



STANBIC HOLDINGS PLC

ANNUAL FINANCIAL STATEMENTS 2020

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Corporate Information



Chairman

Kitili Mbathi

Chief Executive

Greg Brackenridge* (Retired on 3 March 2020)
Patrick Mweheire** (Appointed on 3 March 2020)

Chief Executive of Stanbic Bank Kenya Limited

Charles Mudiwa***

Non-executive Directors

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

* South African

** Ugandan

*** Zimbabwean

**** South African and British

Company Secretary

Lillian N Mbindyo
PO Box 72833
00200 Nairobi

Auditor

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

Registered office

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

Principal bankers

Stanbic Bank Kenya Limited
Chiromo Road, Westlands
PO Box 72833
00200 Nairobi, GPO

Report of the Directors

for the year ended 31 December 2020

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

Principal activities

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

Principal risks and uncertainties

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

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

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

Business review and financial performance

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

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

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

Summary results for the year is as follows:

| | 2020 KShs billion | 2019 KShs billion | Change % |
|---------------------------------|----------------------|----------------------|-------------|
| Total income | 23.2 | 24.7 | (6) |
| Credit impairment charge | 4.9 | 3.2 | 55 |
| Total operating expenses | 12.1 | 13.9 | (12) |
| Profit for the year | 5.2 | 6.4 | (19) |
| Loans and advances to customers | 158.2 | 152.8 | 4 |
| Non-performing loans | 25.0 | 19.3 | 30 |
| Total assets | 328.6 | 303.6 | 8 |
| Deposits from customers | 217.4 | 194.2 | 12 |
| Total equity | 51.7 | 49.0 | 5 |
| Cost to income ratio | 52% | 56% | (4) |

Dividends

During the year, no interim dividend was paid (2019: KShs 1.25 per ordinary share amounting to KShs 494 152 000).

Subject to the approval of the shareholders at the next Annual General Meeting to be held on 20 May 2021, the Directors recommend payment of a final dividend of KShs 3.80 (2019: KShs 5.80) per ordinary share equivalent to a total sum of KShs 1 502 224 000 (2019: KShs 2 292 869 000). The total dividend for the year, therefore, will be KShs 3.80 (2019: KShs 7.05) for every ordinary share amounting to KShs 1 502 224 000 (2019: KShs 2 787 021 000).

Share capital

The total number of authorised shares as at 31 December 2020 was 473 684 211 (2019: 473 684 211) ordinary shares of KShs 5 each, with 395 321 638 shares being issued and fully paid up (2019: 395 321 638).

Directors

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

Events subsequent to the end of the reporting period

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

Management by third parties

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

Disclosures to auditor

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

- there was, as far as each Director is aware, no relevant audit information of which the Company's auditor is unaware; and
- each Director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Terms of appointment of auditor

PricewaterhouseCoopers LLP will retire as auditors of the Group at the next Annual General Meeting. The Board has recommended to the shareholders the appointment of KPMG Kenya as the new auditors in accordance with section 721 of the Kenyan Companies Act, No 17 of 2015 and to authorise the Directors to fix their remuneration.

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

Approval of financial statements

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

By order of the Board,



Lillian Mbindyo
Company Secretary

Statement of the Directors' Responsibilities

for the year ended 31 December 2020

The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the Directors to ensure that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Group and the Company; that disclose, with reasonable accuracy, the financial position of the Group and Company and that enable them to prepare financial statements of the Group and the Company that comply with the International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The Directors are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

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

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



Kitili Mbathi
Chairman



Patrick Mweheire
Chief Executive



Dorcas Kombo
Director

Directors' Remuneration Report

for the year ended 31 December 2020

Information not subject to audit

The Company's Board remuneration policy

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

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

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

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

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

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

Contract of service

In accordance with the Kenyan Companies Act, 2015, the Company's Articles of Association and as outlined in the letters of appointment for Directors, a third of NEDs retire by rotation at every Annual General Meeting, and if eligible, may offer themselves for re-election by shareholders.

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

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

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

During the Annual General Meeting held on 26 June 2020, the shareholders approved the payments of Directors' fees for the year ended 31 December 2019.

At the Annual General Meeting to be held on 20 May 2021, approval will be sought from shareholders to pay Directors' fees for the financial year ended 31 December 2020.

Year ended 31 December 2020

| Name | Category | Year ended 31 December 2020 | | | | |
|--------------------|-----------------|-----------------------------|-------------------|------------------|--------------------------|-------------------|
| | | Retainer | Sitting allowance | Total Company | Total Group subsidiaries | Total Group |
| Kitili Mbathi | Chairman | 400 000 | 900 000 | 1 300 000 | 9 024 000 | 10 324 000 |
| Patrick Mweheire | Chief Executive | – | – | – | 1 841 000 | 1 841 000 |
| Christopher Newson | Non-executive | 75 000 | 240 000 | 315 000 | 1 553 000 | 1 868 000 |
| Rose Kimotho | Non-executive | 300 000 | 600 000 | 900 000 | 6 143 000 | 7 043 000 |
| Greg Brackenridge | Non-executive | 150 000 | 360 000 | 510 000 | 3 088 000 | 3 598 000 |
| Ruth T Ngobi | Non-executive | 300 000 | 600 000 | 900 000 | 6 005 000 | 6 905 000 |
| Peter Gethi | Non-executive | 300 000 | 600 000 | 900 000 | 5 893 000 | 6 793 000 |
| Rose Osoro | Non-executive | 300 000 | 840 000 | 1 140 000 | 6 074 000 | 7 214 000 |
| Dorcas Kombo | Non-executive | 300 000 | 900 000 | 1 200 000 | 4 703 000 | 5 903 000 |
| Ory Okolloh | Non-executive | 225 000 | 600 000 | 825 000 | 3 520 000 | 4 345 000 |
| Samuel Gikandi | Non-executive | 150 000 | 240 000 | 390 000 | 2 442 000 | 2 832 000 |
| Total | | 2 500 000 | 5 880 000 | 8 380 000 | 50 286 000 | 58 666 000 |

Directors' Remuneration Report (continued)

for the year ended 31 December 2020

Year ended 31 December 2019

| Name | Category | Retainer | Sitting allowance | Total Company | Total Group subsidiaries | Total Group |
|---------------------|---------------------------|-----------|-------------------|---------------|--------------------------|-------------|
| Fred Ojiambo | Chairman Non-executive | 200 000 | 540 000 | 740 000 | 2 902 000 | 3 642 000 |
| Greg Brackenridge | Chief Executive | – | – | – | 2 500 000 | 2 500 000 |
| Kitili Mbathi | Non-executive | 350 000 | 600 000 | 950 000 | 8 515 500 | 9 465 500 |
| Christopher Newson | Non-executive | 300 000 | 750 000 | 1 050 000 | 5 157 000 | 6 207 000 |
| Edward W. Njoroge | Non-executive | 150 000 | 240 000 | 390 000 | 887 500 | 1 277 500 |
| Rose Kimotho | Non-executive | 300 000 | 600 000 | 900 000 | 4 143 000 | 5 043 000 |
| Ruth T Ngobi | Non-executive | 300 000 | 480 000 | 780 000 | 6 223 000 | 7 003 000 |
| Peter Nderitu Gethi | Non-executive | 300 000 | 600 000 | 900 000 | 5 223 000 | 6 123 000 |
| Rose Osoro | Non-executive | 300 000 | 840 000 | 1 140 000 | 4 643 000 | 5 783 000 |
| Dorcas Kombo | Non-executive | 300 000 | 870 000 | 1 170 000 | 3 275 000 | 4 445 000 |
| Total | | 2 500 000 | 5 520 000 | 8 020 000 | 43 469 000 | 51 489 000 |



Report of the Independent Auditor

for the year ended 31 December 2020

Independent auditor's report to the shareholders of Stanbic Holdings Plc Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Stanbic Holdings Plc (the Company) and its subsidiaries (together, the Group) set out on pages 10 to 103, which comprise the group statement of financial position at 31 December 2020 and the group statement of profit or loss, group statement of comprehensive income, group statement of changes in equity and group statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2020, and the Company statements of profit or loss, other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 opinion on these matters.

| Key audit matter | How our audit addressed the matter |
|--|---|
| <p>Credit risk and provision for expected credit losses (ECL) on loans and advances</p> <p>As explained in Notes 3.10 of these financial statements, determining ECL is complex, judgemental and involves estimation uncertainty.</p> <p>IFRS 9 requires the Directors to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. The standard adopts a 3-stage model approach where the loans and advances are categorised in stage 1, 2 and 3 depending on whether the facilities have experienced significant increase in credit risk, are in default or neither.</p> <p>Changes to the assumptions and estimates used by management could generate significant fluctuations in the Group's financial performance, and materially impact the valuation of the Group's portfolio of loans and advances which makes this an area of focus. In addition to this, due to the evolving COVID-19 pandemic experienced in the year ended 31 December 2020, there has been a heightened risk of credit default and SICR, that increases the uncertainty around the judgements and estimation process.</p> <p>The determination of ECL inherently involves subjectivity of the assumptions and judgment made by management in:</p> <ul style="list-style-type: none"> estimation of default events that may happen during the lifetime of the instruments, and the probability weighting thereof; quantitative and qualitative criteria for classification of loans and advances based on assessment of factors contributing to significant increase in credit risk and default; application of complex modelling assumptions used to build the models that calculate ECL, completeness and accuracy of data used to calculate the ECL and the accuracy and adequacy of the financial statement disclosures; determination of the forward-looking parameters to be incorporated in the estimation of expected credit losses including multi scenario weightings. estimation of the expected cash flows (including from collateral realisation) used in the determination of the loss given default for stage 1 and 2 facilities and in estimating the recoverable amount of stage 3 facilities | <ul style="list-style-type: none"> We tested the rationale of the quantitative and qualitative criteria used in the classification of loans and advances into various staging categories and in assessing whether a significant increase in credit risk and default had occurred. The classification of loans and advances relies on information systems. We understood and tested key information technology general and application controls including the accurate calculation of the number of days past due. For a sample of loan contracts, we tested management's application of the qualitative criteria in the classification of loans and advances. This was done through examining documentation and credit performance to form an independent judgment as to whether the staging of such facilities was in line with the Group's policy. We tested the rationale for loans restructured, their subsequent measurement and the completeness of the list of restructured loans. We tested the reliability of information used for estimating probability of default, loss given default and exposure at default. We tested the reliability of the forward-looking parameters considered by management, application of scenarios and their relevant weighting. We assessed overlays made by management over and above the formulae computed ECLs including those arising from the risks due COVID-19. For stage 3 facilities, we selected a sample of loans and advances and examined the reasonableness of the expected future recoverable amounts as assessed by management to support the calculation of the ECL thereon. For secured facilities, we agreed the collateral values used in the impairment model to valuation reports. |

Report of the Independent Auditor (continued)

for the year ended 31 December 2020

| Key audit matter | How our audit addressed the matter |
|---|--|
| <p>Goodwill impairment assessment</p> <p>As described in Note 29 and 2.9 of the financial statements, the Directors assess the impairment of goodwill arising from acquisitions at the cash generating unit level using value-in-use calculations.</p> <p>We focused on the goodwill impairment assessment because the value-in-use calculations involve significant judgements and estimates about the future results of the cash generating units and the applicable discount rates. In addition, the evolving COVID-19 pandemic experienced in the year ended 31 December 2020 has increased the uncertainty around the judgements and assumptions applied.</p> <p>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.</p> <p>Goodwill is allocated to the Stanbic Bank's two cash generating units – CIB and PBB, that represent the lowest level at which financial performance is monitored.</p> | <p>We evaluated the composition of management's future cash flow forecasts and the underlying assumptions based on the historical performance of the business, industry-specific reports and the macro economic outlook. We assessed the projected cash flows against the approved strategic and business plan of the cash generating unit which had been revised to take into impact the prevailing economic conditions.</p> <p>We compared the forecast cash flows with the recent actual performance and the approved short-term financial budgets of the business.</p> <p>We also assessed management's assumptions in relation to the:</p> <ul style="list-style-type: none"> • Long term growth rates by comparing them to economic and industry forecasts • Pre-tax discount rate by assessing the cost of capital for the company and comparable organisations, as well as considering country specific factors • Adjustments made to the initial forecasts in light of the current economic conditions and performed a scenario analysis based on different stress conditions. <p>We assessed the sensitivity of the parameters in the calculations and determined that the calculations were most sensitive to assumptions for gross margin and the pre-tax discount rates as disclosed in Note 29 of the financial statements.</p> |

Other information

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's 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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other matters prescribed by the Companies Act, 2015 Report of the Directors

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

Directors' remuneration report

In our opinion the auditable part of the Directors' remuneration report on pages 5 and 6 has been properly prepared in accordance with the Companies Act, 2015.

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

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

4 March 2021

Group and Company Statement of Profit or Loss

for the year ended 31 December 2020

| | Note | GROUP | | COMPANY | |
|---|--------|------------------------|----------------------|------------------------|----------------------|
| | | Year ended 31 December | | Year ended 31 December | |
| | | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Interest income | 6 | 20 302 | 20 961 | 1 | 2 |
| Interest expense | 7 | (7 507) | (7 613) | - | - |
| Net interest income | | 12 795 | 13 348 | 1 | 2 |
| Fees and commission revenue | 8 | 4 642 | 5 653 | - | - |
| Fees and commission expense | 9 | (582) | (545) | - | - |
| Net fees and commission income | | 4 060 | 5 108 | - | - |
| Trading revenue | 10 | 6 234 | 5 330 | - | - |
| Net income from financial instruments at fair value through profit or loss | | 93 | 173 | - | - |
| Other income | 12 | 38 | 49 | 2 320 | 1 924 |
| Other gains and losses on financial instruments | 11(b) | 17 | 717 | - | - |
| Trading and other income | | 6 382 | 6 269 | 2 320 | 1 924 |
| Total income | | 23 237 | 24 724 | 2 321 | 1 926 |
| Credit impairment losses | 23(d) | (4 876) | (3 151) | - | - |
| Net income before operating expenses | | 18 361 | 21 573 | 2 321 | 1 926 |
| Employee benefits expense | 13 | (5 929) | (6 633) | - | - |
| Depreciation and amortisation expense | 26, 28 | (804) | (704) | - | - |
| Depreciation on right-of-use assets | 14 | (458) | (357) | - | - |
| Other operating expenses | | (4 895) | (6 077) | (46) | (22) |
| Finance costs | 15 | (48) | (92) | - | (1) |
| Total operating expenses | | (12 134) | (13 863) | (46) | (23) |
| Profit before income tax | | 6 227 | 7 710 | 2 275 | 1 903 |
| Income tax expense | 16 | (1 035) | (1 329) | - | (1) |
| Profit for the year | | 5 192 | 6 381 | 2 275 | 1 902 |
| Earnings per share | | | | | |
| Basic and diluted (KShs per share) | 17 | 13.13 | 16.14 | 5.75 | 4.81 |

Group and Company Statement of Other Comprehensive Income

for the year ended 31 December 2020

| | Note | GROUP | | COMPANY | |
|--|------|------------------------|----------------------|------------------------|----------------------|
| | | Year ended 31 December | | Year ended 31 December | |
| | | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Profit for the year | | 5 192 | 6 381 | 2 275 | 1 902 |
| Other comprehensive income for the year, net of income tax | | | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | | | |
| Currency translation differences for foreign operations | | (170) | (85) | - | - |
| Net gain/(loss) in debt financial assets measured at fair value through other comprehensive income (FVOCI) | 21.2 | 1 | 12 | - | - |
| Net loss on financial assets reclassified to profit or loss | 21.2 | (34) | - | - | - |
| Total other comprehensive income for the year, net of income tax | | (203) | (73) | - | - |
| Total comprehensive income for the year | | 4 989 | 6 308 | 2 275 | 1 902 |

Group and Company Statement of Financial Position

as at 31 December 2020

| | Note | GROUP | | COMPANY | |
|---|-------|------------------------|----------------------|------------------------|----------------------|
| | | Year ended 31 December | | Year ended 31 December | |
| | | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Assets | | | | | |
| Cash and balances with Central Bank of Kenya | 19 | 18 077 | 17 251 | – | – |
| Financial assets – FVTPL | 20(a) | 33 729 | 34 160 | – | – |
| Financial assets – (FVOCI) | 21 | 30 664 | 21 028 | – | – |
| Financial assets – (amortised cost) | 22 | 23 191 | 14 890 | – | – |
| Derivative assets | 33 | 2 956 | 1 612 | – | – |
| Loans and advances to banks | 23(a) | 38 119 | 38 377 | 132 | 137 |
| Loans and advances to customers | 23(b) | 158 180 | 152 817 | – | – |
| Other assets and prepayments | 24 | 4 759 | 4 910 | 20 | 20 |
| Investment in subsidiaries and other investments | 25 | 18 | 18 | 18 218 | 18 218 |
| Property and equipment | 26 | 2 242 | 2 302 | – | – |
| Right-of-use assets (leasehold land) | 27 | 42 | 45 | – | – |
| Other intangible assets | 28 | 864 | 1 025 | – | – |
| Intangible assets – goodwill | 29 | 9 350 | 9 350 | – | – |
| Right-of-use assets (buildings) | 30 | 1 479 | 1 315 | – | – |
| Current tax asset | 37 | – | – | 16 | 15 |
| Deferred tax asset | 38 | 4 847 | 4 397 | – | – |
| Asset classified as held-for-sale | 49 | 76 | 128 | – | – |
| Total assets | | 328 593 | 303 625 | 18 386 | 18 390 |
| Equity and liabilities | | | | | |
| Liabilities | | | | | |
| Derivative liabilities | 33 | 2 601 | 2 757 | – | – |
| Financial liabilities – FVTPL | 20(b) | 418 | 1 487 | – | – |
| Deposits from banks | 34(a) | 42 526 | 30 451 | – | – |
| Deposits from customers | 34(b) | 217 444 | 194 223 | – | – |
| Borrowings | 35 | 5 504 | 9 127 | – | – |
| Other liabilities and accrued expenses | 36 | 6 581 | 14 725 | 144 | 130 |
| Current tax liability | 37 | 395 | 398 | – | – |
| Deferred tax liability | 38 | 1 | 25 | – | – |
| Lease liabilities | 31 | 1 386 | 1 371 | – | – |
| Liabilities directly associated with assets classified as held-for-sale | 49 | 7 | 27 | – | – |
| Total liabilities | | 276 863 | 254 591 | 144 | 130 |
| Equity | | | | | |
| Ordinary share capital | 32(b) | 1 977 | 1 977 | 1 977 | 1 977 |
| Ordinary share premium | 32(c) | 16 897 | 16 897 | 16 897 | 16 897 |
| Other reserves | 44 | (1 349) | (163) | – | – |
| Retained earnings | | 32 703 | 28 030 | (2 134) | (2 907) |
| Proposed dividend | 18 | 1 502 | 2 293 | 1 502 | 2 293 |
| Total shareholders' equity | | 51 730 | 49 034 | 18 242 | 18 260 |
| Total equity and liabilities | | 328 593 | 303 625 | 18 386 | 18 390 |

The financial statements on pages 10 to 103 were approved for issue by the Board of Directors on 4 March 2021 and signed on its behalf by:


Kitili Mbathi
Chairman


Patrick Mweheire
Chief Executive


Dorcas Kombo
Director


Lillian Mbindyo
Company Secretary

Group Statement of Changes in Equity

for the year ended 31 December 2020

| Note | Share capital | Share premium | Other reserves | Retained earnings | Proposed dividend | Total equity |
|--|---------------|---------------|----------------|-------------------|-------------------|---------------|
| | KShs million | KShs million | KShs million | KShs million | KShs million | KShs million |
| For the year ended 31 December 2020 | | | | | | |
| At 1 January 2020 | 1 977 | 16 897 | (163) | 28 030 | 2 293 | 49 034 |
| Profit for the year | – | – | – | 5 192 | – | 5 192 |
| Other comprehensive income, net of tax | – | – | (212) | 9 | – | (203) |
| Transfer of statutory credit risk reserve | – | – | (938) | 938 | – | – |
| Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group | | | | | | |
| Dividend payment | 18 | – | – | – | (2 293) | (2 293) |
| Proposed dividend | 18 | – | – | (1 502) | 1 502 | – |
| Equity-settled share-based payment transactions | 45 | – | – | (36) | 36 | – |
| Total transactions with owners of the Group | | | | | | |
| | – | – | (36) | (1 466) | (791) | (2 293) |
| At 31 December 2020 | 1 977 | 16 897 | (1 349) | 32 703 | 1 502 | 51 730 |
| For the year ended 31 December 2019 | | | | | | |
| At 1 January 2019 | 1 977 | 16 897 | (83) | 24 428 | 1 403 | 44 622 |
| Profit for the year | – | – | – | 6 381 | – | 6 381 |
| Other comprehensive income, net of tax | – | – | (81) | 8 | – | (73) |
| Transfer of statutory credit risk reserve | – | – | – | – | – | – |
| Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group | | | | | | |
| Dividend payment | 18 | – | – | (494) | (1 403) | (1 897) |
| Proposed dividend | 18 | – | – | (2 293) | 2 293 | – |
| Equity-settled share-based payment transactions | 45 | – | – | 1 | – | 1 |
| Total transactions with owners of the Group | | | | | | |
| | – | – | 1 | (2 787) | 890 | (1 896) |
| At 31 December 2019 | 1 977 | 16 897 | (163) | 28 030 | 2 293 | 49 034 |

Company Statement of Changes in Equity

for the year ended 31 December 2020

| Note | Attributable to equity holders | | | | |
|---|--------------------------------|-------------------------------|-----------------------------------|-----------------------------------|------------------------------|
| | Share capital KShs million | Share premium KShs million | Retained earnings KShs million | Proposed dividend KShs million | Total equity KShs million |
| Year ended 31 December 2020 | | | | | |
| At 1 January 2020 | | | | | |
| | 1 977 | 16 897 | (2 908) | 2 293 | 18 260 |
| | - | - | 2 275 | - | 2 275 |
| Contribution and distributions to owners | | | | | |
| | - | - | - | (2 293) | (2 293) |
| | - | - | (1 502) | 1 502 | - |
| Total contributions by and distributions to owners | | | | | |
| | - | - | (1 502) | (791) | (2 293) |
| At 31 December 2020 | | | | | |
| | 1 977 | 16 897 | (2 135) | 1 502 | 18 242 |
| Year ended 31 December 2019 | | | | | |
| At 1 January 2019 | | | | | |
| | 1 977 | 16 897 | (2 023) | 1 403 | 18 254 |
| | - | - | 1 902 | - | 1 902 |
| Contribution and distributions to owners | | | | | |
| | - | - | (494) | (1 403) | (1 896) |
| | - | - | (2 293) | 2 293 | - |
| Total contributions by and distributions to owners | | | | | |
| | - | - | (2 787) | 890 | (1 896) |
| At 31 December 2019 | | | | | |
| | 1 977 | 16 897 | (2 908) | 2 293 | 18 260 |

Group and Company Statement of Cash Flows

for the year ended 31 December 2020

| Note | GROUP | | COMPANY | |
|--|------------------------|----------------------|------------------------|----------------------|
| | Year ended 31 December | | Year ended 31 December | |
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Cash flows from operating activities | | | | |
| | 6 420 | 10 297 | 2 275 | 1 903 |
| | (558) | (833) | - | - |
| | (1 374) | (3 198) | - | - |
| Cash flows from operating activities before changes in operating assets and liabilities | | | | |
| | 4 488 | 6 266 | 2 275 | 1 903 |
| Changes in operating assets and liabilities: | | | | |
| | (5 363) | (6 212) | - | - |
| | (699) | 8 955 | - | - |
| | 3 655 | 4 418 | - | - |
| | (134) | (2 338) | - | - |
| | 151 | (1 183) | - | (20) |
| | 9 691 | 4 424 | - | - |
| | (8 144) | 8 299 | 13 | 21 |
| | 23 221 | 2 638 | - | - |
| | (1 069) | (8 554) | - | - |
| Net cash generated from operating activities | | | | |
| | 25 797 | 16 713 | 2 288 | 1 904 |
| Cash flows from investing activities: | | | | |
| | (8 301) | 8 311 | - | - |
| | (408) | (541) | - | - |
| | (166) | (65) | - | - |
| | - | 6 | - | - |
| Net cash (used in)/generated from investing activities | | | | |
| | (8 875) | 7 711 | - | - |
| Cash flows from financing activities: | | | | |
| | (2 293) | (1 898) | (2 293) | (1 898) |
| | - | 2 063 | - | - |
| | (3 998) | - | - | - |
| | (325) | (346) | - | - |
| Net cash used in financing activities | | | | |
| | (6 616) | (181) | (2 293) | (1 898) |
| Net increase/(decrease) in cash and cash equivalents | | | | |
| | 10 306 | 24 243 | (5) | 6 |
| | (81) | (72) | - | - |
| | 85 211 | 61 040 | 137 | 131 |
| Cash and cash equivalents at end of year | | | | |
| | 95 436 | 85 211 | 132 | 137 |

Notes to the Financial Statements

for the year ended 31 December 2020

1. General information

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

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

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

Principal activities of the Group are providing financial services including banking, Insurance agency and stock brokerage. The Group is licensed under the Banking of Capital Market Act, Retirement Benefits Act and Insurance Act to provide these services.

The financial statements for the year ended 31 December 2020 were approved for issue by the Board of Directors on 4 March 2021. Neither the entity's owners nor others have the power to amend the financial statements after issue. For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and comprehensive income, in these financial statements.

2. Summary of significant accounting policies

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

(a) Basis of preparation

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

- FVOCI financial assets, financial assets and liabilities at fair value through profit or loss and liabilities for cash-settled and equity-settled share-based payment arrangements (accounting policy 2.6).

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

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

Use of estimates

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

(b) Functional and presentation currency

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

(c) Changes in accounting policies and disclosures

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

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

| Standards and amendments | Key requirements | Effective date |
|--|---|-----------------------|
| Amendments to IFRS 10 and IAS 28 (issued in September 2014) | The International Accounting Standards Board (IASB) has published "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)". The amendments address a conflict between the requirements of IAS 28: <i>Investments in Associates and Joint Ventures</i> and IFRS 10: <i>Consolidated Financial Statements</i> and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. | Deferred indefinitely |
| IFRS 17 (issued in May 2017) | IFRS 17: <i>Insurance Contracts</i> establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Group does not issue insurance contracts. | 1 January 2023 |
| IAS 1 (issued in January 2020) | Amendments to IAS 1 Classification of Liabilities as Current or Non-current clarify a criterion for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement for at least 12 months after the reporting date. | 1 January 2022 |
| IFRS 3 (issued in May 2020) | Amendments to IFRS 3: <i>Business Combinations</i> – Reference to the Conceptual Framework are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21: <i>Levies</i> , if incurred separately. The amendments also clarify that contingent assets do not qualify for recognition at the acquisition date. | 1 January 2022 |
| IAS 16 (issued in May 2020) | Amendments to IAS 16: <i>Property, Plant and Equipment</i> : Proceeds before Intended Use prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. | 1 January 2022 |
| IAS 37 (issued in May 2020) | Amendments to IAS 37 Onerous Contracts – Costs of Fulfilling a Contract specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. | 1 January 2022 |
| IFRS 1 (issued in May 2020) | Amendment to IFRS 1: <i>First-time Adoption of International Financial Reporting Standards</i> 'Subsidiary as a first-time adopter' permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. | 1 January 2022 |
| Amendment to IFRS 9 (issued in May 2020) | Amendment to IFRS 9: <i>Financial Instruments</i> "Fees in the '10 per cent' test for derecognition of financial liabilities" clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. | 1 January 2022 |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

(c) Changes in accounting policies and disclosures (continued)

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

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

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

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

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

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

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

2.1 Consolidation

(i) Subsidiaries

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss.

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

2.2 Translation of foreign currencies

(i) Transactions and balances

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

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

(ii) Foreign operations

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

2.3 Net interest income

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

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

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

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

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

2.4 Non-interest revenue

(a) Net fee and commission revenue

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

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

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

(b) Trading revenue

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

(c) Other revenue

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

(d) Revenue sharing agreements with related companies

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

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

2.5 Cash and cash equivalents

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

2.6 Financial instruments

(i) Initial recognition and measurement

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

Financial assets

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

| Nature | |
|--|--|
| Amortised cost | <p>A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):</p> <ul style="list-style-type: none"> Held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. <p>This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss – default.</p> |
| Fair value through OCI | <p>A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):</p> <ul style="list-style-type: none"> Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. <p>This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss – default.</p> <p>Equity financial assets which are not held-for-trading and are irrevocably elected (on an instrument-by-instrument basis) to be presented at fair value through OCI.</p> |
| Fair value through profit or loss (FVTPL) | <p>Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.</p> |
| Designated at fair value through profit or loss | <p>Financial assets are designated to be measured at fair value to eliminate or significantly reduce an accounting mismatch that would otherwise arise.</p> |
| Fair value through profit or loss – default | <p>Financial assets that are not classified into one of the above mentioned financial asset categories.</p> |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

(ii) Subsequent measurement

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

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

Impairment of financial assets

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

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

| Stages | |
|---|---|
| Stage 1 | A 12-month ECL is calculated for financial assets which are neither credit impaired on origination nor for which there has been a SICR. |
| Stage 2 | A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed an SICR since origination and are not considered low credit risk. |
| Stage 3 (credit impaired assets) | A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: <ul style="list-style-type: none"> • Default (as defined below) • Significant financial difficulty of borrower and/or modification • Probability of bankruptcy or financial reorganisation • Disappearance of an active market due to financial difficulties |

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

| Nature | |
|--|---|
| Significant increase in credit risk | At each reporting date the Group assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. |
| Low credit risk | Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations. |
| Default | The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets: <ul style="list-style-type: none"> • Significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower) • A breach of contract, such as default or delinquency in interest and/or principal payments • Disappearance of active market due to financial difficulties • It becomes probable that the borrower will enter bankruptcy or other financial reorganisation • Where the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise consider • Exposures which are overdue for more than 90 days are also considered to be in default |
| Forward-looking information | Forward-looking information is incorporated into the Group's impairment methodology calculations and in the Group's assessment of SICR. The Group includes all forward-looking information which is reasonable and available without undue cost or effort. The information will typically include expected macroeconomic conditions and factors that are expected to impact portfolios or individual counterparty exposures. |
| Write-off | Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities. |

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

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

Reclassification

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

(ii) Subsequent measurement (continued)

Financial liabilities

| Nature | |
|--|---|
| Held-for-trading | Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. |
| Designated at fair value through profit or loss | Financial liabilities are designated to be measured at fair value in the following instances to eliminate or significantly reduce an accounting mismatch that would otherwise arise where: <ul style="list-style-type: none"> the financial liabilities are managed and their performance evaluated and reported on a fair value basis; and the financial liability contains one or more embedded derivatives that significantly modify the financial liability's cash flows. |
| Amortised cost | All other financial liabilities not included in the above categories. |

Subsequent measurement

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

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

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

| | Derecognition | Modification |
|-------------------------|--|--|
| Financial assets | Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements. | Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes. |

| | Derecognition | Modification |
|-------------------------------------|---|--|
| Financial assets (continued) | When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. | If the terms are not substantially different for financial assets or financial liabilities, the Group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications). |
| Financial liabilities | Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires. | See modification of financial assets on the previous page. |

Financial guarantee contracts

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

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

- ECL calculated for the financial guarantee; or
- unamortised premium.

Offsetting financial instruments

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

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

Derivative and embedded derivatives

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

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

(ii) Subsequent measurement (continued)

Sale and repurchase agreements and lending of securities

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

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

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

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

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

2.7 Fair value

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

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

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

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

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

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

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

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

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

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

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

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

2.8 Property and equipment

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

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

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

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

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

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

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

Work in progress is not depreciated.

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

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

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

2.9 Intangible assets

Goodwill

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

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

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

Note 29 sets out the major CGU to which goodwill has been allocated.

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

Computer software

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

2.9 Intangible assets (continued)

Computer software (continued)

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

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

2.10 Capitalisation of borrowing costs

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

2.11 Impairment of non-financial assets

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

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

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

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

2.12 Accounting for leases

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

Group as lessee

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

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

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

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

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

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

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

2.13 Provisions, contingent assets and contingent liabilities

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

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

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

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

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

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

2.14 Taxation

(i) Direct tax

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

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

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

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

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

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

(ii) Indirect tax

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

2.15 Employee benefits

(i) Defined contribution plans

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

2.15 Employee benefits (continued)

(ii) Termination benefits

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

(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 Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.16 Dividends

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

2.17 Equity

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

(i) Share issue costs

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

(ii) Dividends on ordinary shares

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

Proposed dividends are presented separately within equity until declared.

2.18 Earnings per share

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

2.19 Equity-linked transactions

Equity compensation plans

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

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

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

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

2.20 Segment reporting

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

Transactions between segments are priced at market-related rates.

2.21 Fiduciary activities

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

2.22 Hyperinflation

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

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

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

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

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

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

2.23 Letters of credit acceptances

Letters of credit acceptances arise in two ways:

(i) Issuing bank

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

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

(ii) Confirming bank

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

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

3. Critical accounting estimates and judgements in applying accounting policies

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

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

3.1 Going concern

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

In the year ended 2019, the Directors resolved to strategically review the operating model of the branches of SBG Securities Limited. This discussions significantly affect the long-term operating structure of SBG Securities in the Uganda and Rwanda markets. Consequently, the financial statements of SBG Securities Limited (Rwanda branch) and SBG Securities Limited (Uganda branch) have been prepared on a break-up basis.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

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

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

3.3 Impairment of financial assets at amortised cost

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

3.4 Fair value of financial instruments

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

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

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

3.5 Development costs

The Group capitalises software development costs for intangible assets in accordance with the accounting policy detailed in Note 2.9. 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 Group is able to demonstrate its intention and ability to complete and use the software.

3.6 Share-based payment

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

3.7 Income taxes

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

Deferred tax assets

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

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

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

3.8 Hyperinflation

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

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

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

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

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

The general price indices used in adjusting the results, cash flows and financial position of the branch are 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 2020 | 2019 | 9 902.46 | 89.30 |
| 31 December 2019 | 2018 | 5 834.35 | 69.14 |

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

| | 2020 KShs million | 2019 KShs million |
|---|----------------------|----------------------|
| Impact on statement of profit or loss | | |
| Profit for the year before hyperinflation | 4 995 | 6 438 |
| Net monetary gain/(loss)* | 197 | (57) |
| Profit for the year after hyperinflation | 5 192 | 6 381 |

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

3.9 Provisions

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

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

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

ECL measurement period

Personal and Business Banking (PBB)

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

Corporate and Investment Banking (CIB)

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

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

ECL measurement period

Treasury

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

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

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

PBB

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

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

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

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

CIB

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

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

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

Forward-looking expectations

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

PBB

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

CIB

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

Lifetime LGD work out

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

Default

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

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

Write-off policy

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

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

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

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

Curing

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

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

Debt financial investments

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

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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

3.11 Credit impairment losses on loans and advances

Specific loan impairments

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

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Where the net present value of estimated cash flows to differ by +/-1%, the impairment loss is to be estimated at KShs 77 158 420 higher or KShs 77 158 420 lower (2018: KShs 76 285 000 higher or KShs 76 285 000 lower) respectively.

3.12 COVID-19: Related Operational Losses

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

4. Financial risk management

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

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

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

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

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

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

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

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

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

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

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

4.1 Capital management – Company

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

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

4.2 Capital management – Group

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

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

It uses two approaches of measuring capital for capital management.

(a) Economic capital assessment

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

(b) Regulatory capital assessment

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

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management (continued)

4.2 Capital management – Group (continued)

(c) Regulatory capital assessment – Stanbic Bank Kenya Limited

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

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

4.3 Credit risk

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

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

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

4.3.1 Governance committees

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

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

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

4.3.2 General approach to managing credit risk

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

The Group manages credit risk through:

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

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

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

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

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

4.3.3 Management reporting

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

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

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

4.3.4 Credit risk measurement

(a) Loans and advances including loan commitments and guarantees

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

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

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

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

Probability of default (PD)

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management (continued)

4.3 Credit risk (continued)

4.3.4 Credit risk measurement (continued)

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

Loss given default (LGD)

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

Exposure at default (EAD)

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

(b) Debt securities

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

Relationship between the bank master rating and external rating

| 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- | | |
| 5 – 7 | A1, A2, A3 | A+, A, A- | A+, A, A- | Investment grade | Normal monitoring |
| 8 – 12 | Baa1, Baa2, Baa3 | BBB+, BBB, BBB- | BBB+, BBB, BBB- | | |
| 13 – 21 | Ba1, Ba2, Ba3, B1, B2, B3 | BB+, BB, BB-, B+, B, B- | BB+, BB, BB-, B+, B, B- | | |
| 22 – 25 | Caa1, Caa2, Caa3, Ca | CCC+, CCC, CCC- | CCC+, CCC, CCC- | Sub-investment grade | Close monitoring |
| Default | C | D | D | D | D |

4.3.5 Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below:

(a) Credit tailored to customer profile

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

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

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

Corporate and Investment Banking (CIB): CIB, 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 counterparty, the customer relationship team and an independent credit evaluation manager. The credit evaluation manager bases his lending decision on an in-depth knowledge of the counterparty and the industry in which it operates, as well as an assessment of the creditworthiness of the counterparty based on a review of the audited financial statements and underlying risk parameters.

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

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

Personal and Business Banking (PBB): Retail portfolio

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

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

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less 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 Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(c) Master netting arrangements

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

(d) Derivatives

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

(e) Collateral

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

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

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

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

Valuation of collateral

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

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

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

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

In the retail portfolio, 76% (2019: 82%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures above 50% collateral coverage category is 100% (2019: 100%). Of the Group's total exposure, 55% (2019: 48%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

| | Collateral coverage – total | | | | | | | |
|--|-----------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|---|---|---|--------------------------------------|
| | Total exposure KShs million | Unsecured exposure KShs million | Secured exposure KShs million | Netting agreements KShs million | Secured exposure after netting KShs million | Greater than 0% to 50% KShs million | Greater than 50% to 100% KShs million | Greater than 100% KShs million |
| 31 December 2020 | | | | | | | | |
| Asset class | | | | | | | | |
| Corporate | 87 034 | 15 694 | 71 340 | – | 71 340 | – | 71 340 | – |
| Sovereign | 87 584 | 87 584 | – | – | – | – | – | – |
| Loans and advances to banks | 38 119 | 38 119 | – | – | – | – | – | – |
| Group | 27 171 | 27 171 | – | – | – | – | – | – |
| Other banks | 10 948 | 10 948 | – | – | – | – | – | – |
| Retail | 89 561 | 21 628 | 67 933 | – | 67 933 | – | 67 933 | – |
| Retail mortgage | 34 783 | – | 34 783 | – | 34 783 | – | 34 783 | – |
| Other retail | 54 778 | 21 628 | 33 150 | – | 33 150 | – | 33 150 | – |
| Total | 302 298 | 163 025 | 139 273 | – | 139 273 | – | 139 273 | – |
| Less: Impairments for loans and advances | (18 434) | | | | | | | |
| Total exposures | 283 864 | | | | | | | |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued) (e) Collateral (continued)

| | Total exposure KShs million | Unsecured exposure KShs million | Secured exposure KShs million | Netting agreements KShs million | Secured exposure after netting KShs million | Collateral coverage – total | | |
|--|-----------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|---|--|--|--------------------------------------|
| | | | | | | Greater than 0% to 50% KShs million | Greater than 50% to 100% KShs million | Greater than 100% KShs million |
| 31 December 2019 | | | | | | | | |
| Asset class | | | | | | | | |
| Corporate | 79 762 | 7 137 | 72 626 | – | 72 626 | – | 72 626 | – |
| Sovereign | 70 033 | 70 033 | – | – | – | – | – | – |
| Loans and advances to banks | | | | | | | | |
| Group | 27 077 | 27 077 | – | – | – | – | – | – |
| Other banks | 11 277 | 11 277 | – | – | – | – | – | – |
| Retail | | | | | | | | |
| Retail mortgage | 25 580 | – | 25 580 | – | 25 580 | – | 25 580 | – |
| Other retail | 61 645 | 15 392 | 46 253 | – | 46 253 | – | 46 253 | – |
| Total | 275 374 | 130 915 | 144 459 | – | 144 459 | – | 144 459 | – |
| Less: Impairments for loans and advances | (14 174) | | | | | | | |
| Total exposure | 261 200 | | | | | | | |

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

Foreclosed collateral

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

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

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

Renegotiated financial assets

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

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

4.3.6 Default and provisioning policy

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

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

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

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

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

4.3.7 Credit quality

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

(b) Credit quality by class (continued)

| | SB 1 – 12 | | SB 13 – 20 | | SB 21 – 25 | | Default | | Purchased/ originated credit impaired |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|---|--|
| | Stage 1 KShs million | Stage 2 KShs million | Stage 1 KShs million | Stage 2 KShs million | Stage 1 KShs million | Stage 2 KShs million | Stage 3 KShs million | | |
| Year ended | | | | | | | | | |
| 31 December 2020 | | | | | | | | | |
| Financial assets measured at amortised cost | | | | | | | | | |
| Corporate | 168 | 168 | - | - | - | - | - | - | - |
| Sovereign | 23 038 | 23 038 | - | - | - | - | - | - | - |
| Gross carrying amount | 23 206 | | | | | | | | |
| Less: Total expected credit losses for loans and advances (Note 22.1) | (15) | | | | | | | | |
| Net carrying amount of financial assets measured at amortised costs | 23 191 | | | | | | | | |
| Financial assets at fair value through OCI | | | | | | | | | |
| Corporate | - | - | - | - | - | - | - | - | - |
| Sovereign | 30 660 | 30 660 | - | - | - | - | - | - | - |
| Gross carrying amount | 30 660 | | | | | | | | |
| Add: Fair value reserve relating to fair value adjustments (before the ECL balance) (Note 21.1) | 4 | | | | | | | | |
| Net carrying amount of financial assets measured at fair value through OCI | 30 664 | | | | | | | | |
| Year ended | | | | | | | | | |
| 31 December 2019 | | | | | | | | | |
| Financial assets measured at amortised cost | | | | | | | | | |
| Corporate | 661 | 661 | - | - | - | - | - | - | - |
| Sovereign | 14 231 | 14 231 | - | - | - | - | - | - | - |
| Gross carrying amount | 14 892 | | | | | | | | |
| Less: Total expected credit losses for loans and advances | (2) | | | | | | | | |
| Net carrying amount of financial assets measured at amortised costs | 14 890 | | | | | | | | |
| Financial assets at fair value through OCI | | | | | | | | | |
| Corporate | - | - | - | - | - | - | - | - | - |
| Sovereign | 21 030 | 21 030 | - | - | - | - | - | - | - |
| Gross carrying amount | 21 030 | | | | | | | | |
| Add: Fair value reserve relating to fair value adjustments (before the ECL balance) | (2) | | | | | | | | |
| Net carrying amount of financial assets measured at fair value through OCI | 21 028 | | | | | | | | |

(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 | | Total KShs million |
|---|------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|--|--------------------------|
| | 1 to 29 days KShs million | 30 to 59 days KShs million | 60 to 89 days KShs million | 90 to 180 days KShs million | More than 180 days KShs million | |
| 31 December 2020 | | | | | | |
| Personal and Business Banking | 6 834 | 2 067 | 842 | - | - | 9 743 |
| Mortgage lending | 2 385 | 542 | 402 | - | - | 3 329 |
| Vehicle and asset finance | 1 340 | 554 | 79 | - | - | 1 973 |
| Other loans and advances | 3 109 | 971 | 361 | - | - | 4 441 |
| Corporate and Investment Banking | 4 325 | 114 | 2 | - | - | 4 441 |
| Total recognised financial instruments | 11 159 | 2 181 | 844 | - | - | 14 184 |
| 31 December 2019 | | | | | | |
| Personal and Business Banking | 7 533 | 2 800 | 8 538 | - | - | 18 871 |
| Mortgage lending | 1 626 | 748 | 303 | - | - | 2 677 |
| Vehicle and asset finance | 1 867 | 998 | 241 | - | - | 3 106 |
| Other loans and advances | 4 039 | 1 053 | 7 995 | - | - | 13 088 |
| Corporate and Investment Banking | 1 753 | 198 | - | - | - | 1 951 |
| Total recognised financial instruments | 9 286 | 2 997 | 8 539 | - | - | 20 822 |

4.4 Market risk

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

4.4.1 Governance committees

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

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

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

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

(ii) Measurement of market risk

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management (continued)

4.4 Market risk (continued)

4.4.1 Governance committees (continued)

(iii) Management of market risk

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

(iv) Reporting of market risk

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

4.4.2 Market risk exposure on banking operations

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

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

4.4.3 Approved regulatory capital approaches

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

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

4.4.4 Trading book market risk

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

4.4.5 Approach to managing market risk in the trading book

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

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

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

(a) VaR and SVaR

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

For risk management purposes VaR is based on 250 days of unweighted recent historical data, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in 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 Group has received internal model approval, the market risk regulatory capital requirement is based on VaR and SVaR, both of which use a confidence level of 99% and a 10-day holding period.

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

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

(b) Stop-loss triggers

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

(c) Stress tests

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

(d) Back-testing

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

(e) Specific business unit and product controls

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

4.4.6 Foreign exchange risk

Definition

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

Approach to managing foreign currency risk

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management (continued)

4.4 Market risk (continued)

4.4.6 Foreign exchange risk (continued)

Approach to managing foreign currency risk (continued)

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

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

| | USD | GBP | EUR | Others | Total |
|---|----------------|--------------|---------------|--------------|----------------|
| At 31 December 2020 | | | | | |
| Assets | | | | | |
| Cash and bank balances with banks abroad | 15 905 | 492 | 1 186 | 1 553 | 19 136 |
| Loans and advances | 59 244 | 942 | 6 360 | 15 | 66 561 |
| Investment in government securities | 2 554 | – | – | – | 2 554 |
| Balances due from group companies | 17 885 | 5 191 | – | 637 | 23 713 |
| Other foreign currency assets | 3 232 | – | 321 | 149 | 3 702 |
| Total foreign currency denominated financial assets | 98 820 | 6 625 | 7 867 | 2 354 | 115 666 |
| Liabilities | | | | | |
| Amounts due to banking institutions abroad | 12 011 | 7 | 83 | 472 | 12 573 |
| Deposits | 82 768 | 7 353 | 7 172 | 1 156 | 98 449 |
| Borrowings | 5 502 | – | – | – | 5 502 |
| Balances due to group companies | 12 432 | – | 2 691 | – | 15 123 |
| Other foreign currency liabilities | 12 446 | 3 | 700 | 1 078 | 14 227 |
| Total foreign currency denominated financial liabilities | 125 159 | 7 363 | 10 646 | 2 706 | 145 874 |
| Net on-balance sheet financial position | (26 339) | (738) | (2 779) | (352) | (30 208) |
| Off-balance sheet net notional position | 26 456 | 724 | 3 162 | 127 | 30 469 |
| Overall net position | 117 | (14) | 383 | (225) | 261 |
| At 31 December 2019 | | | | | |
| Assets | | | | | |
| Cash and bank balances with banks abroad | 18 831 | 1 089 | 435 | 1 815 | 22 170 |
| Loans and advances | 62 073 | 850 | 3 812 | 19 | 66 754 |
| Investment in government securities | – | – | – | – | – |
| Balances due from group companies | 21 939 | – | – | 564 | 22 503 |
| Other foreign currency assets | 3 177 | 98 | 274 | 326 | 3 875 |
| Total foreign currency denominated financial assets | 106 020 | 2 037 | 4 521 | 2 724 | 115 302 |
| Liabilities | | | | | |
| Amounts due to banking institutions abroad | 14 433 | 147 | 7 093 | 386 | 22 059 |
| Deposits | 68 485 | 9 676 | 8 133 | 987 | 87 281 |
| Borrowings | 5 132 | – | – | – | 5 132 |
| Balances due to group companies | 12 963 | – | 4 018 | – | 16 981 |
| Other foreign currency liabilities | 11 297 | 95 | 387 | 1 316 | 13 095 |
| Total foreign currency denominated financial liabilities | 112 310 | 9 918 | 19 631 | 2 689 | 144 548 |
| Net on-balance sheet financial position | (6 290) | (7 881) | (15 110) | 35 | (29 246) |
| Off-balance sheet net notional position | 4 995 | 7 937 | 15 752 | (213) | 28 471 |
| Overall net position | (1 295) | 56 | 642 | (178) | (775) |

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

| | Increase in currency rate in % 2020 | Effect on profit before tax 2020 KShs million | Effect on equity 2020 KShs million | Decrease in currency rate in % 2020 | Effect on profit before tax 2020 KShs million | Effect on equity 2020 KShs million |
|------------------------------------|-------------------------------------|---|------------------------------------|-------------------------------------|---|------------------------------------|
| Year ended 31 December 2020 | | | | | | |
| Currency | | | | | | |
| USD | 2.45 | 3 | 2 | 2.17 | 3 | 2 |
| GBP | 5.53 | (1) | (1) | 3.96 | (1) | (1) |
| EUR | 2.48 | 9 | 6 | 3.59 | 14 | 10 |
| Year ended 31 December 2019 | | | | | | |
| Currency | | | | | | |
| USD | 0.98 | (13) | (9) | 1.04 | (13) | (9) |
| GBP | 4.01 | 2 | 1 | 3.63 | 2 | 1 |
| EUR | 1.92 | 12 | 8 | 2.20 | 14 | 10 |

4.4.7 Interest rate risk

Interest rate risk in the banking book (IRRBB)

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

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

- Repricing risk: Timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities.
- Yield curve risk: Shifts in the yield curves that have adverse effects on the Group'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 Group asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial 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 Group's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the Group operates. The Bank's Treasury and Capital Management team monitors banking book interest rate risk operating under the oversight of ALCO.

Measurement

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

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

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

Limits

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management (continued)

4.4 Market risk (continued)

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

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

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

4.5 Liquidity risk

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

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

The Bank's liquidity risk management framework differentiates between:

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

Governance committees

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

Approach to managing liquidity risk

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

(a) Maintaining a structurally sound statement of financial position

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

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

(b) Foreign currency liquidity management

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

(c) Ensuring the availability of sufficient contingency liquidity

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

(d) Preserving a diversified funding base

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

(e) Undertaking regular liquidity stress testing

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

(f) Maintaining adequate liquidity contingency plans or liquidity buffer

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

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management (continued)

4.5 Liquidity risk (continued)

Exposure to liquidity risk

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

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

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

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

Maturity analysis for financial assets and financial liabilities – Group

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

| | Carrying value 2019 KShs million | Gross nominal inflow/ (outflow) 2019 KShs million | Redeem-able on demand 2019 KShs million | Maturing within 1 month 2019 KShs million | Maturing after 1 month but within 6 months 2019 KShs million | Maturing after 6 months but within 12 months 2019 KShs million | Maturing after 12 months but within 5 years 2019 KShs million | Maturing After 5 years 2019 KShs million |
|---|---|---|--|--|---|---|--|---|
| Non-derivative financial assets | | | | | | | | |
| Cash and balances to banks | 17 251 | 17 251 | 17 251 | – | – | – | – | – |
| Financial assets at FVTPL | 34 160 | 25 099 | – | 4 000 | 19 106 | 1 971 | 22 | – |
| Financial assets at FVOCI | 21 028 | 16 670 | – | 8 | 579 | 838 | 8 793 | 6 452 |
| Financial assets at amortised cost | 14 890 | 32 416 | – | – | 4 528 | 4 461 | 10 218 | 13 209 |
| Loans and advances to banks | 38 377 | 44 596 | – | 40 034 | 267 | 216 | 4 079 | – |
| Loans and advances to customers | 152 817 | 176 070 | 21 785 | 3 149 | 16 398 | 18 895 | 115 843 | – |
| Other assets | 4 910 | 4 910 | 3 292 | – | – | – | – | – |
| | 283 433 | 317 012 | 42 328 | 47 191 | 40 878 | 26 381 | 138 955 | 19 661 |
| Derivative assets | 1 612 | | | | | | | |
| – Inflows | – | (490) | – | (39) | (220) | (137) | (94) | – |
| – Outflows | – | 2 216 | – | 167 | 528 | 248 | 762 | 511 |
| | 1 612 | 1 726 | – | 128 | 308 | 111 | 668 | 511 |
| Non-derivative financial liabilities | | | | | | | | |
| Amounts due to other banks | (30 451) | (29 065) | – | (4 707) | (6 355) | (5 491) | (9 157) | (3 355) |
| Customer deposits | (194 223) | (187 513) | (170 707) | (6 295) | (5 611) | (4 138) | (762) | – |
| Financial liabilities | (1 487) | (1 401) | – | (136) | (479) | (786) | – | – |
| Borrowings | (9 127) | (8 983) | – | (61) | (288) | (307) | (5 035) | (3 292) |
| Other liabilities | (14 866) | (14 866) | (12 608) | – | – | – | – | – |
| | (250 154) | (241 828) | (183 315) | (11 199) | (12 733) | (10 722) | (14 954) | (6 647) |
| Derivative liabilities: | (2 757) | | | | | | | |
| – Inflows | – | 374 | – | 16 | 67 | 96 | 153 | 42 |
| – Outflows | – | (2 487) | – | (171) | (705) | (630) | (562) | (419) |
| | (2 757) | (2 113) | – | (155) | (638) | (534) | (409) | (377) |

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Financial risk management (continued)

4.5 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities – Group (continued)

| | 0 – 3 months KShs million |
|----------------------------|------------------------------|
| COMPANY | |
| At 31 December 2020 | |
| Cash and balances to banks | 132 |
| Other liabilities | (144) |
| | (12) |
| At 31 December 2019 | |
| Cash and balances to banks | 137 |
| Other liabilities | (130) |
| | 7 |

4.6 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 basis:

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

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

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

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

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

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

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

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

5. Segment information

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

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

Management has determined the operating segments based on the reports reviewed by the Group's Chief Executive with the assistance of the Group's Executive Committee and the ALCO. Management considers the business from client turnover perspective.

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

The geographical spread (across borders) is also used as a part of performance analysis. The Group's main subsidiary (Stanbic Bank Kenya Limited) operates one branch in the Republic of South Sudan. Further, SBG Securities Limited (another subsidiary) operates branches in Uganda and Rwanda but these are not considered material for segment reporting.

Personal and Business Banking (PBB)

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

- Mortgage lending – provides residential accommodation loans to individual customers;
- Vehicle and asset finance – 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 Automated Teller Machines (ATMs), internet, and branches. This includes deposit-taking activities, electronic banking, cheque accounts and other lending products.

Corporate and Investment Banking (CIB)

CIB provides commercial and investment banking services to larger corporates, financial institutions, and international counterparties.

The products offered include:

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

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

(a) Results by business units

| Statement of profit and loss | Total 2020 KShs million | Total 2019 KShs million | CIB 2020 KShs million | CIB 2019 KShs million | PBB 2020 KShs million | PBB 2019 KShs million |
|--|-------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Interest income | 20 302 | 20 961 | 11 321 | 11 618 | 8 981 | 9 343 |
| Interest expense | (7 507) | (7 613) | (5 397) | (5 185) | (2 110) | (2 428) |
| Net interest income | 12 795 | 13 348 | 5 924 | 6 433 | 6 871 | 6 915 |
| Fees and commission revenue | 4 642 | 5 653 | 1 978 | 2 662 | 2 664 | 2 991 |
| Fees and commission expense | (582) | (545) | (227) | (190) | (355) | (355) |
| Net fees and commission income | 4 060 | 5 108 | 1 751 | 2 472 | 2 309 | 2 636 |
| Trading revenue | 6 234 | 5 330 | 6 234 | 5 330 | – | – |
| Net income from financial instruments at fair value through profit or loss | 93 | 173 | 93 | 173 | – | – |
| Other income | 38 | 49 | 35 | 49 | 3 | – |
| Other gains and losses on financial instruments | 17 | 717 | 17 | 709 | – | 8 |
| Trading and other income | 6 382 | 6 269 | 6 379 | 6 261 | 3 | 8 |
| Total income | 23 237 | 24 725 | 14 054 | 15 166 | 9 183 | 9 559 |
| Credit impairment losses | (4 876) | (3 151) | (2 593) | (1 575) | (2 283) | (1 576) |
| Net income before operating expenses | 18 361 | 21 574 | 11 461 | 13 591 | 6 900 | 7 983 |
| Employee benefits expense | (5 929) | (6 633) | (3 071) | (2 876) | (2 858) | (3 757) |
| Depreciation and amortisation expense | (804) | (704) | (253) | (246) | (551) | (458) |
| Depreciation on right-of-use assets | (458) | (357) | (159) | (60) | (299) | (297) |
| Other operating expenses | (4 895) | (6 077) | (2 407) | (3 717) | (2 488) | (2 360) |
| Finance costs | (48) | (93) | (48) | (58) | – | (35) |
| Profit before income tax | 6 227 | 7 710 | 5 523 | 6 634 | 704 | 1 076 |
| Income tax expense | (1 035) | (1 329) | (834) | (1 358) | (201) | 29 |
| Profit for the year | 5 192 | 6 381 | 4 689 | 5 276 | 503 | 1 105 |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

5. Segment information (continued)

(a) Results by business units (continued)

| Statement of financial position | Total 2020 KShs million | Total 2019 KShs million | CIB 2020 KShs million | CIB 2019 KShs million | PBB 2020 KShs million | PBB 2019 KShs million |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Assets | | | | | | |
| Cash and balances with Central Bank of Kenya | 18 077 | 17 251 | 12 384 | 11 978 | 5 693 | 5 273 |
| Financial assets | 87 584 | 70 078 | 87 584 | 70 078 | – | – |
| Derivative assets | 2 956 | 1 612 | 2 956 | 1 612 | – | – |
| Loans and advances to banks | 38 119 | 38 377 | 37 978 | 37 719 | 141 | 658 |
| Loans and advances to customers | 158 180 | 152 817 | 76 683 | 70 859 | 81 497 | 81 958 |
| Other assets and prepayments | 4 759 | 4 910 | 564 | 2 325 | 4 195 | 2 585 |
| Investment in subsidiaries and other investments | 18 | 18 | 18 | 18 | – | – |
| Property, equipment and other intangible assets | 3 148 | 3 372 | 1 570 | 1 321 | 1 578 | 2 051 |
| Intangible assets – goodwill | 9 350 | 9 350 | 9 350 | 8 883 | – | 467 |
| Right-of-use assets (buildings) | 1 479 | 1 315 | – | 571 | 1 479 | 744 |
| Current tax asset | – | – | – | – | – | – |
| Deferred tax asset | 4 847 | 4 397 | 3 089 | 2 953 | 1 758 | 1 444 |
| Asset classified as held-for-sale | 76 | 128 | 76 | 128 | – | – |
| Total assets | 328 593 | 303 625 | 232 252 | 208 445 | 96 341 | 95 180 |
| Liabilities | | | | | | |
| Deposits from customers | 217 444 | 194 223 | 99 195 | 93 982 | 118 249 | 100 241 |
| Deposits from banks | 42 526 | 30 451 | 42 526 | 30 451 | – | – |
| Lease liabilities | 1 386 | 1 371 | 614 | 621 | 772 | 750 |
| Current tax liability | 395 | 398 | 281 | 374 | 114 | 24 |
| Deferred tax liability | 1 | 25 | – | 6 | 1 | 19 |
| Derivative liabilities | 2 601 | 2 757 | 2 601 | 2 757 | – | – |
| Financial liabilities – FVTPL | 418 | 1 487 | 418 | 1 487 | – | – |
| Other liabilities and accrued expenses | 6 581 | 14 725 | 4 030 | 9 654 | 2 551 | 5 071 |
| Borrowings | 5 504 | 9 127 | 3 166 | 5 340 | 2 338 | 3 787 |
| Liabilities directly associated with assets classified as held-for-sale | 7 | 27 | 7 | 27 | – | – |
| Total liabilities | 276 863 | 254 591 | 152 838 | 144 699 | 124 025 | 109 892 |
| Equity | 51 730 | 49 034 | 33 529 | 32 780 | 18 201 | 16 254 |
| Funding | – | – | 45 885 | 30 966 | (45 885) | (30 966) |
| Total equity and liabilities | 328 593 | 303 625 | 232 252 | 208 445 | 96 341 | 95 180 |

(b) Results by geographical area

| Statement of profit and loss | Total 2020 KShs million | Total 2019 KShs million | Kenya 2020 KShs million | Kenya 2019 KShs million | South Sudan 2020 KShs million | South Sudan 2019 KShs million |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------------|-------------------------------------|
| Interest income | 20 302 | 20 961 | 20 296 | 20 957 | 6 | 4 |
| Interest expense | (7 507) | (7 613) | (7 411) | (7 597) | (96) | (16) |
| Net interest income | 12 795 | 13 348 | 12 885 | 13 360 | (90) | (12) |
| Fees and commission revenue | 4 642 | 5 653 | 3 729 | 4 882 | 913 | 771 |
| Fees and commission expense | (582) | (545) | (542) | (542) | (40) | (3) |
| Net fees and commission income | 4 060 | 5 108 | 3 187 | 4 340 | 873 | 768 |
| Trading revenue | 6 234 | 5 330 | 5 403 | 5 025 | 831 | 305 |
| Net income from financial instruments at fair value through profit or loss | 93 | 173 | 93 | 173 | – | – |
| Other income | 38 | 49 | 38 | 35 | – | 14 |
| Other gains and losses on financial instruments | 17 | 717 | 17 | 717 | – | – |
| Trading and other income | 6 382 | 6 269 | 5 551 | 5 950 | 831 | 319 |
| Total income | 23 237 | 24 725 | 21 623 | 23 650 | 1 614 | 1 075 |
| Credit impairment losses | (4 876) | (3 151) | (4 877) | (3 146) | 1 | (5) |
| Net income before operating expenses | 18 361 | 21 574 | 16 746 | 20 504 | 1 615 | 1 070 |
| Employee benefits expense | (5 929) | (6 633) | (5 304) | (6 285) | (625) | (348) |
| Depreciation and amortisation expense | (804) | (704) | (788) | (699) | (16) | (5) |
| Depreciation on right-of-use assets | (458) | (357) | (327) | (315) | (131) | (42) |
| Other operating expenses | (4 895) | (6 077) | (4 387) | (5 713) | (508) | (364) |
| Finance costs | (48) | (93) | (24) | (35) | (24) | (58) |
| Profit before income tax | 6 227 | 7 710 | 5 916 | 7 457 | 311 | 253 |
| Income tax expense | (1 035) | (1 329) | (1 047) | (1 242) | 12 | (87) |
| Profit for the year | 5 192 | 6 381 | 4 869 | 6 215 | 323 | 166 |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

| Statement of financial position | Total 2020 KShs million | Total 2019 KShs million | Kenya 2020 KShs million | Kenya 2019 KShs million | South Sudan 2020 KShs million | South Sudan 2019 KShs million |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------------|-------------------------------------|
| Assets | | | | | | |
| Cash and balances with Central Bank of Kenya | 18 077 | 17 251 | 17 110 | 15 797 | 967 | 1 454 |
| Financial assets | 87 584 | 70 078 | 87 584 | 70 078 | - | - |
| Derivative assets | 2 956 | 1 612 | 2 956 | 1 612 | - | - |
| Loans and advances to banks | 38 119 | 38 377 | 23 890 | 24 578 | 14 229 | 13 799 |
| Loans and advances to customers | 158 180 | 152 817 | 158 162 | 152 803 | 18 | 14 |
| Other assets and prepayments | 4 759 | 4 910 | 6 739 | 6 774 | (1 980) | (1 864) |
| Investment in subsidiaries and other investments | 18 | 18 | 18 | 18 | - | - |
| Property, equipment and other intangible assets | 3 148 | 3 372 | 2 980 | 3 241 | 168 | 131 |
| Intangible assets – goodwill | 9 350 | 9 350 | 9 350 | 9 350 | - | - |
| Right-of-use assets (buildings) | 1 479 | 1 315 | 946 | 945 | 533 | 370 |
| Current tax asset | - | - | - | - | - | - |
| Deferred tax asset | 4 847 | 4 397 | 4 847 | 4 409 | - | (12) |
| Asset classified as held-for-sale | 76 | 128 | 76 | 128 | - | - |
| Total assets | 328 593 | 303 625 | 314 658 | 289 733 | 13 935 | 13 892 |
| Liabilities | | | | | | |
| Deposits from customers | 217 444 | 194 223 | 206 901 | 184 725 | 10 543 | 9 498 |
| Deposits from banks | 42 526 | 30 451 | 40 938 | 28 757 | 1 588 | 1 694 |
| Lease liabilities | 1 386 | 1 371 | 1 038 | 989 | 348 | 382 |
| Deferred tax liability | 1 | 25 | - | 25 | 1 | - |
| Current tax liability | 395 | 398 | 392 | 389 | 3 | 9 |
| Financial liabilities – FVTPL | 418 | 1 487 | 418 | 1 487 | - | - |
| Derivative liabilities | 2 601 | 2 757 | 2 601 | 2 757 | - | - |
| Borrowings | 5 504 | 9 127 | 5 504 | 9 127 | - | - |
| Other liabilities and accrued expenses | 6 581 | 14 725 | 6 268 | 13 409 | 313 | 1 316 |
| Liabilities directly associated with assets classified as held-for-sale | 7 | 27 | 7 | 27 | - | - |
| Total liabilities | 276 863 | 254 591 | 264 067 | 241 692 | 12 796 | 12 899 |
| Equity | 51 730 | 49 034 | 50 591 | 48 042 | 1 139 | 992 |
| Total equity and liabilities | 328 593 | 303 625 | 314 658 | 289 734 | 13 935 | 13 891 |

6. Interest income

| | GROUP | | COMPANY | |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Loans and advances to customers | 14 975 | 16 306 | - | - |
| Financial assets – (FVOCI) | 2 149 | 1 948 | - | - |
| Financial assets – (amortised cost) | 2 380 | 2 146 | - | - |
| Placements and other bank balances | 798 | 561 | 1 | 2 |
| | 20 302 | 20 961 | 1 | 2 |

7. Interest expense

| | GROUP | | COMPANY | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Current accounts | 1 556 | 1 440 | - | - |
| Savings and term deposit accounts | 4 664 | 3 803 | - | - |
| Deposits and placements from other banks | 567 | 1 396 | - | - |
| Interest on borrowed funds | 547 | 849 | - | - |
| Interest expense on lease liabilities | 173 | 125 | - | - |
| | 7 507 | 7 613 | - | - |
| Net interest income | 12 795 | 13 348 | 1 | 2 |

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

8. Fees and commission revenue

| | GROUP | | COMPANY | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Account transaction fees | 1 574 | 1 674 | - | - |
| Knowledge-based and client administration fees | 1 110 | 1 706 | - | - |
| Electronic banking fees | 541 | 645 | - | - |
| Foreign service fees | 486 | 403 | - | - |
| Documentation and administration fees | 241 | 347 | - | - |
| Brokerage commission | 256 | 318 | - | - |
| Other | 434 | 560 | - | - |
| | 4 642 | 5 653 | - | - |

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

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

9. Fees and commission expense

| | GROUP | | COMPANY | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Card-based commission expenses | 212 | 200 | - | - |
| Brokerage fees | 91 | 107 | - | - |
| Other bank-related fees and commission expenses | 279 | 238 | - | - |
| | 582 | 545 | - | - |

10. Trading revenue

| | | | | |
|-------------------------------|--------------|--------------|----------|----------|
| Net foreign exchange income | 6 037 | 5 387 | - | - |
| Gain/(loss) in monetary value | 197 | (57) | - | - |
| | 6 234 | 5 330 | - | - |

11(a) Net income from financial instruments at fair value through profit or loss

| | | | | |
|--|----|-----|---|---|
| Fixed Income – financial assets – (FVTPL/held-for-trading) | 93 | 173 | - | - |
|--|----|-----|---|---|

11(b) Other gains and losses on financial instruments

| | | | | |
|--|-----------|------------|----------|----------|
| Net gain on disposal of financial assets – FVTPL | 17 | 717 | - | - |
| | 17 | 717 | - | - |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

| | GROUP | | COMPANY | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| 12. Other income | | | | |
| Gain on disposal of property and equipment | 4 | 4 | - | - |
| Dividend income | - | - | 2 320 | 1 924 |
| Other income | 34 | 45 | - | - |
| | 38 | 49 | 2 320 | 1 924 |
| 13. Employee benefits expense | | | | |
| Salaries and wages | 5 478 | 5 435 | - | - |
| Retirement benefit costs | 451 | 425 | - | - |
| Voluntary early retirement costs | - | 773 | - | - |
| | 5 929 | 6 633 | - | - |
| Included in retirement benefit costs are: | | | | |
| Defined contribution scheme | 447 | 422 | - | - |
| National Social Security Fund | 4 | 3 | - | - |
| | 451 | 425 | - | - |
| Average staff numbers for the year: | | | | |
| Management | 365 | 341 | - | - |
| Supervisory | 425 | 442 | - | - |
| Clerical and other categories | 209 | 241 | - | - |
| Total | 999 | 1 024 | - | - |
| | | | | |
| | GROUP | | COMPANY | |
| Note | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| 14. Breakdown of expenses by nature | | | | |
| Profit before tax has been arrived at after charging: | | | | |
| Employee benefits | 13 | 5 929 | 6 633 | - |
| Audit fees | | 43 | 38 | 3 |
| Directors' fees | | 59 | 51 | 9 |
| Depreciation of property and equipment | 26 | 473 | 445 | - |
| Depreciation on right-of-use assets | 30 | 458 | 357 | - |
| Amortisation of right-of-use leasehold land | 27 | 3 | 3 | - |
| Amortisation of intangible assets | 28 | 328 | 256 | - |
| Franchise fees | 42(i) | 675 | 734 | - |
| Advance payment guarantee claim | | - | 1 505 | - |
| 15. Finance costs | | | | |
| Bank charges | | 48 | 92 | - |
| | | 48 | 92 | 1 |

| | Note | GROUP | | COMPANY | |
|--|-------|----------------------|----------------------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| 16. Income tax expense | | | | | |
| Current income tax | | 1 373 | 2 541 | 5 | 1 |
| Current year charge | 37 | 1 373 | 2 541 | 5 | 1 |
| Previous year current income tax over provision | | - | - | - | - |
| Deferred income tax | | (338) | (1 212) | (5) | - |
| Current year (credit)/charge | 38(a) | (330) | (1 237) | (5) | - |
| Current year (credit)/charge | 38(b) | (8) | 25 | - | - |
| Income tax expense for the year | | 1 035 | 1 329 | - | 1 |
| 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: | | | | | |
| Profit before income tax | | 6 227 | 7 710 | 2 275 | 1 903 |
| Tax at statutory tax rate of 25% (2019: 30%) | | 1 557 | 2 313 | 569 | 571 |
| Tax effect of: | | | | | |
| Income not subjected to tax | | (1 054) | (651) | (580) | (577) |
| Expenses not deductible for tax purposes | | 402 | 299 | 11 | 7 |
| Previous year's current tax overprovision | | 160 | (630) | - | - |
| Previous year's deferred income tax underprovision | | - | - | - | - |
| Effect of tax paid in other jurisdictions | | (7) | (2) | - | - |
| Effect of changes in tax rates | | (23) | - | - | - |
| Income tax expense | | 1 035 | 1 329 | - | 1 |

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.

| | GROUP | | COMPANY | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Earnings (profit after tax) | | | | |
| Earnings for the purposes of basic earnings per share (KShs million) | 5 192 | 6 381 | 2 275 | 1 902 |
| Number of shares | | | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share (in millions) | 395 | 395 | 395 | 395 |
| Earnings per share (KShs) basic and diluted | 13.13 | 16.14 | 5.75 | 4.81 |

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

| | GROUP AND COMPANY | |
|---|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| 18. Dividend | | |
| The calculation of dividends per share is based on: | | |
| Dividends for the year attributable to ordinary shareholders: | | |
| Interim dividend paid (KShs '000) | – | 494 |
| Final dividend proposed (KShs '000) | 1 502 | 2 293 |
| | 1 502 | 2 787 |
| Number of ordinary shares at issue date (in millions) | 395 | 395 |
| Dividends per share – KShs | 3.80 | 7.05 |

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

At the next Annual General Meeting, a final dividend in respect of the year ended 31 December 2020 of KShs 3.80 (2019: KShs 5.80) per share amounting to a total of KShs 1 502 224 000 (2019: KShs 2 292 869 000) is to be proposed. These financial statements do not reflect this dividend as payable. The proposed dividend has however been transferred to a separate category of equity.

During the year, no interim dividend was paid (2019: KShs 1.25 per share totalling to KShs 494 152 000).

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

| | GROUP | | COMPANY | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| 19. Cash and balances with Central Bank of Kenya | | | | |
| Cash in hand | 2 877 | 2 737 | – | – |
| Balances with Central Bank of Kenya | 15 200 | 14 514 | – | – |
| | 18 077 | 17 251 | – | – |

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

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

| | GROUP AND COMPANY | |
|---|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| 20. Financial assets and liabilities – FVTPL | | |
| 20(a) Financial assets – FVTPL | | |
| Debt securities | | |
| Government treasury bills and bonds | 33 729 | 34 160 |
| | 33 729 | 34 160 |
| Maturity analysis | | |
| Maturing within 1 month | 8 600 | 13 354 |
| Maturing after 1 months but within 6 months | 11 651 | 15 106 |
| Maturing after 6 months but within 12 months | 9 625 | 5 543 |
| Maturing after 12 months | 3 853 | 157 |
| | 33 729 | 34 160 |

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

| | GROUP AND COMPANY | |
|--|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| 20(b) Financial liabilities – FVTPL | | |
| Unlisted | 418 | 1 487 |
| Maturity analysis: | | |
| Maturing within 1 month | 58 | 140 |
| Maturing after 1 months but within 6 months | – | 464 |
| Maturing after 6 months but within 12 months | 50 | 781 |
| Maturing after 12 months | 310 | 102 |
| | 418 | 1 487 |

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

| | Note | GROUP AND COMPANY | |
|--|-------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million |
| 21. Financial assets – (FVOCI) | | | |
| Financial assets – (FVOCI) | 21(a) | 30 091 | 20 454 |
| Pledged assets – (FVOCI) | 21(b) | 573 | 574 |
| | | 30 664 | 21 028 |
| 21(a) Financial assets – (FVOCI) | | | |
| Debt securities – at fair value: | | | |
| Listed | | 1 078 | – |
| Unlisted | | 29 017 | 20 456 |
| | | 30 095 | 20 456 |
| Comprising: | | | |
| Government bonds | | 1 078 | – |
| Government treasury bills | | 29 017 | 20 456 |
| | | 30 095 | 20 456 |
| Allowances for impairments | | | |
| Expected credit loss for debt securities measured at fair value through OCI (IFRS 9) | | (4) | (2) |
| Credit impairment losses | | (4) | (2) |
| Net pledged assets at FVOCI | | 30 091 | 20 454 |
| Maturity analysis | | | |
| Maturing within 1 month | | 3 460 | 2 976 |
| Maturing after 1 month but within 6 months | | 8 328 | 9 092 |
| Maturing after 6 months but within 12 months | | 17 223 | 8 386 |
| Maturing after 12 months | | 1 080 | – |
| | | 30 091 | 20 454 |

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

| | GROUP AND COMPANY | |
|---|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| 21. Financial assets – (FVOCI) (continued) | | |
| 21(b) Pledged assets – (FVOCI) | | |
| Fair value through OCI | 573 | 574 |
| | 573 | 574 |
| Maturity analysis | | |
| Maturing after 1 months but within 6 months | 573 | – |
| Maturing after 12 months but within 5 years | – | 574 |
| | 573 | 574 |

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

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

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

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

| | Income statement movements | | | | | | | | | |
|--|---|---|---|--|--|--|---|---|--|--|
| | Opening ECL 1 Jan 2020 KShs | Total transfers between stages KShs | ECL on new exposure raised KShs | Change in ECL due to modifi- cations KShs | Sub- sequent changes in ECL KShs | Change in ECL due to derecog- nition KShs | Net ECL raised/ (released) ¹ KShs | Impair- ment accounts written off KShs | Exchange and other move- ments KShs | Closing ECL 31 Dec 2020 KShs |
| GROUP | | | | | | | | | | |
| Financial assets (fair value through OCI) | | | | | | | | | | |
| Sovereign | (2) | – | (4) | – | – | 2 | (2) | – | – | (4) |
| Stage 1 | (2) | – | (4) | – | – | 2 | (2) | – | – | (4) |
| Total | (2) | – | (4) | – | – | 2 | (2) | – | – | (4) |

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

| | Income statement movements | | | | | | | | | |
|--|---|---|---|--|--|--|---|---|--|--|
| | Opening ECL 1 Jan 2019 KShs | Total transfers between stages KShs | ECL on new exposure raised KShs | Change in ECL due to modifi- cations KShs | Sub- sequent changes in ECL KShs | Change in ECL due to dere- cognition KShs | Net ECL raised/ (released) ¹ KShs | Impair- ment accounts written off KShs | Exchange and other move- ments KShs | Closing ECL 31 Dec 2019 KShs |
| GROUP | | | | | | | | | | |
| Pledged assets (Fair value through OCI) | | | | | | | | | | |
| Sovereign | – | – | – | – | – | – | – | – | – | – |
| Stage 1 | – | – | – | – | – | – | – | – | – | – |
| Financial assets (Fair value through OCI) | | | | | | | | | | |
| Sovereign | (1) | – | (2) | – | – | – | (2) | 1 | – | (2) |
| Stage 1 | (1) | – | (2) | – | – | – | (2) | 1 | – | (2) |
| Total | (2) | – | (2) | – | – | – | (2) | 1 | – | (2) |

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

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

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

| | Balance at beginning of year 2019 KShs | Reclassifi- cations KShs | Net change in fair value KShs | Realised fair value adjustments and reversal to profit or loss KShs | Net expected credit loss raised/ (released) during the period KShs | Exchange and other movements KShs | Balance at end of the year 2019 KShs |
|--------------|--|--------------------------------|--|---|---|--|--|
| GROUP | | | | | | | |
| Sovereign | (22) | – | (12) | – | – | – | (34) |
| Total | (22) | – | (12) | – | – | – | (34) |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

| | Note | GROUP | |
|---|-------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million |
| 22. Financial assets – (amortised cost) | | | |
| Pledged assets – (amortised cost) | 22(a) | 3 676 | 4 186 |
| Financial assets – (amortised cost) | 22(b) | 19 515 | 10 704 |
| | | 23 191 | 14 890 |
| 22(a) Pledged assets – (amortised cost) | | | |
| Amortised cost/held to collect debt securities | | 3 677 | 4 186 |
| Gross pledged assets at amortised cost | | 3 677 | 4 186 |
| Allowances for impairments | | | |
| Expected credit loss for financial assets measured at amortised cost (IFRS 9) | 22.1 | (1) | - |
| Credit impairment losses | | (1) | - |
| Net pledged assets at amortised cost | | 3 676 | 4 186 |
| Maturity analysis: | | | |
| Maturing after 1 months but within 6 months | | 514 | 500 |
| Maturing after 6 months but within 12 months | | 210 | - |
| Maturing after 12 months but within 5 years | | 2 952 | 3 686 |
| | | 3 676 | 4 186 |

Dated pledged assets at amortised cost had a redemption value at 31 December 2020 of KShs 4 104 000 000 (2019: KShs 4 070 000 000).

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

| | Note | GROUP | |
|---|------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million |
| 22(b) Financial assets – (amortised cost) | | | |
| Debt securities: | | | |
| Listed | | 19 529 | 10 706 |
| Unlisted | | - | - |
| Gross financial assets at amortised cost | | 19 529 | 10 706 |
| Allowances for impairments | | | |
| Expected credit loss for financial assets measured at amortised cost (IFRS 9) | 22.1 | (14) | (2) |
| Credit impairment losses | | (14) | (2) |
| Net pledged assets at amortised cost | | 19 515 | 10 704 |
| Comprising: | | | |
| Government bonds | | 19 529 | 9 890 |
| Corporate bonds | | - | 816 |
| | | 19 529 | 10 706 |
| Maturity analysis: | | | |
| Maturing within 1 month | | - | - |
| Maturing after 1 month but within 6 months | | - | 661 |
| Maturing after 6 months but within 12 months | | 11 009 | 275 |
| Maturing after 12 months but within 5 years | | 8 520 | 4 769 |
| Maturing after 5 years | | - | 5 001 |
| | | 19 529 | 10 706 |

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

The weighted average effective interest yield on held to collect investment securities at 31 December 2020 was 11.01% (2019: 11.88%).

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

| | Income statement movements | | | | | | | | | |
|-------------------------|---|---|---|--|--|--|---|---|--|--|
| | Opening ECL 1 Jan 2020 KShs | Total transfers between stages KShs | ECL on new exposure raised KShs | Change in ECL due to modifi- cations KShs | Sub- sequent changes in ECL KShs | Change in ECL due to dere- cognition KShs | Net ECL raised/ (released) ¹ KShs | Impair- ment accounts written off KShs | Exchange and other move- ments KShs | Closing ECL 31 Dec 2020 KShs |
| Financial assets | | | | | | | | | | |
| Amortised cost | | | | | | | | | | |
| Sovereign | 2 | - | 14 | - | (2) | (2) | 12 | - | 2 | 14 |
| Stage 1 | 2 | - | 14 | - | (2) | (2) | 12 | - | 2 | 14 |
| Pledged assets | | | | | | | | | | |
| Stage 1 | - | - | 1 | - | - | - | 1 | - | - | 1 |
| Total | 2 | - | 15 | - | (2) | (2) | 13 | - | 2 | 15 |

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

| | Income statement movements | | | | | | | | | |
|-------------------------|---|---|---|--|--|--|---|---|--|--|
| | Opening ECL 1 Jan 2019 KShs | Total transfers between stages KShs | ECL on new exposure raised KShs | Change in ECL due to modifi- cations KShs | Sub- sequent changes in ECL KShs | Change in ECL due to dere- cognition KShs | Net ECL raised/ (released) ¹ KShs | Impair- ment accounts written off KShs | Exchange and other move- ments KShs | Closing ECL 31 Dec 2019 KShs |
| Sovereign | 1 | - | - | - | - | (1) | (1) | - | - | - |
| Stage 1 | 1 | - | - | - | - | (1) | (1) | - | - | - |
| Financial assets | | | | | | | | | | |
| Amortised cost | | | | | | | | | | |
| Sovereign | 16 | - | 1 | - | (1) | (14) | 2 | - | - | 2 |
| Stage 1 | 16 | - | 1 | - | (1) | (14) | 2 | - | - | 2 |
| Corporate | 1 | - | - | - | - | (1) | - | - | - | - |
| Stage 2 | 1 | - | - | - | - | (1) | - | - | - | - |
| Total | 18 | - | 1 | - | (1) | (16) | 1 | - | - | 2 |

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

| | Note | GROUP | | COMPANY | |
|--|-------|----------------------|----------------------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| 23. Loans and advances | | | | | |
| 23(a) Loans and advances to banks | | | | | |
| Balances with banks | | 10 952 | 11 301 | - | - |
| Balances due from Group banks | 42(a) | 27 171 | 27 077 | 132 | 137 |
| | | 38 123 | 38 378 | 132 | 137 |
| Allowances for impairments | | | | | |
| Impairment stages 1 and 2 (performing loans) | | (4) | (1) | - | - |
| Impairment stage 3 (non-performing loans) | | - | - | - | - |
| Credit impairment allowances | | (4) | (1) | - | - |
| Net loans and advances | | 38 119 | 38 377 | 132 | 137 |
| Maturity analysis: | | | | | |
| Redeemable on demand | | 11 257 | 35 328 | 132 | 137 |
| Maturing within 1 month | | 20 249 | - | - | - |
| Maturing after 1 month but within 12 months | | 2 743 | 49 | - | - |
| Maturing after 12 month but within 5 years | | 3 870 | 3 000 | - | - |
| Net loans and advances to banks | | 38 119 | 38 377 | 132 | 137 |

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

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

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

| | Income statement movements | | | | | | | | | |
|--------------|-----------------------------|-------------------------------------|---------------------------------|---|--------------------------------|---|---|--------------------------------------|-----------------------------------|------------------------------|
| | Opening ECL 1 Jan 2019 KShs | Total transfers between stages KShs | ECL on new exposure raised KShs | Change in ECL due to modifications KShs | Subsequent changes in ECL KShs | Change in ECL due to derecognition KShs | Net ECL raised/(released) ¹ KShs | Impairment accounts written off KShs | Exchange and other movements KShs | Closing ECL 31 Dec 2019 KShs |
| Banks | | | | | | | | | | |
| Stage 1 | 1 | - | - | - | 3 | - | 3 | - | (3) | 1 |
| Total | 1 | - | - | - | 3 | - | 3 | - | (3) | 1 |

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

| | Note | GROUP | |
|---|----------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million |
| 23(b) Loans and advances to customers | | | |
| Mortgage lending | | 34 783 | 25 580 |
| Vehicle and asset finance | | 13 127 | 15 146 |
| Overdraft and other demand lending | | 16 109 | 19 185 |
| Term lending | | 112 061 | 106 427 |
| Card lending | | 515 | 650 |
| Gross loans and advances to customers | | 176 595 | 166 988 |
| Allowances for impairments | | | |
| Expected credit loss for loans and advances measured at amortised cost (IFRS 9) | 23(c)(i) | (18 415) | (14 171) |
| Credit impairment allowances | | (18 415) | (14 171) |
| Net loans and advances | | 158 180 | 152 817 |
| Maturity analysis: | | | |
| Redeemable on demand | | 13 088 | 17 668 |
| Maturing within 1 month | | 8 646 | 6 809 |
| Maturing after 1 month but within 6 months | | 25 542 | 16 179 |
| Maturing after 6 months but within 12 months | | 13 997 | 6 612 |
| Maturing after 12 months but within 5 years | | 77 440 | 65 153 |
| Maturing after 5 years | | 19 467 | 40 396 |
| Net loans and advances | | 158 180 | 152 817 |

The weighted average effective interest rate on loans and advances to customers as at 31 December 2020 was 10.73% (2019: 10.06%). The Group extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, vehicle and asset finance, and overdrafts.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

23 (c) Allowances for impairment

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

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

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

| | Income statement movements | | | | | | | | | | Total KShs | |
|----------------------------------|---|---|---|--|--|---|--|---|--|---------------------------------|---------------|--|
| | Opening ECL 1 Jan 2019 KShs | Total transfers between stages KShs | ECL on new exposure raised KShs | Sub- sequent changes in ECL KShs | Change in ECL due to dere- cognition KShs | Net ECL raised/ (released) ¹ KShs | Impair- ment accounts written- off KShs | Exchange and other move- ments KShs | Closing ECL 31 Dec 2019 KShs | Interest in suspense KShs | | |
| Customers | | | | | | | | | | | | |
| Mortgage loans | 842 | – | 24 | 237 | – | 261 | (1) | (1) | 1 101 | 53 | 1 154 | |
| Stage 1 | 22 | 28 | 5 | (4) | – | 1 | – | – | 23 | – | 23 | |
| Stage 2 | 181 | (12) | 18 | 112 | – | 130 | – | – | 311 | – | 311 | |
| Stage 3 | 639 | (16) | 1 | 129 | – | 130 | (1) | (1) | 767 | 53 | 820 | |
| Vehicle and asset finance | 1 473 | (1) | 144 | 200 | – | 344 | (192) | (2) | 1 641 | 73 | 1 714 | |
| Stage 1 | 110 | 72 | 42 | (56) | – | (14) | – | – | 96 | – | 96 | |
| Stage 2 | 479 | (91) | 74 | (75) | – | (1) | – | 12 | 490 | – | 490 | |
| Stage 3 | 884 | 18 | 28 | 331 | – | 359 | (192) | (14) | 1 055 | 73 | 1 128 | |
| Card debtors | 51 | 1 | 6 | 76 | – | 82 | (48) | (4) | 82 | – | 82 | |
| Stage 1 | 17 | 5 | 3 | 3 | – | 6 | – | – | 23 | – | 23 | |
| Stage 2 | 16 | (5) | 3 | 21 | – | 24 | – | 1 | 41 | – | 41 | |
| Stage 3 | 18 | 1 | – | 52 | – | 52 | (48) | (5) | 18 | – | 18 | |
| Other loans and advances | 2 029 | – | 492 | 586 | – | 1 078 | (155) | 4 | 2 971 | 52 | 3 023 | |
| Stage 1 | 175 | 100 | 140 | (64) | – | 76 | – | – | 251 | – | 251 | |
| Stage 2 | 675 | (115) | 160 | 24 | – | 184 | – | 21 | 880 | – | 880 | |
| Stage 3 | 1 179 | 15 | 192 | 626 | – | 818 | (155) | (17) | 1 840 | 52 | 1 892 | |
| Corporate | 6 855 | – | 1 017 | 621 | (189) | 1 449 | (724) | 25 | 7 608 | 590 | 8 198 | |
| Stage 1 | 450 | 35 | 307 | 45 | (137) | 215 | – | (8) | 657 | – | 657 | |
| Stage 2 | 140 | (38) | 237 | (53) | (19) | 165 | – | 47 | 352 | – | 352 | |
| Stage 3 | 6 265 | 3 | 473 | 629 | (33) | 1 069 | (724) | (14) | 6 599 | 590 | 7 189 | |
| Total | 11 250 | – | 1 683 | 1 720 | (189) | 3 214 | (1 120) | 22 | 13 403 | 768 | 14 171 | |

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

| | Note | GROUP | |
|--|-------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million |
| 23. Loans and advances (continued) | | | |
| 23(d) Credit impairment losses | | | |
| Loans impairment charge/(credit) for financial assets | | 14 | (15) |
| Loans impairment for non-performing customer loans | | 4 978 | 2 427 |
| Loans impairment for performing customer loans | | - | 786 |
| Loans impairment charge for performing bank loans | | 3 | 3 |
| Loans impairment for non-performing off-balance sheet (Letters of credit and guarantees) | 43(c) | - | 18 |
| Loans impairment for performing off-balance sheet (Letters of credit and guarantees) | 43(c) | 2 | 84 |
| Amounts recovered during the year | | (121) | (152) |
| Net credit impairment losses | | 4 876 | 3 151 |

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

23(e) Vehicle and asset finance

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

| | GROUP | |
|--|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| Maturity analysis: | | |
| Not later than 1 year | 2 199 | 1 320 |
| Later than 1 year and not later than 5 years | 10 069 | 13 791 |
| Later than 5 years | 858 | 35 |
| | 13 126 | 15 146 |

23(f) Loans to employees

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

| | GROUP | |
|-----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| At start of year | 3 894 | 4 195 |
| New loans issued | 1 073 | 1 185 |
| Interest on loan | 336 | 206 |
| Loan repayments | (1 505) | (1 692) |
| At end of year | 3 798 | 3 894 |

24. Other assets and prepayments

| | Note | GROUP | | COMPANY | |
|-----------------------------------|-------|----------------------|----------------------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Uncleared effects | | 3 055 | 1 757 | 20 | 20 |
| Off-market loan adjustment | | 585 | 688 | - | - |
| Trade receivables and prepayments | | 735 | 1 865 | - | - |
| Due from related companies | 42(g) | 330 | 559 | - | - |
| Others | | 54 | 41 | - | - |
| | | 4 759 | 4 910 | 20 | 20 |

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

| Company | Beneficial ownership | Country of incorporation | 2020 KShs million | 2019 KShs million |
|---|----------------------|--------------------------|----------------------|----------------------|
| 25. Investment in subsidiaries and other investments | | | | |
| 25(a) Investment in subsidiaries | | | | |
| Stanbic Bank Kenya Limited | 100% | Kenya | 18 010 | 18 010 |
| SBG Securities Limited | 100% | Kenya | 166 | 166 |
| Stanbic Insurance Agency Limited | 100% | Kenya | 42 | 42 |
| | | | 18 218 | 18 218 |

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

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

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

| | GROUP | | COMPANY | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| 25(b) Other investments | | | | |
| Unquoted: | | | | |
| Equity investment at fair value through profit and loss default | 18 | 18 | - | - |
| At 31 December | 18 | 18 | - | - |

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

The investment is unquoted and its carrying amount (cost) approximates its fair value.

| | GROUP | | | | |
|--|-----------------------------------|---|--------------------------------|----------------------------------|-----------------------|
| | Land and premises KShs million | Equipment, furniture and fittings KShs million | Motor vehicles KShs million | Work in progress KShs million | Total KShs million |
| 26. Property and equipment | | | | | |
| Year ended 31 December 2020 | | | | | |
| Cost | | | | | |
| At 1 January 2020 | 385 | 4 558 | 168 | 388 | 5 499 |
| Additions | - | 341 | 5 | 62 | 408 |
| Disposals/retirement | - | - | (14) | - | (14) |
| Transfers from work in progress | - | 324 | - | (324) | - |
| Transfer to intangible assets (Note 28) | - | - | - | (1) | (1) |
| Foreign exchange revaluation | - | - | - | (13) | (13) |
| Hyperinflation adjustment | - | 19 | - | - | 19 |
| At 31 December 2020 | 385 | 5 242 | 159 | 112 | 5 898 |
| Depreciation | | | | | |
| At 1 January 2020 | (138) | (2 926) | (133) | - | (3 197) |
| Depreciation for the year | (13) | (445) | (15) | - | (473) |
| Disposals/retirement | - | - | 14 | - | 14 |
| Foreign exchange revaluation | - | - | - | - | - |
| At 31 December 2020 | (151) | (3 371) | (134) | - | (3 656) |
| Carrying amount at 31 December 2020 | 234 | 1 871 | 25 | 112 | 2 242 |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

| | GROUP | | | | |
|---|-----------------------------------|---|--------------------------------|----------------------------------|-----------------------|
| | Land and premises KShs million | Equipment, furniture and fittings KShs million | Motor vehicles KShs million | Work in progress KShs million | Total KShs million |
| 26. Property and equipment (continued) | | | | | |
| Year ended 31 December 2019 | | | | | |
| Cost | | | | | |
| At 1 January 2019 | 385 | 4 201 | 185 | 181 | 4 952 |
| Additions | - | 208 | - | 334 | 542 |
| Disposals/retirement | - | - | (17) | - | (17) |
| Transfers from work in progress | - | 127 | - | (127) | - |
| Transfers from intangible assets | - | 35 | - | - | 35 |
| Transferred to asset held-for-sale | - | - | - | - | - |
| Hyperinflation adjustment | - | (13) | - | - | (13) |
| At 31 December 2019 | 385 | 4 558 | 168 | 388 | 5 499 |
| Depreciation | | | | | |
| At 1 January 2019 | (125) | (2 510) | (131) | - | (2 766) |
| Depreciation for the year | (13) | (416) | (16) | - | (445) |
| Disposals/retirement | - | - | 14 | - | 14 |
| Transferred to asset held-for-sale | - | - | - | - | - |
| Foreign exchange revaluation | - | - | - | - | - |
| At 31 December 2019 | (138) | (2 926) | (133) | - | (3 197) |
| Carrying amount at 31 December 2019 | 247 | 1 632 | 35 | 388 | 2 302 |

26(b) Company

| | Computer equipment | |
|---------------------------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| Cost | | |
| At 1 January | 2 | 2 |
| At 31 December | 2 | 2 |
| Depreciation | | |
| At 1 January | (2) | (2) |
| Charge for the year | - | - |
| At 31 December | (2) | (2) |
| Carrying amount at 31 December | - | - |

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

As at 31 December 2020 and 31 December 2019, there were no items of property and equipment pledged by the Group and Company to secure liabilities. No items of property and equipment were obtained from borrowed funds hence no capitalisation of borrowing costs.

Revaluation of land and buildings

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

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

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

| | GROUP | |
|--|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| 27. Right-of-use leasehold land | | |
| Cost | | |
| At 1 January | 85 | 85 |
| At 31 December | 85 | 85 |
| Amortisation | | |
| At 1 January | (40) | (37) |
| Charge for the year | (3) | (3) |
| At 31 December | (43) | (40) |
| Carrying amount at 31 December | 42 | 45 |

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

| | GROUP | | | |
|--|----------------------------------|--------------------------|---|-----------------------|
| | Work in progress KShs million | Software KShs million | Other intangible assets KShs million | Total KShs million |
| 28. Other intangible assets | | | | |
| Year ended 31 December 2020 | | | | |
| Cost | | | | |
| At 1 January 2020 | 16 | 3 162 | 1 099 | 4 277 |
| Additions | 66 | 100 | - | 166 |
| Transfer from work in progress | (63) | 63 | - | - |
| Transfer from property and equipment (Note 26) | - | 1 | - | 1 |
| Transferred to assets held-for-sale | - | (1) | - | (1) |
| At 31 December 2020 | 19 | 3 325 | 1 099 | 4 443 |
| Amortisation | | | | |
| At 1 January 2020 | - | (2 308) | (944) | (3 252) |
| Amortisation charge for the year | - | (283) | (45) | (328) |
| Foreign exchange revaluation | - | - | - | - |
| Transferred to assets held-for-sale | - | 1 | - | 1 |
| At 31 December 2020 | - | (2 590) | (989) | (3 579) |
| Carrying amount at 31 December 2020 | 19 | 735 | 110 | 864 |
| Year ended 31 December 2019 | | | | |
| Cost | | | | |
| At 1 January 2019 | 328 | 2 821 | 1 099 | 4 248 |
| Additions | 2 | 63 | - | 65 |
| Transfer from work in progress | (279) | 279 | - | - |
| Transfer to property and equipment (Note 26) | (35) | - | - | (35) |
| Transferred to assets held-for-sale | - | (1) | - | (1) |
| At 31 December 2019 | 16 | 3 162 | 1 099 | 4 277 |
| Amortisation | | | | |
| At 1 January 2019 | - | (2 098) | (899) | (2 997) |
| Amortisation charge for the year | - | (211) | (45) | (256) |
| Foreign Exchange revaluation | - | - | - | - |
| Transferred to assets held-for-sale | - | 1 | - | 1 |
| At 31 December 2019 | - | (2 308) | (944) | (3 252) |
| Carrying amount at 31 December 2019 | 16 | 854 | 155 | 1 025 |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

28. Other intangible assets (continued)

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

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

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 the telephone system which had not been completed as at year end.

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

The intangible assets arising from the business combination comprise of the following:

| | Cost KShs million | Useful life years |
|------------------------|----------------------|----------------------|
| Trade names | 260 | 15 |
| Customer relationships | 475 | 5 – 15 |
| Others | 364 | 2 – 5 |
| | 1 099 | |

29. Intangible assets – goodwill

| | GROUP | | COMPANY | |
|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Cost | | | | |
| At 1 January and 31 December | 9 350 | 9 350 | – | – |

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

Goodwill relating to Stanbic Holdings Plc was tested for impairment on 31 December 2020. The recoverable amount was determined to be the value in use. Unless indicated otherwise, the value in use in 2020 was determined in a manner consistent with that used in prior years. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use.

(a) Future cash flows

The forecast periods adopted reflect a set of cash flows that, based on management judgement and expected market conditions, could be sustainably generated over such a period. An eight-year forecast was used as a basis for future cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a nominal growth rate of 9.1% (2019: 7.3%). These values are sensitive to the cash flows projected for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows thereafter. Based on the testing performed, no impairment was identified.

(b) Discount rate

The pre-tax discount rate used was based on an assessment of the risks applicable to the Stanbic Holdings Plc. The cost of equity discount rate calculated for the forecast years was 16.87% per annum (2019: 17.63%). The cost of equity assigned to the cash-generating unit (CGU) and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is derived from an equity pricing model deemed appropriate based on the entity under review. The risk-free rate used to determine the cost of equity has been derived from the 10-year US Dollar government bonds adjusted for inflation differential and country risk yield.

Goodwill is allocated to the Group's CGUs identified according to operating segment. 95% of the goodwill has been allocated to Corporate and Investment Banking CGU and the remaining 5% has been allocated to Personal and Business Banking CGU.

30. Right-of-use assets (buildings)

Year ended 31 December 2020

| | Buildings KShs million | Branches KShs million | ATM space KShs million | Others KShs million | Total KShs million |
|------------------------|---------------------------|--------------------------|---------------------------|------------------------|-----------------------|
| Cost | | | | | |
| At start of year | 78 | 1 574 | 33 | 32 | 1 717 |
| Additions | 167 | 57 | 24 | 80 | 328 |
| Translation difference | – | 228 | – | – | 228 |
| | 245 | 1 859 | 57 | 112 | 2 273 |

Depreciation

| | | | | | |
|----------------------------------|----|------|----|----|------|
| At start of year | 47 | 318 | 13 | 24 | 402 |
| Depreciation charge for the year | 52 | 363 | 14 | 29 | 458 |
| Translation difference | – | (66) | – | – | (66) |

| | | | | | |
|--|-----------|------------|-----------|-----------|------------|
| | 99 | 615 | 27 | 53 | 794 |
|--|-----------|------------|-----------|-----------|------------|

| | | | | | |
|-----------------------|------------|--------------|-----------|-----------|--------------|
| At end of year | 146 | 1 244 | 30 | 59 | 1 479 |
|-----------------------|------------|--------------|-----------|-----------|--------------|

Year ended 31 December 2019

| | Buildings KShs million | Branches KShs million | ATM space KShs million | Others KShs million | Total KShs million |
|-------------------------------|---------------------------|--------------------------|---------------------------|------------------------|-----------------------|
| Cost | | | | | |
| At start of year | – | – | – | – | – |
| IFRS 16 transition adjustment | 78 | 1 574 | 33 | 32 | 1 717 |
| | 78 | 1 574 | 33 | 32 | 1 717 |

Depreciation

| | | | | | |
|----------------------------------|----|-----|----|----|-----|
| At start of year | – | – | – | – | – |
| Depreciation charge for the year | 47 | 273 | 13 | 24 | 357 |
| Translation difference | – | 45 | – | – | 45 |

| | | | | | |
|--|----|-----|----|----|-----|
| | 47 | 318 | 13 | 24 | 402 |
|--|----|-----|----|----|-----|

| | | | | | |
|-----------------------|-----------|--------------|-----------|----------|--------------|
| At end of year | 31 | 1 256 | 20 | 8 | 1 315 |
|-----------------------|-----------|--------------|-----------|----------|--------------|

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

31. Lease liabilities

| | 2020 KShs million | 2019 KShs million |
|-------------|----------------------|----------------------|
| Non-current | 1 371 | 1 092 |
| Current | 15 | 279 |
| | 1 386 | 1 371 |

Reconciliation of lease liabilities arising from financing activities:

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

| | Buildings KShs million | Branches KShs million | ATM space KShs million | Others KShs million | Total KShs million |
|--|---------------------------|--------------------------|---------------------------|------------------------|-----------------------|
| 31. Lease liabilities (continued) | | | | | |
| 31 December 2019 | | | | | |
| At start of year | – | – | – | – | – |
| IFRS 16 transition adjustment | 77 | 1 574 | 34 | 32 | 1 717 |
| Interest charged to profit or loss | 6 | 114 | 3 | 2 | 125 |
| Cash flows: | | | | | |
| – Operating activities (interest paid) | (6) | (114) | (3) | (2) | (125) |
| – Payments under leases | (37) | (270) | (14) | (25) | (346) |
| At end of year | 40 | 1 304 | 20 | 7 | 1 371 |

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

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

| | 2020 | | 2019 | |
|---|-----------------------------------|-------------------------------|-----------------------------------|-------------------------------|
| | Number of shares (millions) | Share capital KShs million | Number of shares (millions) | Share capital KShs million |
| 32. Ordinary share capital and share premium | | | | |
| 32(a) Authorised share capital | | | | |
| Balance as at 1 January and 31 December | 474 | 2 368 | 474 | 2 368 |
| 32(b) Issued share capital | | | | |
| Balance as at 1 January and 31 December | 395 | 1 977 | 395 | 1 977 |
| Unissued shares | 79 | 391 | 79 | 391 |

| | 2020 KShs million | 2019 KShs million |
|-------------------------------------|----------------------|----------------------|
| 32(c) Ordinary share premium | | |
| At 1 January and 31 December | 16 897 | 16 897 |

33. Derivative assets and derivative liabilities

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

33.1 Use and measurement of derivative instruments

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

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

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

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

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

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

33.2 Derivatives held-for-trading

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

33.2.1 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.

33.2.2 Interest rate derivatives

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

33.3 Day one profit or loss

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

33.4 Fair values

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

33. Derivative assets and derivative liabilities (continued)

33.5 Notional amount

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

| | GROUP | | | | | |
|---|--|------------------------|-----------------------------|--|------------------------|-----------------------------|
| | 2020 Fair values | | | 2019 Fair values | | |
| | Notional contract amount KShs million | Assets KShs million | Liabilities KShs million | Notional contract amount KShs million | Assets KShs million | Liabilities KShs million |
| Foreign exchange derivatives | | | | | | |
| Currency forwards | 59 914 | 1 077 | 983 | 49 309 | 123 | 670 |
| Currency swaps | 43 509 | 413 | 245 | 45 396 | 164 | 455 |
| Currency options | 10 595 | 416 | 187 | 18 702 | 296 | 191 |
| Total OTC derivatives | 114 018 | 1 906 | 1 415 | 113 407 | 583 | 1 316 |
| Interest rate derivatives | | | | | | |
| Cross-currency interest rate swaps | 33 247 | 1 050 | 1 186 | 66 103 | 1 029 | 1 441 |
| Total OTC derivatives | 33 247 | 1 050 | 1 186 | 66 103 | 1 029 | 1 441 |
| Total derivative assets held-for-trading | 147 265 | 2 956 | 2 601 | 179 510 | 1 612 | 2 757 |
| Current | 118 915 | 1 799 | 1 481 | 141 880 | 549 | 1 361 |
| Non-current | 28 350 | 1 157 | 1 120 | 37 629 | 1 063 | 1 396 |
| Total | 147 265 | 2 956 | 2 601 | 179 509 | 1 612 | 2 757 |

34. Deposits and current accounts from banks and customers

34(a) Deposits from banks

| | Note | GROUP | |
|----------------------------------|--------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million |
| Deposits from banks | | 16 310 | 11 900 |
| Deposits due to Group banks | 42 (b) | 26 216 | 18 551 |
| Total deposits from banks | | 42 526 | 30 451 |

Maturity analysis of deposits from banks

The maturity analysis is based on the remaining periods to contractual maturity from year end.

| | GROUP | |
|--|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| Repayable on demand | 21 490 | 3 138 |
| Maturing within 1 month | 176 | 6 610 |
| Maturing after 1 month but within 6 months | 9 418 | 3 178 |
| Maturing after 6 months but within 12 months | 2 185 | 4 562 |
| Maturing after 12 months | 9 257 | 12 963 |
| | 42 526 | 30 451 |

Included in balances due to group companies are borrowings of KShs 13 610 584 528 (2019: KShs 16 958 318 000). Interest rate for these borrowings is $\text{libor} + 1.91\%$ (2019: 1.91%).

34 (b) Deposits from customers

| | GROUP | |
|--|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| Current accounts | 129 939 | 111 272 |
| Call deposits | 9 139 | 9 798 |
| Savings accounts | 58 030 | 43 598 |
| Term deposits | 17 484 | 24 728 |
| Letters of credit acceptances | 2 852 | 4 827 |
| Total deposits from customers | 217 444 | 194 223 |
| Total deposits from banks and customers | 259 970 | 224 674 |

Maturity analysis of deposits from customers

The maturity analysis is based on the remaining periods to contractual maturity from year end.

| | GROUP | |
|--|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| Repayable on demand | 130 153 | 164 669 |
| Maturing within 1 month | 73 525 | 9 501 |
| Maturing after 1 month but within 6 months | 11 893 | 13 315 |
| Maturing after 6 months but within 12 months | 1 076 | 5 816 |
| Maturing after 12 months | 797 | 921 |
| | 217 444 | 194 222 |

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

35. Borrowings

At 31 December 2020

| | Notional value KShs million | Carrying amounts KShs million | Interest rate % | Date of Issue | Maturity date |
|-----------------------------|-----------------------------------|-------------------------------------|--------------------|---------------|---------------|
| Subordinated debt – USD 30m | 3 052 | 3 285 | 6.82 | 28 Feb 2018 | 28 Feb 2028 |
| Subordinated debt – USD 20m | 2 018 | 2 219 | 6.28 | 30 Jan 2019 | 12 Dec 2028 |
| Total | 5 070 | 5 504 | | | |

At 31 December 2019

| | Notional value KShs million | Carrying amounts KShs million | Interest rate % | Date of Issue | Maturity date |
|-----------------------------|-----------------------------------|-------------------------------------|--------------------|---------------|---------------|
| CfC Stanbic Bond | 4 000 | 3 998 | 12.95 | 15 Dec 2014 | 15 Dec 2021 |
| Subordinated debt – USD 30m | 3 052 | 3 055 | 6.82 | 28 Feb 2018 | 28 Feb 2028 |
| Subordinated debt – USD 20m | 2 018 | 2 074 | 6.28 | 30 Jan 2019 | 12 Dec 2028 |
| Total | 9 070 | 9 127 | | | |

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

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

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

The Group has not had any defaults of principal, interest or other breaches with regard to any borrowings during 2020 and 2019. The borrowings are payable on their maturity dates at the notional value.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

35. Borrowings (continued)

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

- USD 30 million obtained from Standard Bank of South Africa in 2018. There are no covenants relating to this financing.
- USD 20 million obtained from the Deutsche Investitions- und Entwicklungsgesellschaft in 2019. The Group has complied with all covenants throughout the reporting year.

| | GROUP | |
|---|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| Reconciliation of liabilities arising from financing activities: | | |
| At start of year | 9 127 | 7 064 |
| Interest charged to profit or loss | 547 | 849 |
| Foreign exchange loss | 386 | 18 |
| Cash flows: | | |
| – Operating activities (interest paid) | (558) | (833) |
| – Proceeds from borrowings | – | 2 029 |
| – Repayments of borrowings | (3 998) | – |
| At end of year | 5 504 | 9 127 |

| | Note | GROUP | | COMPANY | |
|---|-------|----------------------|----------------------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| 36. Other liabilities and accrued expenses | | | | | |
| 36(a) Other liabilities and accrued expenses | | | | | |
| Accruals | | 2 988 | 2 702 | 11 | 8 |
| Deferred bonus scheme | 36(b) | 79 | 115 | – | – |
| Unpresented bank drafts | | 56 | 113 | – | – |
| Margin on guarantees and letters of credit | | 1 321 | – | – | – |
| Items in transit | | 59 | 115 | – | – |
| Due to group companies | 42(h) | 426 | 327 | – | – |
| Sundry creditors | | 1 511 | 11 068 | 133 | 122 |
| Expected credit losses on off-balance sheet items | 43(c) | 141 | 141 | – | – |
| Other operating costs | | – | 144 | – | – |
| | | 6 581 | 14 725 | 144 | 130 |

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

36(b) Deferred bonus scheme

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

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

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

The provision in respect of liabilities under the scheme amounts to KShs 78 636 177 at 31 December 2020 (2019: KShs 114 849 000) and the amount charged for the year was KShs 50 989 553 (2019: KShs 63 316 000).

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

* South African Rand

37. Current income tax asset/(liability)

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

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

| | Note | GROUP | |
|--------------------------|-------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million |
| Kenya operations | 37(a) | (392) | (398) |
| Foreign operations | 37(b) | (3) | – |
| As at 31 December | | (395) | (398) |

| | Note | GROUP | | COMPANY | |
|---|-------|----------------------|----------------------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| 37(a) Current income tax asset/(liability) | | | | | |
| Kenya operations | | | | | |
| At 1 January | | (398) | (1 040) | 16 | 16 |
| Exchange difference on translation | | – | (13) | – | – |
| Current income tax charge | 16 | (1 373) | (2 541) | (5) | – |
| Income tax paid | | 1 374 | 3 198 | – | – |
| Transferred to asset held-for-sale | | – | (2) | – | – |
| South Sudan tax payable | 37(b) | (3) | – | – | – |
| Prior year provision | | 5 | – | 5 | – |
| | | (395) | (398) | 16 | 16 |

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

| | Note | GROUP | |
|---|-------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million |
| 37(b) Current income tax asset/(liability) | | | |
| Foreign operations | | | |
| As at 1 January | | – | – |
| Current tax charge | | 3 | – |
| Transfer to tax payable account | 37(a) | (3) | – |
| As at 31 December | | – | – |

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

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for the year ended 31 December 2020

38. Deferred income tax asset/(liability)

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

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

| | Note | GROUP | | COMPANY | |
|--|------|----------------------|----------------------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Kenya operations | | | | | |
| At start of year | | 4 397 | 3 168 | – | – |
| Credit/debit to statement of profit or loss | 16 | 330 | 1 236 | 5 | – |
| Credit/debit to OCI | | (32) | (6) | – | – |
| Transferred to asset held-for-sale | | – | – | – | – |
| Previous year deferred income tax over provision | | 148 | – | – | – |
| Exchange difference on translation | | 4 | (1) | – | – |
| At 31 December | | 4 847 | 4 397 | 5 | – |

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

| | (Credited)/ charged to statement of profit or loss | | | | |
|--|---|-----------------------------------|---|----------------------------|--------------|
| | 1.1.2020 KShs million | Charge to SOCI KShs million | Translation difference KShs million | 31.12.2020 KShs million | |
| Year ended 31 December 2020 | | | | | |
| Arising from: | | | | | |
| Property and equipment | (30) | 118 | – | – | 88 |
| Unrealised gain on bonds – FVOCI | 36 | – | (32) | – | 4 |
| Unrealised gain on bonds – FVTPL | 318 | (451) | – | – | (133) |
| Right-of-use assets | (8) | 34 | – | – | 26 |
| Impairment charges on loans and advances | 3 077 | 623 | – | – | 3 700 |
| Other provisions | 1 089 | 155 | – | – | 1 244 |
| Group intangible assets | (90) | – | – | – | (90) |
| Unrealised gain on South Sudan paid-up capital | (8) | – | – | – | (8) |
| Exchange difference on translation | (2) | 4 | – | – | 2 |
| South Sudan deferred tax asset | 15 | (1) | – | – | 14 |
| Net deferred asset | 4 397 | 482 | (32) | – | 4 847 |
| Year ended 31 December 2019 | | | | | |
| Arising from: | | | | | |
| Property and equipment | (13) | (17) | – | – | (30) |
| Unrealised gain on bonds – FVOCI | 42 | – | (6) | – | 36 |
| Unrealised gain on bonds – FVTPL | 111 | 207 | – | – | 318 |
| Right-of-use assets | – | (8) | – | – | (8) |
| Impairment charges on loans and advances | 2 500 | 577 | – | – | 3 077 |
| Other provisions | 618 | 471 | – | – | 1 089 |
| Group intangible assets | (90) | – | – | – | (90) |
| Unrealised gain on South Sudan paid-up capital | (8) | – | – | – | (8) |
| Exchange difference on translation | (2) | 1 | – | (1) | (2) |
| South Sudan deferred tax asset | 9 | 6 | – | – | 15 |
| Net deferred asset | 3 167 | 1 237 | (6) | (1) | 4 397 |

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

| | Note | GROUP | |
|--|------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million |
| 38(b) Deferred income tax asset/(liability) | | | |
| Foreign operations | | | |
| At start of year | | (25) | – |
| Debit/(credit) to statement of profit or loss | 16 | 8 | (25) |
| Debit to other comprehensive income | | – | – |
| Exchange difference on translation | | 16 | – |
| At end of year | | (1) | (25) |

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

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

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

| | GROUP | | | |
|--|----------|---|--------------------|------------|
| | 1.1.2019 | (Credited)/ charged to statement of profit or loss | Credited to OCI | 31.12.2019 |
| Year ended 31 December 2019 | | | | |
| Arising from: | | | | |
| Property and equipment | – | 5 | – | 5 |
| Right-of-use assets | – | 20 | – | 20 |
| Net deferred income tax liability | – | 25 | – | 25 |

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for the year ended 31 December 2020

39. Notes to the cash flow statement

39(a) Reconciliation of profit before income tax to net cash generated from operating activities

| Note | GROUP | | COMPANY | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Net profit before income tax | 6 227 | 7 710 | 2 275 | 1 903 |
| Adjusted for: | | | | |
| Depreciation – property and equipment | 26 473 | 445 | – | – |
| Amortisation of intangible assets | 28 328 | 256 | – | – |
| Amortisation of ROU assets – leasehold land/prepaid operating lease | 27 3 | 3 | – | – |
| Depreciation on right-of use assets (buildings) | 30 458 | 357 | – | – |
| Change in fair value of derivatives | (1 500) | 779 | – | – |
| Interest charged on borrowings | 35 547 | 849 | – | – |
| Share-based payment reserve | 45 – | 1 | – | – |
| Changes in operating assets and liabilities held-for-sale | 32 | (99) | – | – |
| Hyperinflation adjustment | – | – | – | – |
| Gain on disposal of property and equipment | – | (4) | – | – |
| Previous year deferred income tax overprovision | (148) | – | – | – |
| Cash flows from operating activities | 6 420 | 10 297 | 2 275 | 1 903 |

39(b) Analysis of balances of cash and cash equivalents as shown in the statement of cash flows

| | GROUP | | COMPANY | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| Unrestricted cash and balances with Central Bank of Kenya | 9 298 | 7 551 | – | – |
| Treasury bills | 56 245 | 44 069 | – | – |
| Loans and advances to banks | 33 958 | 35 272 | 132 | 137 |
| Amounts due to other banks | (4 065) | (1 681) | – | – |
| Cash and cash equivalents at end of year | 95 436 | 85 211 | 132 | 137 |

For the purposes of the statement of cash flows, cash equivalents include short-term liquid investments, which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

40. Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

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

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

| | Fair value through profit or loss – default KShs million | Fair value through profit or loss – designated KShs million | Amortised cost KShs million | Fair value through OCI KShs million | Other non-financial assets/liabilities KShs million | Total carrying amount KShs million | Fair value KShs million |
|--|--|---|-----------------------------|-------------------------------------|---|------------------------------------|-------------------------|
| Year ended 31 December 2020 | | | | | | | |
| Assets | | | | | | | |
| Cash and balances with Central Bank of Kenya | 11 656 | – | 6 421 | – | – | 18 077 | 18 077 |
| Financial assets – held-for-trading | 33 729 | – | – | – | – | 33 729 | 33 729 |
| Financial assets – FVOCI | – | – | – | 30 664 | – | 30 664 | 30 664 |
| Financial assets – amortised cost | – | – | 23 191 | – | – | 23 191 | 17 114 |
| Derivative assets | 2 956 | – | – | – | – | 2 956 | 2 956 |
| Loans and advances to banks | – | 1 309 | 36 810 | – | – | 38 119 | 33 221 |
| Loans and advances to customers | – | – | 158 180 | – | – | 158 180 | 156 242 |
| Other financial assets | – | – | 4 759 | – | – | 4 759 | 4 759 |
| Investment securities | 18 | – | – | – | – | 18 | 18 |
| Other non-financial assets | – | – | – | – | 18 900 | 18 900 | – |
| | 48 359 | 1 309 | 229 361 | 30 664 | 18 900 | 328 593 | 296 780 |
| Liabilities | | | | | | | |
| Deposits from customers | – | – | (217 444) | – | – | (217 444) | (179 883) |
| Deposits from banks | – | – | (42 526) | – | – | (42 526) | (23 682) |
| Derivative liabilities | (2 601) | – | – | – | – | (2 601) | (2 601) |
| Trading liabilities | (418) | – | – | – | – | (418) | (418) |
| Borrowings | – | – | (5 504) | – | – | (5 504) | (8 620) |
| Other financial liabilities | – | – | (6 581) | – | – | (6 581) | (6 581) |
| Other non-financial liabilities | – | – | – | – | (1 789) | (1 789) | – |
| | (3 019) | – | (272 055) | – | (1 789) | (276 863) | (221 785) |
| Year ended 31 December 2019 | | | | | | | |
| Assets | | | | | | | |
| Cash and balances with Central Bank of Kenya | 12 437 | – | 4 814 | – | – | 17 251 | 17 251 |
| Financial assets – held-for-trading | 34 160 | – | – | – | – | 34 160 | 34 160 |
| Financial assets – FVOCI | – | – | – | 21 028 | – | 21 028 | 21 028 |
| Financial assets – amortised cost | – | – | 14 890 | – | – | 14 890 | 21 148 |
| Derivative assets | 1 612 | – | – | – | – | 1 612 | 1 612 |
| Loans and advances to banks | – | 3 052 | 35 325 | – | – | 38 377 | 36 095 |
| Loans and advances to customers | – | – | 152 817 | – | – | 152 817 | 197 650 |
| Other financial assets | – | – | 4 910 | – | – | 4 910 | 4 910 |
| Investment securities | 18 | – | – | – | – | 18 | 18 |
| Other non-financial assets | – | – | – | – | 18 561 | 18 561 | – |
| | 48 227 | 3 052 | 212 756 | 21 028 | 18 561 | 303 624 | 333 872 |
| Liabilities | | | | | | | |
| Deposits from customers | – | – | (194 222) | – | – | (194 222) | (182 309) |
| Deposits from banks | – | – | (30 451) | – | – | (30 451) | (27 113) |
| Derivative liabilities | (2 757) | – | – | – | – | (2 757) | (2 757) |
| Trading liabilities | (1 487) | – | – | – | – | (1 487) | (1 487) |
| Borrowings | – | – | (9 127) | – | – | (9 127) | (10 143) |
| Other financial liabilities | – | – | (14 725) | – | – | (14 725) | (14 725) |
| Other non-financial liabilities | – | – | – | – | (1 821) | (1 821) | – |
| | (4 244) | – | (248 525) | – | (1 821) | (254 590) | (238 534) |

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41. Fair value of financial instruments

Valuation process

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

Level hierarchy

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

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

Significant unobservable inputs

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

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

41(a) Financial instruments measured at fair value

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

Financial instruments measured at fair value on a recurring basis

| | Note | Level 1 KShs million | Level 2 KShs million | Level 3 KShs million | Total KShs million |
|--|-------|-------------------------|-------------------------|-------------------------|-----------------------|
| At 31 December 2020 | | | | | |
| Assets | | | | | |
| Cash and balances with Central Bank of Kenya | | 11 656 | – | – | 11 656 |
| Financial assets – FVTPL | 20(a) | – | 33 729 | – | 33 729 |
| Financial assets – FVOCI | 21 | – | 30 664 | – | 30 664 |
| Equity investments | 25(b) | – | – | 18 | 18 |
| Derivative assets | 33 | – | 2 956 | – | 2 956 |
| | | 11 656 | 67 349 | 18 | 79 023 |
| Liabilities | | | | | |
| Financial liabilities – FVTPL | 20(b) | – | 418 | – | 418 |
| Derivative liabilities | 33 | – | 2 601 | – | 2 601 |
| | | – | 3 019 | – | 3 019 |

| | Note | Level 1 KShs million | Level 2 KShs million | Level 3 KShs million | Total KShs million |
|--|-------|-------------------------|-------------------------|-------------------------|-----------------------|
| At 31 December 2019 | | | | | |
| Assets | | | | | |
| Cash and balances with Central Bank of Kenya | | 12 438 | – | – | 12 438 |
| Financial assets – FVTPL | 20(a) | – | 34 160 | – | 34 160 |
| Financial assets – FVOCI | 21 | – | 21 028 | – | 21 028 |
| Equity investments | 25(b) | – | – | 18 | 18 |
| Derivative assets | 33 | – | 1 612 | – | 1 612 |
| | | 12 438 | 56 800 | 18 | 69 256 |
| Liabilities | | | | | |
| Financial liabilities – FVTPL | 20(b) | – | 1 487 | – | 1 487 |
| Derivative liabilities | 33 | – | 2 757 | – | 2 757 |
| | | – | 4 244 | – | 4 244 |

There were no transfers between levels in 2020 and 2019.

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily of cash and subordinated debt listed on the Nairobi Securities Exchange.

Sensitivity of fair value of level 2 financial instruments

The fair value of level 2 financial instruments is determined using valuation techniques, which incorporate assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

Level 2 financial assets and financial liabilities

| | Valuation basis/technique | Main assumptions ¹ |
|--|--|--|
| Derivative instruments | Discounted cash flow model Black-Scholes model Multiple valuation technique | Discount rate Risk-free rate, volatility rate Valuation multiples |
| Trading assets | Discounted cash flow model Black-Scholes model | Discount rate, liquidity discount rate Risk-free rate, volatility rate |
| Financial assets | Discounted cash flow model Multiple valuation technique Quoted exit price adjusted for notice period | Discount rate, liquidity discount rate Valuation multiples Discount rate |
| Loans and advances to customers | Discounted cash flow model | Discount rate, liquidity discount rate |
| Financial liabilities | Discounted cash flow model | Discount rate, liquidity discount rate |
| Deposits from banks | Discounted cash flow model | Discount rate, liquidity discount rate |
| Deposits from customers | Discounted cash flow model | Discount rate, liquidity discount rate |
| Other financial liabilities | Discounted cash flow model | Discount rate, liquidity discount rate |
| Cash with Central Bank of Kenya | Prevailing exchange rate | Exchange rate |
| Investment in equities | Sale price | Discount rate |

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

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41(b) Financial instruments not measured at fair value

Financial assets and financial liabilities

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

| | Level 1 KShs million | Level 2 KShs million | Level 3 KShs million | Fair value KShs million | Carrying amount KShs million |
|--|-------------------------|-------------------------|-------------------------|----------------------------|------------------------------------|
| At 31 December 2020 | | | | | |
| Assets | | | | | |
| Cash and balances with the Central Bank of Kenya | 6 421 | – | – | 6 421 | 6 421 |
| Loans and advances to banks | – | – | 33 221 | 33 221 | 38 119 |
| Loans and advances to customers | – | – | 156 242 | 156 242 | 158 180 |
| Financial assets – amortised cost | – | 17 114 | – | 17 114 | 23 191 |
| Other investments | – | – | 18 | 18 | 18 |
| Other assets | – | – | 4 169 | 4 169 | 4 759 |
| | 6 421 | 17 114 | 193 650 | 217 185 | 230 688 |
| Liabilities | | | | | |
| Deposits from banks | – | – | (23 682) | (23 682) | (42 526) |
| Deposits from customers | – | – | (179 883) | (179 883) | (217 444) |
| Borrowings | – | – | (8 620) | (8 620) | (5 504) |
| Other liabilities | – | – | (6 440) | (6 440) | (6 440) |
| | – | – | (218 625) | (218 625) | (271 914) |
| At 31 December 2019 | | | | | |
| Assets | | | | | |
| Cash and balances with the Central Bank of Kenya | 4 813 | – | – | 4 813 | 4 813 |
| Loans and advances to banks | – | – | 36 094 | 36 094 | 38 378 |
| Loans and advances to customers | – | – | 197 650 | 197 650 | 152 817 |
| Financial assets – amortised cost | – | 21 148 | – | 21 148 | 14 890 |
| Other investments | – | – | 18 | 18 | 18 |
| Other assets | – | – | 4 911 | 4 911 | 4 911 |
| | 4 813 | 21 148 | 238 673 | 264 634 | 215 827 |
| Liabilities | | | | | |
| Deposits from banks | – | – | (27 113) | (27 113) | (30 451) |
| Deposits from customers | – | – | (182 309) | (182 309) | (194 223) |
| Borrowings | – | – | (10 143) | (10 143) | (9 127) |
| Other liabilities | – | – | (14 584) | (14 584) | (14 584) |
| | – | – | (234 149) | (234 149) | (248 385) |

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

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 2 and level 3 assets and liabilities not measured at fair value, but for which fair value is disclosed in table 41(b) above:

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

42. Related party transactions

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

There are other companies which are related to Stanbic Holdings Plc through common shareholdings or common directorships.

In the normal course of business, nostro and vostro accounts are operated and placings of both foreign and local currencies are made with the parent company and other group companies at interest rates in line with the market. The relevant balances are as shown below:

For the year ended 31 December 2020, the Group has made provision for doubtful debts relating to long outstanding amounts owed by related parties KShs 275 290 000 (2019: KShs 275 290 000) as indicated on Note 42 (g).

| | GROUP | | COMPANY | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| 42(a) Loans due from group banks | | | | |
| Stanbic Bank Kenya Limited | – | – | 132 | 137 |
| Stanbic Bank Uganda Limited | 27 | 2 | – | – |
| Stanbic Bank Tanzania Limited | 13 | 685 | – | – |
| Standard Bank (Mauritius) Limited | 3 | – | – | – |
| Standard Bank of South Africa Limited | 6 285 | 4 938 | – | – |
| Standard Bank Isle of Man Limited | 20 843 | 21 891 | – | – |
| | 27 171 | 27 516 | 132 | 137 |
| Interest income earned on the above is: | 396 | 465 | 2 | 16 |

| | GROUP | |
|---|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| 42(b) Deposits due to group banks | | |
| Standard Bank of South Africa Limited | 12 589 | 1 405 |
| Standard Bank Namibia Limited | 1 | 9 |
| Stanbic Bank Uganda Limited | 3 | 126 |
| Stanbic Bank Zambia Limited | 2 | 1 |
| Stanbic Bank Botswana Limited | – | 1 |
| Standard Bank (Mauritius) Limited | 617 | 710 |
| Standard Bank Malawi Limited | 1 | – |
| Standard Bank Isle of Man Limited | 12 994 | 16 281 |
| Stanbic Bank Tanzania Limited | 9 | 18 |
| | 26 216 | 18 551 |
| Interest expense incurred on the above is: | 417 | 603 |

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

| | GROUP | |
|---|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| 42(c) Deposits due to group companies non-bank | | |
| The Heritage Insurance Company Limited | 268 | 332 |
| STANLIB Kenya Limited | – | 136 |
| Liberty Life Assurance Kenya Limited | 106 | 401 |
| Liberty Kenya Holdings Limited | 10 | – |
| | 384 | 869 |

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42. Related party transactions (continued)

42(d) Key management compensation

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

Key management have transacted with the Group as indicated in Notes 42(e) and 42(f).

42(e) Loans and advances

Included in loans and advances are amounts advanced to certain companies in which Directors are involved either as shareholders or directors (associated companies). In addition, there are contingent liabilities including guarantees and letters of credit, which have been issued to associated companies. The balances as at 31 December 2020 and 31 December 2019 are as shown below:

Loans and advances to key management

The aggregate amount of loans to Directors, affiliates and their families on the statement of financial position is KShs nil (2019: KShs 199 952 000).

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

| | GROUP | | COMPANY | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| 42(f) Key management compensation | | | | |
| Fees for services as a director | 59 | 51 | 9 | 8 |
| Salaries and other short-term employment benefits | 77 | 98 | – | – |
| Post-employment pension | 4 | 3 | – | – |
| Share-based payments | 18 | 16 | – | – |
| | 158 | 168 | 9 | 8 |

42(g) Amounts due from related companies

| | GROUP | |
|--|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| Liberty Life Assurance Limited | – | 3 |
| The Heritage Insurance Company Limited | – | 1 |
| Standard Bank Jersey Limited | 1 | 4 |
| Stanbic Bank Uganda Limited | – | 4 |
| Stanbic Bank Tanzania Limited | 297 | 297 |
| Standard Bank of South Africa Limited | 296 | 508 |
| Stanbic Bank Zambia Limited | 2 | 1 |
| Standard Bank Malawi Limited | – | 3 |
| Standard Bank Isle of Man Limited | – | 4 |
| Standard Bank de Angola S.A. | 9 | 8 |
| Mozambique: Standard Bank s.a.r.l. | – | 1 |
| | 605 | 834 |
| Provisions on regional costs balances | (275) | (275) |
| | 330 | 559 |

| | GROUP | | COMPANY | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million | 2020 KShs million | 2019 KShs million |
| 42(h) Other payables due to related companies | | | | |
| Standard Bank of South Africa Limited | 424 | 319 | – | – |
| Stanbic Bank Uganda Limited | 2 | 5 | – | – |
| Stanbic Bank Jersey Limited | – | 3 | – | – |
| | 426 | 327 | – | – |

There is no interest accruing for these outstanding liabilities.

42(i) Related party expenses

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

| | GROUP | |
|------------------------|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| Franchise fees | 675 | 734 |
| Information technology | 257 | 199 |
| Other operating costs | 121 | 127 |
| | 1 053 | 1 060 |

43. Contingent liabilities – Group

Commitments were with respect to:

| | | |
|-----------------------------------|---------------|--------|
| Letters of credit and acceptances | 3 427 | 7 379 |
| Guarantees | 67 497 | 62 099 |
| Unutilised facilities | 11 331 | 9 948 |
| | 82 255 | 79 426 |

43(a) Nature of contingent liabilities

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

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

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

In 2019 a contingent liability existed on an advance payment guarantee. The guarantee was issued on behalf of a well-rated foreign bank and a claim has arisen following a disagreement between the applicant (client of the foreign bank) and the beneficiary. While the Directors continue to believe that their legal defence is strong, they have engaged the various stakeholders to this disagreement, in an effort to have the matter resolved amicably.

In the current year, the Bank, in consultation with the Board of Directors, decided to make payments in the amounts of USD 14.6 million. The matter continues to be investigated by the relevant authorities, with the Bank's full support. In the interim, the Bank has commenced recovery actions. The amount paid has been recognised under other operating expenses.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

| | 2020 | | 2019 | |
|--|---------------|------------|---------------|------------|
| | KShs million | % | KShs million | % |
| 43. Contingent liabilities – Group (continued) | | | | |
| 43(b) Segmental analysis of off-balance sheet liabilities | | | | |
| Agriculture | 1 406 | 2 | 1 072 | 1 |
| Manufacturing | 5 751 | 7 | 4 785 | 6 |
| Construction | 20 310 | 25 | 18 423 | 23 |
| Energy | 274 | – | 98 | – |
| Transport and communication | 1 581 | 2 | 1 270 | 2 |
| Distribution/wholesale | 14 287 | 17 | 15 803 | 20 |
| Financial Services | 38 256 | 47 | 36 243 | 46 |
| Tourism | – | – | 121 | – |
| Other activities and social service | 390 | – | 1 611 | 2 |
| | 82 255 | 100 | 79 426 | 100 |

43(c) Reconciliation of expected credit losses for off-balance sheet facilities measured at amortised cost

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

| | Income statement movements | | | | | | | | Closing ECL 31 Dec 2020 KShs |
|----------------------------------|--------------------------------|--|------------------------------------|-----------------------|-----------------------------------|--|---|--------------------------------------|---------------------------------|
| | Opening ECL 1 Jan 2020 KShs | Total transfers between stages KShs | ECL on new exposure raised KShs | Derecognition KShs | Subsequent changes in ECL KShs | Net ECL raised/ (released) ¹ KShs | Impairment accounts written off KShs | Exchange and other movements KShs | |
| Off-balance sheet Stage 1 | | | | | | | | | |
| Letters of credit | 10 | – | 3 | (4) | 6 | 5 | – | – | 15 |
| Guarantees | 52 | 35 | 39 | (12) | (6) | 21 | – | – | 108 |
| Stage 2 | 79 | (35) | 2 | (30) | 4 | (24) | – | (2) | 18 |
| Letters of credit | 9 | – | – | (2) | – | (2) | – | (2) | 5 |
| Guarantees | 70 | (35) | 2 | (28) | 4 | (22) | – | – | 13 |
| Total ECL | 141 | – | 44 | (46) | 4 | 2 | – | (2) | 141 |

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

43(d) Legal proceedings

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

44. Other reserves

For the year ended 31 December 2020

At 1 January 2020

Total comprehensive income for the year

| | Pre-acquisition reserve KShs million | Revaluation of financial assets – at FVOCI KShs million | Regulatory credit risk reserve KShs million | Revaluation reserve on buildings KShs million | Share-based payment reserve KShs million | Foreign currency translation reserve KShs million | Total KShs million |
|---|---|--|--|--|---|--|-----------------------|
| At 1 January 2020 | (126) | 34 | 938 | 115 | 36 | (1 160) | (163) |
| Total comprehensive income for the year | – | (34) | – | (8) | – | (170) | (212) |
| Currency translation difference for foreign operations | – | – | – | – | – | (170) | (170) |
| Transfer of excess depreciation to retained earnings | – | – | – | (8) | – | – | (8) |
| Realised fair value adjustment on financial assets – fair value through OCI transferred to profit or loss | – | (34) | – | – | – | – | (34) |
| Transfer of statutory credit risk reserve | – | – | (938) | – | – | – | (938) |
| Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group | – | – | – | – | – | – | – |
| Share-based payment reserve | – | – | – | – | (36) | – | (36) |
| Total transactions with owners of the Group | – | – | – | – | (36) | – | (36) |
| At 31 December 2020 | (126) | – | – | 107 | – | (1 330) | (1 349) |

For the year ended 31 December 2019

At 1 January 2019

Total comprehensive income for the year

| | Pre-acquisition reserve KShs million | Revaluation of financial assets – at FVOCI KShs million | Regulatory credit risk reserve KShs million | Revaluation reserve on buildings KShs million | Share-based payment reserve KShs million | Foreign currency translation reserve KShs million | Total KShs million |
|---|---|--|--|--|---|--|-----------------------|
| At 1 January 2019 | (126) | 22 | 938 | 123 | 35 | (1 075) | (83) |
| Total comprehensive income for the year | – | 12 | – | (8) | – | (85) | (81) |
| Currency translation difference for foreign operations | – | – | – | – | – | (85) | (85) |
| Transfer of excess depreciation to retained earnings | – | – | – | (8) | – | – | (8) |
| Realised fair value adjustment on financial assets – fair value through OCI transferred to profit or loss | – | – | – | – | – | – | – |
| Fair value changes on financial assets | – | 12 | – | – | – | – | 12 |
| Transfer of statutory credit risk reserve | – | – | – | – | – | – | – |
| Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group | – | – | – | – | – | – | – |
| Share-based payment reserve | – | – | – | – | 1 | – | 1 |
| Total transactions with owners of the Group | – | – | – | – | 1 | – | 1 |
| At 31 December 2019 | (126) | 34 | 938 | 115 | 36 | (1 160) | (163) |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

| | Note | GROUP | |
|--|------|----------------------|----------------------|
| | | 2020 KShs million | 2019 KShs million |
| 44. Other reserves (continued) | | | |
| Pre-acquisition reserve | | (126) | (126) |
| Revaluation of financial assets – fair value | | – | 34 |
| Regulatory credit risk reserve | | – | 938 |
| Revaluation reserve on buildings | | 107 | 115 |
| Share-based payment reserve | 45 | – | 36 |
| Foreign currency translation reserve | | (1 330) | (1 160) |
| At end of year | | (1 349) | (163) |

The pre-acquisition reserve solely represents the deficit on the annual financial statements reserve and regulatory credit risk reserve from the merger of Cfc Bank Limited and Stanbic Bank Kenya Limited in 2008. The Group has not revalued the reserve since the merger. The pre-acquisition reserve is non-distributable.

Fair value reserve represents the surplus or losses arising on fair valuation of FVOCI financial instruments and is non-distributable.

The regulatory credit risk reserve represents an appropriation from retained earnings to comply with the Central Bank of Kenya's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognised in accordance with the Company's accounting policy. The reserve is not distributable.

The revaluation reserve on buildings solely represents the surplus on the revaluation of buildings and freehold land net of deferred income tax. The revaluation reserve arose from the merger of Cfc Bank Limited and Stanbic Bank Kenya Limited in 2008. The Group policy was adopted to state all its assets using the historical cost model. No revaluation has been undertaken since the merger. The revaluation reserve is non-distributable.

Share-based payment reserve represents the Group's share incentive scheme, which enables key management personnel and senior employees of the Group to benefit from the performance of Standard Bank Group (SBG) shares.

Foreign currency translation reserve represents exchange differences arising on the translation of the net investment in foreign entities and is non-distributable.

| | GROUP | |
|--|----------------------|----------------------|
| | 2020 KShs million | 2019 KShs million |
| 45. Share-based payment reserve | | |
| At start of year | 36 | 35 |
| Equity growth scheme for the year | – | 1 |
| Vested during the year | (36) | – |
| At end of year | – | 36 |

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

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

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

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

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

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

| | Option price range (ZAR) | Number of options | |
|---|--------------------------|-------------------|---------------|
| | 2020 | 2020 | 2019 |
| Group Share Incentive Scheme | | | |
| Options outstanding at beginning of year | | 36 250 | 60 000 |
| Granted | | – | 22 750 |
| Transfers | | – | – |
| Exercised | 98.8 – 111.94 | (16 250) | (46 000) |
| Lapsed | | – | (500) |
| Options outstanding at end of year | | 20 000 | 36 250 |

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

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

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

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

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

| | Number of rights 2020 | Number of rights 2019 |
|--|-----------------------|-----------------------|
| Equity Growth Scheme | | |
| Rights outstanding at beginning of year | 5 375 | 3 000 |
| Transfers | – | 2 375 |
| Exercised | – | – |
| Lapsed | – | – |
| Rights outstanding at end of year¹ | 5 375 | 5 375 |

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

45. Share-based payment reserve (continued)

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

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

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

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

46. Capital commitments

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

| | 2020 KShs million | 2019 KShs million |
|-----------------------------------|----------------------|----------------------|
| Authorised and contracted for | 142 | 278 |
| Authorised but not contracted for | 963 | 615 |

47. Operating leases

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

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

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

48. Fiduciary activities

| | | |
|---|---------|---------|
| Assets held on behalf of individuals, trusts, retirement benefit plans and other institutions | 365 573 | 341 824 |
|---|---------|---------|

49. Assets and liabilities classified as held-for-sale

The assets and liabilities of SBG Securities Limited – Uganda branch have been classified as held-for-sale following approval by the Board of Directors to dispose the branch as a going concern. The assets and liabilities are listed below:

| | 2020 KShs million | 2019 KShs million |
|-----------------------------|----------------------|----------------------|
| Assets | | |
| Trade and other receivables | 7 | 18 |
| Cash and cash equivalents | 67 | 108 |
| Current income tax | 2 | 2 |
| | 76 | 128 |
| Liabilities | | |
| Trade and other payables | 7 | 27 |
| | 7 | 27 |

SBG Securities Limited (Rwanda branch) and SBG Securities Limited (Uganda branch) have had their financial statements prepared on a break-up basis following a strategic review by the Directors.

50. Subsequent event

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

