(365,574)**

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

33 (b) Current income tax payable / (recoverable)

	2016 KShs'000	2015 KShs'000
As at 1 January	80,305	(37,954)
Exchange difference on translation	(62,262)	27,888
Current tax charge (Note 16)	-	90,371
Income tax paid	(52,007)	-
As at 31 December	**(33,964)**	**80,305**

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

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

Notes (continued)

34 Customer deposits

	2016 KShs'000	2015 KShs'000
Current accounts	69,465,779	61,808,911
Call deposits	6,430,155	6,108,105
Savings accounts	23,177,470	11,165,430
Term deposits	18,584,682	27,410,755
LC acceptances	2,245,471	
	119,903,557	**106,493,201**

Maturity analysis:

	2016 KShs'000	2015 KShs'000
Redeemable on demand	92,217,992	78,710,434
Maturing within 1 month	14,969,648	9,565,257
Maturing after 1 month but within 6 months	8,988,477	5,871,655
Maturing after 6 months but within 12 months	3,581,089	2,038,793
Maturing after 12 months	146,351	10,307,062
	119,903,557	**106,493,201**

Organisation analysis:

Deposit products include current accounts, savings accounts, call deposits, and fixed deposits. The weighted average effective interest rate on customer deposits as at 31 December 2016 was 3% (2015: 4.03%)

	2016 KShs'000	%	2015 KShs'000	%
Central government	15,489,804	13%	10,103,071	9%
Non-financial public enterprises	774,459	1%	1,561,691	1%
Non-bank financial institutions	284,299	0%	1,068,124	1%
Insurance companies	1,327,366	1%	933,221	1%
Hire purchase companies	7	0%	93	0%
Private enterprises	60,952,248	51%	84,265,599	79%
Non-profit institutions and individuals	41,075,374	34%	8,561,402	8%
	119,903,557	**100%**	**106,493,201**	**100%**

35. Amounts due to other banks

	2016 KShs'000	2015 KShs'000
Deposits from banks	32,365,282	33,150,815
Balances due to group companies (43.2)	4,141,542	14,813,449
	36,506,824	**47,964,264**

Maturity analysis

	2016	2015
Redeemable on demand	1,535,806	2,116,494
Maturing within 1 month	1,963,295	-
Maturing after 1 month but within 6 months	641,687	1,666,529
Maturing after 6 months but within 12 months	10,767,756	21,383,857
Maturing after 12 months	21,598,280	22,797,384
	36,506,824	**47,964,264**

36 (a). Other liabilities

	2016 KShs'000	2015 KShs'000
Accruals	1,589,806	1,784,722
Deferred bonus scheme (Note 36(b))	171,515	181,296
Unpresented bank drafts	105,509	93,367
Margin on guarantees and letters of credit	1,267,408	469,742
Items in transit	152,513	79,435
Due to group companies (Note 43.7)	991,684	987,109
Sundry creditors	1,661,309	1,828,547
	5,939,744	**5,424,218**

36 (b). Deferred bonus scheme (DBS)

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

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

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

The provision in respect of liabilities under the scheme amounts to KShs at 31 December 2016 171,515,000 (2015: KShs 181,296,000) and the amount charged for the year was KShs 132,015,000 (2015: KShs 92,200,000).

	Units	
Reconciliation	**2016**	**2015**
Units outstanding at beginning of the year	246,954	255,987
Granted	180,604	128,753
Exercised	(129,014)	(121,730)
Lapsed	(36,004)	(16,056)
Transfers	(128,564)	-
Units outstanding at end of the year	**133,976**	**246,954**
Weighted average fair value at grant date (ZAR)*	122.24	156.96
Expected life (years)	2.51	2.51
Risk-free interest rate (%)	5.54	5.54

* South African Rand

37. Borrowings

At 31 December 2016

	Notional value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	4,000,000	3,986,138	12.95%	15-Dec-14	15-Dec-21
Total	**4,000,000**	**3,986,138**			

At 31 December 2015

	Notional value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	2,402,093	2,401,094	12.50%	7-Jul-09	7-Jul-16
CfC Stanbic Bond	97,907	97,944	182 day T-bill +175 bps	7-Jul-09	7-Jul-16
CfC Stanbic Bond	4,000,000	3,983,025	12.95%	15-Dec-14	15-Dec-21
Total	**6,500,000**	**6,482,063**			

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

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

Interest expense incurred in the above borrowings was KShs 518,000,000(2015: KShs 838,412,000). The weighted average effective interest rate on borrowings as at 31 December 2016 was 12.95% (2015: 12.51%).

38. Share capital

Authorised share capital

	2016		2015	
	Number of Shares (thousands)	Share Capital KShs '000	Number of Shares (thousands)	Share Capital KShs '000
Authorised share capital of Kes 20 each	187,250	3,745,000	187,250	3,745,000
And 31 December	**187,250**	**3,745,000**	**187,250**	**3,745,000**

Issued share capital

	2016			2015
	Number of Shares (thousands)	Share Capital KShs '000	Number of Shares (thousands)	Share Capital KShs '000
Balance as at 1 January	170,577	3,411,549	170,577	3,411,549
And 31 December	**170,577**	**3,411,549**	**170,577**	**3,411,549**
Unissued shares	**16,673**	**333,451**	**16,673**	**333,451**

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

39. Share premium

	2016 KShs'000	2015 KShs'000
At 1 January	3,444,639	3,444,639
At 31 December	**3,444,639**	**3,444,639**

40. Nature and purpose of reserves

40.1 Revaluation reserve on available-for-sale financial assets

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised or impaired.

40.2 Revaluation reserve on buildings

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

40.3 Foreign currency translation reserve

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

40.4 Regulatory reserve

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

41. Share-based payment reserve

	2016 KShs'000	2015 KShs'000
At end of year	**13,861**	**42,383**

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

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

At 31 December 2016, the total amount included in staff costs for Group Share Incentive Scheme was KShs. 739,000 (2015: KShs 13,947,000) and for Equity Growth Scheme was KShs 360 000 (2015: KShs 57,000).

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

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

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

Group Share Incentive Scheme	Option price range (ZAR) 2016	Number of options 2016	Number of options 2015
Options outstanding at beginning of the year		347,783	476,538
Transfers	62,39 - 111,94	(75,876)	6,000
Exercised	62,39 - 111,94	(115,286)	(113,505)
Lapsed	62,39 - 111,94	(39,058)	(21,250)
Options outstanding at end of the year		**117,563**	**347,783**

The weighted average SBG share price for the year to 31 December 2016 was ZAR 151.63 (2015: ZAR 147.88).
The following options granted to employees had not been exercised at 31 December 2016:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5,000	98,00	98,00	Year to 31 December 2017
17,875	92,00	92,00	Year to 31 December 2018
18,750	62,39	62,39	Year to 31 December 2019
34,688	104,53 - 111,94	109,27	Year to 31 December 2020
41,250	98.80 - 99.97	98,94	Year to 31 December 2021
117,563			

41. Share-based payment reserve (continued)

The following options granted to employees had not been exercised at 31 December 2015:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5,000	98.00	98.00	Year to 31 December 2017
17,875	92.00	92.00	Year to 31 December 2018
26,875	62.39	62.39	Year to 31 December 2019
128,063	104.53 – 111.94	109.41	Year to 31 December 2020
169,970	97.80 – 107.55	99.70	Year to 31 December 2021
347 783			

Equity Growth Scheme	Appreciation right price range (ZAR) 2016	Number of rights 2016	Number of rights 2015
Rights outstanding at beginning of the year		26 200	37,200
Transfers	62.39-111.94	72 725	
Exercised[1]	62.39-105.60		(11,000)
Lapsed		(77 550)	
Rights outstanding at end of the year[2]		**21 375**	**26,200**

[1.] *During the year 31,003 (2015: 5,255) SBG shares were issued to settle the appreciated rights value.*

[2.] *At 31 December 2016 the Bank would need to issue 8 146 (2015:3,578) SBG shares to settle the outstanding appreciated rights value.*

The following rights granted to employees had not been exercised at 31 December 2016:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5,125	62,39	62,39	Year to 31 December 2019
3,750	105,60 - 111,94	109.83	Year to 31 December 2020
12,500	98,80	98,80	Year to 31 December 2021
21,375			

The following rights granted to employees had not been exercised at 31 December 2015:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
8,500	98,00	98.00	Year to 31 December 2017
5,500	92,00	92.00	Year to 31 December 2018
12,200	62,39	62.39	Year to 31 December 2019
26,200			

42. Contingent liabilities

Commitments were with respect to:	2016 KShs'000	2015 KShs'000
Irrevocable letters of credit and acceptances	2,818,870	5,439,722
Revocable unutilised facilities	13,492,255	9,957,460
Guarantees	27,755,095	21,965,002
	44,066,220	**37,362,184**

42.1 Nature of contingent liabilities

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

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

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

42.2 Segmental analysis of off-balance sheet liabilities

	2016 KShs'000	%	2015 KShs'000	%
Agriculture	1,432,861	3%	1,468,841	4%
Manufacturing	5,694,315	13%	5,585,725	15%
Construction	4,423,594	10%	2,854,395	8%
Energy	3,270,626	7%	1,168,491	3%
Transport and communication	1,982,309	5%	1,891,545	5%
Distribution/wholesale	14,265,648	32%	10,889,978	29%
Financial Services	11,425,162	26%	11,899,498	32%
Tourism	211,126	1%	8,753	0%
Other activities and social service	1,360,579	3%	1,594,958	4%
	44,066,220	**100%**	**37,362,184**	**100%**

42.3 Legal proceedings

In the conduct of its ordinary course of business, the bank is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims eventuating, that the bank has adequate insurance programmes and provisions in place to meet such claims. The amounts provided for in other liabilities are KShs 32,500,000 (2015: KShs 32,500,000)

43. Related party transactions

The Bank is a wholly owned subsidiary of Stanbic Holdings Plc (formerly CfC Stanbic Holdings Limited), which is in turn a subsidiary of Stanbic Africa Holdings Limited (SAHL), incorporated in the United Kingdom. The ultimate parent of the Bank is Standard Bank Group Limited, which is incorporated in South Africa.
There are other companies which are related to Stanbic Bank Kenya Limited through common shareholdings or common directorships.
In the normal course of business, nostro and vostro accounts are operated and placements of both foreign and local currencies are made with the parent company and other group companies at interest rates in line with the market. Outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party balances.

For the year ended 31 December 2016, the Bank has made provision for doubtful debts relating to long outstanding amounts owed by related parties KShs 276,159,000 (2015: KShs 281,379,000) as indicated on Note 43.6.

The relevant balances are as shown below;

43.1 Loans and advances to group banks

	2016 KShs'000	2015 KShs'000
Stanbic Bank Uganda Limited	4,628	99,260
Stanbic Bank Tanzania Limited	52,699	27,145
Standard Bank (Mauritius) Limited	3	2
Standard Bank of South Africa Limited	1,925,295	6,723,822
Standard Bank Isle of Man	7,776,444	-
	9,759,069	**6,850,229**
Interest income earned on the above is:	**58,996**	**5,141**

43.2 Deposits due to group to banks

	2016 KShs'000	2015 KShs'000
Standard Bank of South Africa Limited	218,062	143,793
Standard Bank Namibia Limited	556	460
Stanbic Bank Uganda Limited	311,888	463,722
Stanbic Bank Zambia Limited	321	22
Stanbic Bank Zimbabwe Limited	147	139
Stanbic Bank Botswana Limited	1,632	844
Standard Bank (Mauritius) Limited	1,689,123	1,674,994
Stanbic Bank Malawi Limited	1,703	759
Standard Bank Isle of Man	1,909,587	12,118,331
Stanbic Bank Tanzania Limited	7,822	5,290
Standard Bank PLC	-	404,912
Standard Bank Swaziland	701	25
Stanbic Bank Ghana	-	158
	4,141,542	**14,813,449**
Interest expense incurred on the above is:	**382,682**	**509,999**

The weighted average effective interest rate on amounts due from group companies as at 31 December 2016 is 1.75% (2015: 0.28%) and on amounts due to group companies was 3.04% (2015:1.70%).

43. Related party transactions (continued)

43.3 Deposits due to group companies non-bank

	2016 KShs'000	2015 KShs'000
Stanbic Holdings Plc	120,774	145,701
SBG Securities Limited	-	515,247
Heritage	110,147	195,073
STANLIB Kenya Limited	-	88,236
Liberty Life	2,015	123,636
Stanbic Insurance Agency Limited	106,712	6,101
	339,648	**1,073,994**
Interest expense incurred on the above is:	**5,711**	**20,701**

43.4 Due to subsidiary

	2016	2015
CfC Stanbic Nominees Limited	2	2
Stanbic Insurance Agency Limited	10	10
	12	**12**

43.5 Key management compensation

Key management personnel include the members of the Stanbic Bank Kenya Limited board of directors and prescribed officers effective for 2015 and 2014. Non-executive directors are included in the definition of key management personnel as required by IAS 24 Related Party Disclosures. The definition of key management includes the close family members of key management personnel and any entity over which key management exercise control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by that person in their dealings with the bank. They include the person's domestic partner and children, the children of the person's domestic partner, and dependants of the person or the person's domestic partner.

Key management have transacted with the Bank as indicated in note 43.5.1 and 43.5.2;

43.5.1 Loans and advances to key management

The aggregate amount of loans to directors, affiliates and their families on the statement of financial position is:

	2016 KShs'000	2015 KShs'000
Loans outstanding at the beginning of the year	33,816	39,107
Loans granted during the year	-	31,685
Accrued interest	(2,751)	2,800
Loans repaid during the year	(2,453)	(39,776)
Loans outstanding at the end of the year	**28,612**	**33,816**

Loans include mortgage loans, instalment sale and finance leases and credit cards. No specific credit impairments have been recognised in respect of loans granted to key management (2015: KShs nil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

43. Related party transactions (continued)

43.5.2 Key management remuneration

	2016 KShs'000	2015 KShs'000
Fees for services as a director	8,800	18,634
Salaries and other short term employment benefits	233,158	269,155
Post-employment pension	2,748	2,292
Share-based payments	31,811	18,956
	276,517	**309,037**

43.6 Other receivable from related companies

	2016 KShs'000	2015 KShs'000
SBG Securities Limited	42,018	49,523
CfC Life Assurance Limited	1,580	1,515
The Heritage Insurance Company Limited	175	1,281
Stanbic Holdings Plc	1,550	3,401
Stanbic Bank Uganda Limited	9,394	7,581
Stanbic Bank Tanzania Limited	297,920	301,336
Standard Bank of South Africa Limited	925,228	535,155
Stanbic Bank Zambia Limited	1,265	704
Stanbic Bank Malawi Limited	630	139
Standard Bank s.a.r.l. (Mozambique)	-	10
STANLIB Kenya Limited	-	22,286
Standard Bank Swaziland Limited	332	425
Standard Bank RDC s.a.r.l	412	26
Standard Bank de Angola S.A.	23,156	513
Stanbic Insurance Agency Limited	42,637	11,345
Standard Advisory London Limited	98	241
Standard Bank Jersey Limited	4,543	-
Standard Bank Isle of Man Limited	500	-
	1,351,438	**935,481**
Provisions on regional costs balances	(276,159)	(281,379)
	1,075,279	**654,102**

Movement analysis

	2016 KShs'000	2015 KShs'000
At 1 January	935,481	768,546
Additions	1,397,033	731,643
Receipts	(981,076)	(564,708)
Closing Balance	**1,351,438**	**935,481**
Provisions on regional costs balances	(276,159)	(281 379)
At 31 December	**1,075,279**	**654,102**

43. Related party transactions (continued)

43.7 Other payables due to related companies

	2016 KShs'000	2015 KShs'000
Standard Bank Malawi Limited	3,185	1,079
Standard Bank of South Africa Limited	986,659	949,220
Stanbic Bank Uganda Limited	1,025	50
SBG Securities Limited	815	2,609
Stanbic Insurance Agency Limited	-	34,151
	991,684	**987,109**

There is no interest accruing for these outstanding liabilities

43.8 Related party expenses

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

	2016 KShs'000	2015 KShs'000
Franchise fees	540,690	450,791
Information technology	27,771	81,629
Other operating costs	3,627	508
	572,088	**532,928**

44. Notes to the cash flow statement

44.1 Cash flows from operating activities

	2016 KShs'000	2015 KShs'000
Reconciliation of profit before income tax to cash flow from operating activities:		
Net income before income tax	6,036,107	7,077,019
Adjusted for:		
- Amortisation of intangible assets (Note 31)	120,324	110,349
- Depreciation - property and equipment (Note 30)	344,338	344,955
- Impairment - property and equipment (Note 30)	76,853	25,584
- Change in fair value of derivatives	1,604,629	(1,287,605)
- Share based payment expense	1,099	14,004
- Loss/(gain) on disposal of property and equipment	7,399	158
Cash flow from operating activities	**8,190,749**	**6,284,464**

44.2 Analysis of cash and cash equivalents

	2016 KShs'000	2015 KShs'000
Cash and balances with CBK	2,561,792	5,676,335
Treasury bills	8,934,432	12,777,274
Loans and advances to banks	16,884,257	23,181,591
Amounts due to other banks	(3,499,101)	(2,116,493)
Cash and cash equivalents at year end	**24,881,380**	**39,518,707**

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

45. Capital commitments

Capital commitments for the acquisition of property and equipment are summarised below:

	2016 KShs'000	2015 KShs'000
Authorised and contracted for	388,948	208,424
Authorised but not contracted for	-	27,970

46. Operating leases

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

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

	2016 KShs'000	2015 KShs'000
Less than one year	285,375	445,575
Between one and five years	882,767	1,237,280
More than five years	2,157,668	3,435,686
	3,325,810	**5,118,541**

47. Fiduciary activities

The assets held on behalf of individuals, trusts, retirement benefit plans and other institutions:

	2016 KShs'000	2015 KShs'000
Assets held on behalf of individual's trusts and other institutions	**214,868,507**	**177,185,777**

48 Comparatives

Where necessary, comparative figures within notes have been adjusted to either conform to changes in presentation in the current year or for the adoption of new IFRS requirements.
