STANBIC HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

Stanbic Moving Forward™

A member of Standard Bank Group

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Chairman:	Kitili Mbathi (Appointed on 09 May 2019) Fred N. Ojiambo, MBS, SC (Retired on 09 May 2019)
Chief Executive:	Greg Brackenridge*
Chief Executive of Stanbic Bank Kenya Limited:	Charles Mudiwa***
Non-Executive Directors:	Rose W. Kimotho Edward W. Njoroge (Retired on 09 May 2019) Ruth T. Ngobi Peter N. Gethi Christopher J. Blandford – Newson** Rose B. Osoro Dorcas Kombo * South African ** South African and British *** Zimbabwean
Company Secretary:	Lillian N. Mbindyo P.O. Box 72833 00200 Nairobi
Auditor:	PricewaterhouseCoopers LLP PwC Tower Waiyaki Way/Chiromo Road P.O. Box 43963 00100 Nairobi
Registered Office:	Stanbic Bank Centre Chiromo Road, Westlands P.O. Box 72833 00200 Nairobi
Principal Bankers:	Stanbic Bank Kenya Limited Chiromo Road, Westlands P.O. Box 72833 00200 Nairobi, GPO

The Directors submit their report together with the audited financial statements for the year ended 31 December 2019, 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 is listed on the Nairobi Securities Exchange.

Business review and financial performance

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

a) Credit risk
b) Liquidity risk
c) Market risk
d) Operational risk

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

The Group reported an improvement in earnings because of improved client revenues and increased trading revenues during the year. The Group mobilised technology to enhance client experience and improve operational efficiency. The balance sheet continued to show strong growth as the Group focused on creating value and delightful experiences for its customers.

During the year, the Group refined its strategy to remain relevant in its role as a financial services provider while delivering superior stakeholder value.

Some of the major highlights were-:

a) The profit after tax for the year was Kshs 6,380,616,000 (2018: Kshs 6,277,166,149)
b) Net interest income for the year grew to KShs 13,347,740,000 compared to KShs 12,129,645,312 over the same period in 2018 on the back of growth in average balance sheet;
c) Non interest revenue grew to KShs. 10,494,372,000 from Kshs. 9,906,050,000 in 2018 on successful closure of key deals in Investment Banking and gains made from disposal of financial investments.

South Sudan economy continued to suffer from the ongoing political instability and the effects of a hyper inflationary environment. Despite this, the Group's South Sudan branch remained profitable with strong growth on customer deposits. The Group continues to be proactive in its risk management and prudent on costs. The on ground activities continue to be transactional and liability led.

The Group continues to focus on executing its strategy in the year 2020 by simplifying its processes, tightening operational controls, onboarding target clients in Corporate and Investment Banking and scaling up Personal and Business Banking. The Group will continue to proactively monitor some of its customers currently in distress and assess the level of impairment charges held for these exposures.

Dividends

In the current year, the Directors' paid an interim dividend of KShs 1.25 (2018: KShs 2.25) per ordinary share amounting to KShs 494,152,000 (2018: KShs 889,475,000).

Subject to the approval of the shareholders at the next Annual General Meeting to be held on 15 May 2020, the Directors recommend payment of a final dividend of KShs 5.80 (2018: KShs 3.55) per ordinary share equivalent to a total sum of KShs 2,292,869,000 (2018: KShs 1,403,392,000). The total dividend for the year, therefore, will be KShs 7.05 (2018: KShs 5.80) for every ordinary share amounting to KShs 2,787,021,000 (2018: KShs 2,292,867,000).

Share capital

The total number of authorised shares as at 31 December 2019 was 473,684,211 (2018: 473,684,211), ordinary shares of KShs 5 each, with 395,321,638 shares being issued and fully paid up.

Directors

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

Events subsequent to the end of the reporting period

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

Management by third parties

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

Disclosures to auditor

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

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

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

Terms of appointment of auditor

PricewaterhouseCoopers LLP continue in office in accordance with the Company's Articles of Association and Section 721 of the Kenyan Companies Act, 2015.

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

Approval of financial statements

The financial statements were approved by the Board of Directors on 28 February 2020.

By Order of the Board,

Lillian N. Mbindyo
Company Secretary

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

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

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

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

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

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

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

Approved by the Board of Directors on 28 February 2020 and signed on its behalf by:

Chairman
Kitili Mbathi

Director
Dorcas Kombo

Chief Executive
Greg Brackenridge

Information not subject to audit

The Company's board remuneration policy

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

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

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

The chairman of the Board is paid a taxable retainer of KShs 100,000 per quarter and a sitting allowance of KShs 180,000. The other members of the Board are paid a taxable retainer of KShs 75,000 per quarter and a sitting allowance of KShs 120,000. The Board's retainer 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 Non-Executive Directors retire by rotation at every annual general meeting and if eligible, may offer themselves for re-election by shareholders.

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

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

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

During the Annual General Meeting held on 09 May 2019, the shareholders approved the payments of directors fees for the year ended 31 December 2018.

At the Annual General Meeting to be held on 15 May 2020, approval will be sought from shareholders to pay director fees for the financial year ended 31 December 2019.

Information subject to audit (continued)

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**

Year ended 31 December 2018

Name	Category	Retainer	Sitting allowance	Total Company	Total Group subsidiaries	Total Group
Fred Ojiambo	Chairman Non - Executive	400,000	900,000	**1,300,000**	4,297,008	**5,597,008**
*Greg Brackenridge	Chief Executive	-	-	**-**	-	**-**
Kitili Mbathi	Non - Executive	300,000	840,000	**1,140,000**	5,351,232	**6,491,232**
Christopher Newson	Non - Executive	225,000	660,000	**885,000**	3,709,424	**4,594,424**
Edward W. Njoroge	Non - Executive	300,000	600,000	**900,000**	3,215,232	**4,115,232**
Rose Kimotho	Non - Executive	300,000	600,000	**900,000**	3,911,232	**4,811,232**
Ruth T. Ngobi	Non - Executive	300,000	720,000	**1,020,000**	4,619,232	**5,639,232**
Peter Nderitu Gethi	Non - Executive	300,000	600,000	**900,000**	5,103,232	**6,003,232**
Rose Osoro	Non - Executive	300,000	720,000	**1,020,000**	2,731,232	**3,751,232**
Dorcas Kombo	Non - Executive	300,000	720,000	**1,020,000**	2,731,232	**3,751,232**
Total		**2,725,000**	**6,360,000**	**9,085,000**	**35,669,056**	**44,754,056**

*In line with Standard Bank Group's transfer pricing policy, Greg Brackenridge's function is a group oversight role and therefore the majority shareholder, Standard Bank of South Africa Limited, bears all his employment costs and benefits. Those costs and benefits are not recharged to Stanbic Holdings Plc

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 12 to 156, which comprise the consolidated statement of financial position at 31 December 2019 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2019, 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 2019 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 Kenyan Companies Act, 2015.

Basis for opinion

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

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

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

Key audit matters

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

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Independent auditor's report to the shareholders of Stanbic Holdings Plc (continued)

Key Audit matters (continued)

Key Audit matter	*How our audit addressed the matter*
Credit risk and provision for expected credit losses (ECL) on loans and advances As explained in notes 3.10 of these financial statements, determining ECL is complex, judgmental and involves estimation uncertainty. As required by the standard, the ECL is based on 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. Auditing the Group's ECL as computed was deemed an area of most significance to our audit due to the inherent subjectivity of the assumptions and judgment made by management in: • estimation of default events that may happen during the lifetime of the instruments, and the probability weighting thereof; • application of qualitative information in determining staging of exposures; • application of complex modelling assumptions used to build the models that calculate ECL, completeness and accuracy of data used to calculate the ECL and the accuracy and adequacy of the financial statement disclosures; • determination of the forward-looking parameters to be incorporated in the estimation of expected credit losses including multiscenario weightings. • estimation of the expected cash flows (including from collateral realization) used in the determination of the loss given default for stage 1 and 2 facilities and in estimating the recoverable amount of stage 3 facilities.	• We tested the reasonableness of the quantitative and qualitative criteria used in the classification of loans and advances into various staging categories based on our knowledge of the Group and industry. • As the quantitative basis of classification of loans and advances is reliant 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 data used for estimating probability of default, loss given default and exposure at default to give a sense of reliability. • We tested 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. • For stage 3 facilities, we selected a sample of loans and advances and tested 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.

Independent auditor's report to the shareholders of Stanbic Holdings Plc (continued)

Key Audit matters (continued)

Key Audit matter	***How our audit addressed the matter***
Goodwill impairment assessment 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. 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 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. 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.	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. We checked the reliability of forecasted cash flows based on recent actual performance and the approved short-term financial budgets of the business. We also assessed management's assumptions in relation to the: • 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 We assessed the sensitivity of the gross margin and pre-tax discount rate which were more sensitive assumptions used in the computations as disclosed in Note 29 of the financial statements.

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.

Independent auditor's report to the shareholders of Stanbic Holdings Plc (continued)

Other information (continued)

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 Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditor's report to the shareholders of Stanbic Holdings Plc (continued)

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

- 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, related safeguards.

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 Kenyan Companies Act, 2015

Report of the directors

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

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on page 6 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

PricewaterhouseCoopers LLP

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

2 March **2020**

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

Group and Company statement of profit or loss

	Note	GROUP		COMPANY	
		Year ended 31 December		Year ended 31 December	
		2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Interest income	6	20,960,926	19,247,721	1,579	16,214
Interest expense	7	(7,613,186)	(7,118,076)	-	-
Net interest income		**13,347,740**	**12,129,645**	**1,579**	**16,214**
Credit impairment losses	23 (d)	(3,150,559)	(2,064,462)	-	-
Net income after credit impairment losses		**10,197,181**	**10,065,183**	**1,579**	**16,214**
Fees and commission revenue	8	5,652,635	4,997,605	-	-
Fees and commission expense	9	(545,202)	(442,225)	-	-
Net fees and commission income		**5,107,433**	**4,555,380**	**-**	**-**
Trading revenue	10	5,386,939	5,350,670	-	-
Net income from financial instruments at fair value through profit and loss	11 (a)	172,942	40,938	-	-
Other income	12	48,760	16,842	1,924,000	2,500,016
Other gains and losses on financial instruments	11 (b)	716,999	891	-	-
Net trading and other income		**6,325,640**	**5,409,341**	**1,924,000**	**2,500,016**
Total income		**21,630,254**	**20,029,903**	**1,925,579**	**2,516,230**
Employee benefits expense	13	(6,633,135)	(5,894,324)	-	-
Depreciation and amortisation expense	26, 28	(704,364)	(667,536)	-	-
Depreciation on right-of use assets	27	(357,470)	-	-	-
Other operating expenses	14	(6,076,275)	(4,424,078)	(21,769)	(26,866)
Finance costs	15	(149,246)	(96,208)	(738)	(860)
Total operating expenses		**(13,920,490)**	**(11,082,146)**	**(22,507)**	**(27,726)**
Profit before income tax		**7,709,764**	**8,947,757**	**1,903,072**	**2,488,504**
Income tax expense	16	(1,329,148)	(2,670,591)	(555)	(4,938)
Profit for the year		**6,380,616**	**6,277,166**	**1,902,517**	**2,483,566**
Earnings per share					
Basic and diluted (KShs per share)	17	16.14	15.88	4.81	6.28

Group and Company statement of other comprehensive income

		GROUP		COMPANY	
		Year ended 31 December		Year ended 31 December	
	Note	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Profit for the year		**6,380,616**	**6,277,166**	**1,902,517**	**2,483,566**
Other comprehensive income for the year, net of income tax					
Items that may be reclassified to profit or loss					
Currency translation differences for foreign operations		(84,724)	(270,472)	-	-
Net gain/(loss) in debt financial assets measured at fair value through other comprehensive income (FVOCI)	21.2	11,723	(320,469)	-	-
Net loss on financial assets reclasified to statement of profit or loss	21.2	-	(891)	-	-
Total other comprehensive income for the year, net of income tax		**(73,001)**	**(591,832)**	**-**	**-**
Total comprehensive income for the year		**6,307,615**	**5,685,334**	**1,902,517**	**2,483,566**

Group and Company statement of financial position

		GROUP		COMPANY	
		As at 31 December		As at 31 December	
	Note	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Assets					
Cash and balances with Central Bank of Kenya	19	17,251,087	22,061,875	-	-
Financial investments – FVTPL	20 (a)	34,159,611	31,202,035	-	-
Financial investments – (FVOCI)	21	21,028,242	17,857,417	-	-
Financial investments – (amortised cost)	22	14,890,068	23,200,956	-	-
Derivative assets	33	1,611,661	1,515,466	-	-
Loans and advances to banks	23 (a)	38,378,001	28,380,593	136,851	130,867
Loans and advances to customers	23 (b)	152,816,570	146,604,117	-	-
Other assets and prepayments	24	4,911,019	3,727,559	20,000	-
Investment in subsidiaries and other investments	25	17,500	17,500	18,217,512	18,217,512
Property and equipment	26	2,301,693	2,186,370	-	-
Right-of-use leasehold land	27	45,041	47,994	-	-
Other intangible assets	28	1,024,310	1,250,731	-	-
Intangible assets - goodwill	29	9,349,759	9,349,759	-	-
Right-of-use assets (buildings)	30	1,315,356	-	-	-
Current tax asset	37	-	-	15,349	15,713
Deferred tax asset	38	4,397,153	3,167,882	-	38
Asset classified as held-for-sale	49	127,521	-	-	-
Total assets		**303,624,592**	**290,570,254**	**18,389,712**	**18,364,130**
Equity and liabilities					
Liabilities					
Derivative liabilities	33	2,756,760	1,881,658	-	-
Financial liabilities – FVTPL	20 (b)	1,486,826	10,040,568	-	-
Deposits from banks	34 (a)	30,450,594	27,909,239	-	-
Deposits from customers	34 (b)	194,222,319	191,584,675	-	-
Borrowings	35	9,127,015	7,064,013	-	-
Other liabilities and accrued expenses	36	14,725,225	6,426,698	130,010	109,553
Current tax liability	37	397,781	1,039,983	-	-
Deferred tax liability	38	25,273	-	-	-
Lease liabilities	31	1,370,953	-	-	-
Liabilities directly associated with assets classified as held-for-sale	49	27,081	-	-	-
Total liabilities		**254,589,827**	**245,946,834**	**130,010**	**109,553**
Equity					
Ordinary share capital	32 (b)	1,976,608	1,976,608	1,976,608	1,976,608
Ordinary share premium	32 (c)	16,897,389	16,897,389	16,897,389	16,897,389
Other reserves	44	(162,566)	(83,175)	-	-
Revenue reserves		28,030,465	24,429,206	(2,907,164)	(2,022,812)
Proposed dividend	18	2,292,869	1,403,392	2,292,869	1,403,392
Total shareholders' equity		**49,034,765**	**44,623,420**	**18,259,702**	**18,254,577**
Total equity and liabilities		**303,624,592**	**290,570,254**	**18,389,712**	**18,364,130**

The financial statements on pages 12 to 156 were approved for issue by the Board of Directors on 28 February 2020 and signed on its behalf by:

Chairman ....
Kitili Mbathi

Chief Executive ....
Greg Brackenridge

Director ....
Dorcas Kombo

Company Secretary ....
Lillian N. Mbindyo

Group Statement of changes in equity

For the year ended 31 December 2019	Note	Share Capital Kshs'000	Share Premium Kshs'000	Other Reserves Kshs'000	Revenue Reserves Kshs'000	Proposed Dividend Kshs'000	Total Equity Kshs'000
At 1 January 2019		**1,976,608**	**16,897,389**	**(83,176)**	**24,429,207**	**1,403,392**	**44,623,420**
Profit for the year		**-**	**-**	-	6,380,616	**-**	**6,380,616**
Other comprehensive income, net of tax		**-**	**-**	(80,664)	7,662	**-**	**(73,001)**
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	-	-	-	(494,152)	(1,403,392)	(1,897,544)
Proposed dividend	18	-	-	-	(2,292,869)	2,292,869	-
Equity-settled share-based payment transactions	45	-	-	1,274	-	-	1,274
Total transactions with owners of the Group		**-**	**-**	**1,274**	**(2,787,021)**	**889,477**	**(1,896,270)**
At 31 December 2019		**1,976,608**	**16,897,389**	**(162,566)**	**28,030,464**	**2,292,869**	**49,034,765**

Group Statement of changes in equity (continued)

For the year ended 31 December 2018	Note	Share Capital	Share Premium	Other Reserves	Revenue Reserves	Proposed Dividend	Total Equity
		Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
At 1 January 2018		**1,976,608**	**16,897,389**	**(448,317)**	**22,948,721**	**1,581,286**	**42,955,687**
Impact of initial application of IFRS 9		-	-	(73)	(1,565,568)	-	(1,565,641)
Profit for the year		-	-	-	6,277,166	-	6,277,166
Other comprehensive income, net of tax		-	-	(591,832)	-	-	(591,832)
Transfer of statutory credit risk reserve		-	-	938,245	(938,245)		-
Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group							
Dividend payment	18	-	-	-	(889,475)	(1,581,286)	(2,470,761)
Proposed dividend	18	-	-	-	(1,403,392)	1,403,392	-
Equity-settled share-based payment transactions	45	-	-	18,801	-	-	18,801
Total transactions with owners of the Group		**-**	**-**	**18,801**	**(2,292,867)**	**(177,894)**	**(2,451,960)**
At 31 December 2018		**1,976,608**	**16,897,389**	**(83,176)**	**24,429,207**	**1,403,392**	**44,623,420**

Company statement of changes in equity

		Attributable to equity holders				
Year ended 31 December 2019	**Note**	**Share Capital KShs'000**	**Share Premium KShs'000**	**Revenue reserves KShs'000**	**Proposed Dividend KShs'000**	**Total Equity KShs'000**
At 1 January 2019		**1,976,608**	**16,897,389**	**(2,022,813)**	**1,403,392**	**18,254,577**
Profit for the year		**-**	**-**	1,902,517	**-**	**1,902,517**
Contribution and distributions to owners						
Dividends to equity holders - dividend paid	18	-	-	(494,152)	(1,403,392)	**(1,897,543)**
Dividends to equity holders - proposed dividend	18	-	-	(2,292,869)	2,292,869	**-**
Total contributions by and distributions to owners		**-**	**-**	**(2,787,021)**	**889,477**	**(1,897,543)**
At 31 December 2019		**1,976,608**	**16,897,389**	**(2,907,317)**	**2,292,869**	**18,259,551**

		Attributable to equity holders				
Year ended 31 December 2018	**Note**	**Share Capital KShs'000**	**Share Premium KShs'000**	**Revenue reserves KShs'000**	**Proposed Dividend KShs'000**	**Total Equity KShs'000**
At 1 January 2018		**1,976,608**	**16,897,389**	**(2,213,513)**	**1,581,287**	**18,241,771**
Profit for the year		**-**	**-**	2,483,566	**-**	**2,483,566**
Contribution and distributions to owners						
Dividends to equity holders - dividend paid	18	-	-	(889,474)	(1,581,287)	**(2,470,760)**
Dividends to equity holders - proposed dividend	18	-	-	(1,403,392)	1,403,392	**-**
Total contributions by and distributions to owners		**-**	**-**	**(2,292,866)**	**(177,895)**	**(2,470,760)**
At 31 December 2018		**1,976,608**	**16,897,389**	**(2,022,813)**	**1,403,392**	**18,254,577**

Group and company statement of cashflows

	Note	Group 2019 Kshs'000	Group 2018 Kshs'000	Company 2019 KShs'000	Company 2018 KShs'000
Cash flows from operating activities	39 (a)	9,449,325	9,959,878	1,903,072	2,488,504
Income tax paid	37 (a)	(3,197,531)	(1,577,646)	-	(2,432)
Cash flows from operating activities before changes in operating assets and liabilities		**6,251,794**	**8,382,232**	**1,903,072**	**2,486,072**
Changes in operating assets and liabilities:					
Loans and advances to customers		(6,212,453)	(18,304,930)	-	-
Financial assets – FVOCI		8,954,758	23,739,044	-	-
Financial assets – fair value through profit or loss		4,417,727	7,425,131		
Deposits held for regulatory purposes (Restricted cash)		(2,337,726)	(6,127,940)	-	-
Other assets and prepayments		(1,183,460)	(506,989)	(20,000)	-
Deposits with banks		4,424,230	(8,917,831)	-	-
Other liabilities and accrued expenses		8,298,527	829,868	20,457	3,753
Customer deposits		2,637,644	36,923,903	-	-
Trading liabilities		(8,553,742)	9,677,938	-	-
Net cash generated from operating activities		**16,697,299**	**53,120,426**	**1,903,529**	**2,489,825**
Cash flows from investing activities:					
Financial assets – at amortised cost		8,310,888	(17,756,778)	-	-
Additions to property and equipment	26	(541,042)	(362,603)	-	-
Additions to intangible assets	28	(64,575)	(145,907)	-	-
Proceeds from sale of property and equipment		6,400	7,745	-	-
Payment of lease liabilities	31	(346,143)	-	-	-
Net cash generated from/used in investing activities		**7,365,528**	**(18,257,543)**	**-**	**-**
Cash flows from financing activities:					
Dividends paid		(1,897,544)	(2,470,761)	(1,897,545)	(2,470,761)
Increase of borrowings		2,063,002	3,074,770	-	-
Net cash generated from/(used in) financing activities		**165,458**	**604,009**	**(1,897,545)**	**(2,470,761)**
Net increase in cash and cash equivalents		**24,228,285**	**35,466,893**	**5,984**	**19,064**
Effect of exchange rate changes		(57,992)	(282,950)	-	-
Cash and cash equivalents at start of year		61,040,397	25,856,454	130,867	111,803
Cash and cash equivalents at end of year	39 (b)	**85,210,690**	**61,040,397**	**136,851**	**130,867**

Notes

1 General information

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

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

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

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

The financial statements for the year ended 31 December 2019 were approved for issue by the Board of Directors on 15 May 2020. 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 (AFS) are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, and the Kenyan Companies Act, 2015. The annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position, which are measured at fair value, (FVTPL):

- Fair value OCI 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 principle accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies shown in brackets:

- purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 2.6);

- property and equipment and intangible assets are accounted for using the cost model except for revaluation of buildings that arose from the merger between the former CfC Bank and Stanbic Bank in 2008 (accounting policy 2.8 and 2.9);

- the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy 2.6); and

- hyperinflation - the South Sudan economy has been considered to be hyperinflationary. Accordingly, the results, cash flows and financial position of the South Sudan Branch, have been expressed in terms of the measuring unit prevailing at the reporting date (accounting policy 2.22).

Notes (Continued)

2 Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Use of estimates

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

b) Functional and presentation currency

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

The Group has not applied the following new and revised standard and interpretations that have been published before 31 December 2019 but are effective for the year beginning on or after 1 January 2020.

Amendments to IFRS 3 'Definition of a Business' (issued in October 2018) 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 as an asset acquisition.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 'Definition of Material' (issued in October 2018) 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.

The ammendentments aligns the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

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

Notes (Continued)

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

IFRS 17 'Insurance Contracts' (issued in May 2017) effective for annual years beginning on or after 1 January 2021 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 standard is not applicable to the bank.

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

Certain new accounting standards and interpretations were effective for the accounting period beginning on or after 1 January 2019. The Group's assessment of the impact of these new standards and interpretations is set out below:

International Financial Reporting Standard 16 (IFRS 16) Leases

From 1 January 2019, to comply with IFRS 16, Leases, which replaced IAS 17, Leases, the Group now recognises lease liabilities relating to leases under which the Group is the lessee that had previously been classified as operating leases (other than leases with less than 12 months to run from 1 January 2019 and leases of low value items). Such liabilities have been measured at 1 January 2019 at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate as at 1 January 2019. Corresponding right-of-use assets have been recognised, measured as if the Group's new accounting policy had been applied since the commencement of each lease but discounted using the group's incremental borrowing rate as at 1 January 2019. The difference between the lease liabilities and right-of-use assets at 1 January 2019 has been recognised as an adjustment to retained earnings at that date.

As permitted by the transition provisions in the new standard, comparative amounts have not been restated. The group's accounting policy for leases under which the group was lessee was, up to 31 December 2018, as follows:

- Leases of property, plant and equipment including hire purchase contracts where the Group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease Property, plant and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.

- Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

The measurement of assets and liabilities that were recognised as finance leases under the previous accounting policy has continued unchanged, but the assets have been reclassified from Property, plant and equipment to Right-of-use assets (see Note 30). Right-of-use assets and lease liabilities in respect of operating leases (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) in force at 1 January 2019 have been recognised in accordance with the transition requirements of IFRS 16, as described above.

Notes (Continued)

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

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

The resulting adjustment passed at 1 January 2019 as a result of applying IFRS 16, was as follows:

	KShs'000
Operating lease commitments disclosed as of 31 December 2018	(1,219,055)
Discounted using the lessee's incremental borrowing rate at the date of initial aplication	116,092
Add: Adjustment as a result of South Sudan lease renewal during the year	(640,276)
Less: Low value lease not recognised as liability	26,143
Lease liabilities recognised as of 01 January 2019	(1,717,096)
Right-of-use assets	1,717,096
Net adjustment to retained earnings at 1 January 2019	-

As at the same date prepaid operating leases of KShs. 47,994,000 were reclassified into right-of-use assets (Note 27).

Other standards and amendments

The following, which became effective from 1 January 2019, have been adopted but have not had a significant impact on the group's financial statements.

- **Amendments to IAS 12 'Income Taxes'** effective for annual periods beginning on or after 1 January 2019. The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Management has performed an assessment of IAS 12 amendments and the impacted is not significant.
- **Amendments to IAS 19 'Employee Benefits'** effective for annual periods beginning on or after 1 January 2019.

  The amendments addresses the accounting when a plan amendment, curtailment or settlement occurs during a reporting period . The amendment specifies that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset). The amendment had no impact on the Group's financial statements as it did not have any plan amendments, curtailments or settlements during the period.
- **Amendments to IAS 23 'Borrowing Costs'** effective for annual periods beginning on or after 1 January 2019. The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The amendments have no impact on Groups financial statements.
- **Amendments to IFRS 9 'Financial Instruments'** effective for annual periods beginning on or after 1 January 2019. Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

Notes (Continued)

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

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

Other standards and amendments (continued)

Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instruments, the Bank assesses the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion. These amendments had no impact on the financial statements of the Bank.

- **IFRIC 23 'Uncertainty over Income Tax Treatments'** (issued June 2017) effective for annual periods beginning on or after 1 January 2019. The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Group has determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation did not have an impact on the Group's financial statements.

New standards, amendments and interpretations issued but not effective

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

- **Amendments to IFRS 10 and IAS 28** 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (issued in September 2014) applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

- **IFRS 17 ‘Insurance Contracts’** (issued in May 2017) effective for annual periods beginning on or after 1 January 2021 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.

Notes (Continued)

2 Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

New standards, amendments and interpretations issued but not effective (continued)

- **Amendments to IFRS 3 'Definition of a Business'** (issued in October 2018) 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 as an asset acquisition.

- **Amendments to IAS 1 and IAS 8 'Definition of Material'** (issued in October 2018) 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.

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.1 Consolidation

(i) Subsidiaries

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

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.1 Consolidation (continued)

(i) Subsidiaries (continued)

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured 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) Functional and presentation currency

Items included in the Group’s financial statements are measured using the currency of the primary economic environment in which the entity operates (‘the Functional Currency’), which is also the presentation currency.

(ii) Transactions and balances

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.2 Translation of foreign currencies (continued)

(iii) Foreign operations

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

- income and expenses are translated at average exchange rates for the month, to the extent that such average rates approximate actual rates for the transactions; and

- all resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the foreign currency translation reserve.

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

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

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

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

2.3 Net interest income

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.3 Net interest income

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 transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.4 Non-interest revenue (continued)

d) Revenue sharing agreements with related companies

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

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

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

2.5 Cash and cash equivalents

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

2.6 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 Bank commits to purchase (sell) the instruments (trade date accounting).

Financial assets are classified under the following categories;

Notes (continued)

2 Summary of significant accounting policies (continued)

Financial assets

Financial assets classified under each of the below categories are disclosed under Note 40.

<table>
<tr><th>Nature</th><th></th></tr>
<tr><td>Amortised cost</td><td>A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):
● held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and
● The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount
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.</td></tr>
<tr><td>Fair value through OCI</td><td>A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):
● Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and
● The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount
This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.
Equity financial assets which are not held for trading and are irrevocably elected (on an instrument-by-instrument basis) to be presented at fair value through OCI.</td></tr>
<tr><td>Held for trading</td><td>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.</td></tr>
<tr><td>Fair value through profit or loss</td><td>Financial assets are designated to be measured at fair value to eliminate or significantly reduce an accounting mismatch that would otherwise arise.

Financial assets that are not classified into one of the above mentioned financial asset categories.</td></tr>
</table>

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

IFRS 9 - accounting policies for financial instruments (continued)

Financial assets (continued)

(ii) Subsequent measurement

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

Amortised cost	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges.
	Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through OCI (FVOCI)	Debt instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other gains and losses on financial instruments within non-interest revenue.
	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 the financial asset are recognised in the income statement 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial assets (continued)

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

Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.
Off-balance sheet exposures (excluding loan	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 value 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 value;

- 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 value with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying value;

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

- The carrying value 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 income statement at the date of reclassification.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial liabilities

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

Subsequent measurement

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

<table>
<tr><th></th><th>DERECOGNITION</th><th>MODIFICATION</th></tr>
<tr><td rowspan="4">Financial assets</td><td>Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.</td><td rowspan="2">Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes.</td></tr>
<tr><td>The Group enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.</td></tr>
<tr><td>When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.</td><td rowspan="3">If the terms are not substantially different for financial assets or financial liabilities, the Group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).</td></tr>
<tr><td>In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.</td></tr>
<tr><td>Financial liabilities</td><td>Financial liabilities are derecognised when the financial liabilities’ obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.</td></tr>
</table>

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

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
- 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 legally enforceable right to set-off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously.

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

Notes (continued)

2 Summary of significant accounting policies (continued)

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

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

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

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

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

The 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;

Notes (continued)

2 Summary of significant accounting policies (continued)

2.7 Fair value (continued)

- provides information on that basis about the group of financial assets and financial liabilities to the Group's key management personnel; and

- is required to or has elected to measure those financial assets and financial liabilities at fair value at the end of each reporting period.

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

2.8 Property and equipment

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

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

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

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

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.8 Property and equipment (continued)

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

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

2.9 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 is expected to benefit from the synergies of the combination.

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

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

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

Computer software

Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the Group and have a probable future economic benefit 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.9 Intangible assets (continued)

Computer software (continued)

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

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.12 Accounting for leases

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.

Group as lessee

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

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

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

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.

Leasehold land and buildings are subsequently carried at revalued amounts, based on periodic valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.12 Leases (continued)

Group as lessee

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are recognised in profit or loss. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset recognised in profit or loss and depreciation based on the asset's original cost (excess depreciation) is transferred from the retained earnings to revaluation surplus reserve.

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.

The above accounting policy has been applied from 1 January 2019. Note 1 c) ii) sets out the equivalent policy applied in the previous year and the impact of the change in accounting policy.

IAS 17 - Leases

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

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

(i) Bank as lessee

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

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

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

2.13 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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.13 Provisions, contingent assets and contingent liabilities (continued)

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

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the Group, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group's 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 values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

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

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

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.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.14 Taxation (continued)

(ii) Indirect tax

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

2.15 Employee benefits

(i) Defined contribution plan

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.

(ii) Termination benefits

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

(ii) Short-term benefits

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

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

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

2.16 Dividends

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

2.17 Equity

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

(i) Share issue costs

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.17 Equity (continued)

(ii) Distributions on ordinary shares

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

Proposed dividends are disclosed separately within equity until declared.

2.18 Earnings per share

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

Transactions between segments are priced at market-related rates.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.21 Fiduciary activities

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

2.22 Hyperinflation

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

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

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

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

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

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

Gains or losses on the net monetary position are recognised in profit or loss within finance costs (Note 15).

All items in the statement of cash flows are expressed in terms of the general price index.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.23 Letters of Credit Acceptances

Letters of credit acceptances arise in two ways:

(i) Issuing Bank

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

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

(ii) Confirming Bank

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

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

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies

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

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

3.1 Going concern

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

During the year, 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) have been prepared on a break-up basis while the Uganda Branch has been accounted for as held for sale. Further details are disclosed under note 49.

3.2 Impairment of fair value through OCI

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

3.3 Impairment of 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 judgment 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 2019 was a profit of KShs nil (2018: KShs nil).

Additional disclosures on fair value measurements of financial instruments are set out in notes 2.6 and 4.6.

Notes (continued)

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

3.5 Development costs

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

3.6 Share-based payment

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

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 on-going developments will determine the recognition of deferred tax. The most significant management assumption is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the entities in the Group in order to utilise the deferred tax assets.

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

3.8 Hyperinflation

The Bank'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 was applied since.

Notes (continued)

3.8 Hyperinflation (continued)

The Group exercises significant judgement in determining the onset of hyperinflation in countries in which it operates and whether the functional currency of its branches is the currency of a hyperinflationary 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' current at the reporting date and the results and financial position.

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

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

Date	Base year	General price index	Inflation rate
31 December 2019	2018	5,834.35	69.14%
30 November 2019	2018	5,788.05	67.80%
30 November 2018	2017	3,348.92	53.71%

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

	2019 Kshs'000	2018 Kshs'000
Impact on statement of profit or loss		
Profit for the year before hyperinflation	6,437,546	6,286,582
Net monetary loss*	(56,930)	9,416
Profit for the year after hyperinflation	6,380,616	6,295,998

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

3.9 Provisions

The accounting policy for provisions is set out in accounting policy 2.12 The principal assumptions taken into account in determining the value at which provisions are recorded at, in the 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 statement of financial position date up to the date of the approval of the financial statements.

Notes (continued)

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

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.

Treasury

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

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

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

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 non-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.

Notes (continued)

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

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

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

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

Forward looking expectations

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

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

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

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

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

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.

Notes (continued)

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

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

Lifetime LGD work out

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

Default

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

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

Write off policy

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

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

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

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

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 asset.

Notes (continued)

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

Curing (continued)

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

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 2019, had the average credit ratings for all counterparties shifted one notch down expected credit losses would have increased by KShs 1,579,303,000 (2018: KShs 1,208,698,000) higher where if the credit ratings had shifted one notch up the excpected credit losses would have decreased by KShs 278,190,000 (2018: KShs 435,562,000).

3.11 Credit impairment lossses 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 76,285,000 higher or KShs 76,285,000 lower (2018: KShs 76,988,000 higher or KShs 76,988,000 lower) respectively.

Notes (continued)

4 Financial risk management

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

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

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

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

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

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

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

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

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

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

Notes (continued)

4 Financial risk management (continued)

4.1 Capital management- Company

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

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

4.2 Capital management- Group

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

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

It uses two approaches of measuring capital for capital management.

a) Economic capital assessment

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

b) Regulatory capital assessment

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

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

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

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

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

Notes (continued)

4 Financial risk management (continued)

b) Regulatory capital assessment (continued)

- A minimum level of regulatory capital of KShs 1 billion as at 31 December 2019;
- A core capital (tier 1) of not less than 10.5% (2018: 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% (2018: 8%)of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 14.5% (2018: 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.

Notes (continued)

4 Financial risk management (continued)

4.2 Capital management- Goup (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:

	2019 KShs'000	2018 KShs'000
Tier 1 capital (Core capital)		
Share capital	3,411,549	3,411,549
Share premium	3,444,639	3,444,639
Retained earnings	30,010,858	26,381,053
	(710,461)	
Total Tier 1 capital (Core capital)	**36,156,585**	**33,237,241**
Tier 2 capital		
Regulatory credit risk reserve	938,245	938,245
Qualifying subordinate liabilities	6,599,487	5,380,886
Total Tier 2 capital	**7,537,732**	**6,319,131**
Total capital (Tier 1 + Tier 2)	**43,694,317**	**39,556,372**
Risk - weighted assets		
Operational risk	36,363,233	33,099,577
Market risk	4,101,726	3,674,497
Credit risk on-statement of financial position	164,175,797	158,484,199
Credit risk off-statement of financial position	33,583,238	32,035,934
Total risk - weighted assets	**238,223,994**	**227,294,207**
Capital adequacy ratios		
Core capital / total deposit liabilities	18.4%	16.5%
Minimum statutory ratio	**8.0%**	**8.0%**
Core capital / total risk - weighted assets	15.2%	14.6%
Minimum statutory ratio	**10.5%**	**10.5%**
Total capital / total risk - weighted assets	18.3%	17.4%
Minimum statutory ratio	**14.5%**	**14.5%**

Notes (continued)

4 Financial risk management (continued)

c) Regulatory capital assessment - Stanbic Bank Kenya Limited (continued)

The Bank's branch (Stanbic Bank Kenya Limited (South Sudan Branch)) is required at all times to maintain United States Dollar 30 million with the Bank of South Sudan.

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 Group'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.

4.3 Credit risk

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

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

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

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

4.3.1 Governance committees

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

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

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

Notes (continued)

4 Financial risk management (continued)

4.3.2 General approach to managing credit risk

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

The Group manages credit risk through:

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

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 at the statement of financial position date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the 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.

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.3 Management reporting (continued)

These reports are distributed to management, 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 on-going appropriateness as business environments and strategic objectives change, and are recalibrated semi-annually using the most recent internal data.

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

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

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

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

Probability of default (PD)

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

Loss given default (LGD)

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

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.4 Credit risk measurement (continued)

Exposure at default (EAD)

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

b) Debt securities

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

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.4 Credit risk measurement (continued)

Relationship between the bank master rating and external ratings

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

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies

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

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

The exposure to any one borrower including banks and brokers is further restricted by sublimit covering on-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 the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

a) Credit tailored to customer profile

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

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

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

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

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

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

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

a) Credit tailored to customer profile (continued)

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

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

Personal and Business Banking (PBB): Retail portfolio

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

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

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

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the 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.

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

c) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The 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 counter-party as soon as impairment indicators are noticed for the relevant individual loans and advances.

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

e) Collateral (continued)

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

Valuation of collateral

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

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

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

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

In the retail portfolio, 86% (2018: 74%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures above 50% collateral coverage category is 100% (2018: 100%). Of the Group's total exposure, 44% (2018: 47%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

e) Collateral (continued)

31 December 2019	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Collateral coverage - Total: Greater than 0% to 50%	Greater than 50% to 100%	Greater than 100%
Asset class								
Corporate	**79,762,491**	7,136,559	72,625,932	-	***72,625,932***	-	72,625,932	-
Sovereign	**70,080,218**	70,080,218	-	-	-	-	-	-
Loans and advances to banks	**38,378,001**	**38,378,001**	**-**	**-**	**-**	**-**	**-**	**-**
Group	**27,077,379**	27,077,379	-	-	-	-	-	-
Other banks	**11,300,622**	11,300,622						
Retail	**87,225,115**	**15,392,189**	**71,832,926**	**-**	**71,832,926**	**-**	**71,832,926**	**-**
Retail mortgage	**25,580,324**	-	25,580,324	-	***25,580,324***	-	*25,580,324*	-
Other retail	**61,644,791**	15,392,189	46,252,602	-	***46,252,602***		*46,252,602*	-
Total	**275,445,825**	**130,986,967**	**144,458,858**	**-**	**144,458,858**	**-**	**144,458,858**	**-**
Less: Impairments for loans and advances	(14,173,333)							
Total exposures	**261,272,492**							

31 December 2018	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Collateral coverage - Total: Greater than 0% to 50%	Greater than 50% to 100%	Greater than 100%
Asset class								
Corporate	**80,118,936**	14,170,709	65,948,227	-	***65,948,227***	-	65,948,227	-
Sovereign	**72,276,765**	72,276,765	-	-	-	-	-	-
Loans and advances to banks	**28,381,759**	**28,381,759**	**-**	**-**	**-**	**-**	**-**	**-**
Group	**21,111,825**	21,111,825	-	-	-	-	-	-
Other banks	**7,269,934**	7,269,934						
Retail	**77,735,645**	**9,937,397**	**67,798,248**	**-**	**57,637,510**	**-**	**57,637,510**	**-**
Retail mortgage	**21,013,697**	-	21,013,697	-	***21,013,697***	-	*21,013,697*	-
Other retail	**56,721,948**	9,937,397	46,784,551	-	***36,623,813***	-	*36,623,813*	-
Total	**258,513,105**	**124,766,630**	**133,746,475**	**-**	**123,585,737**	**-**	**123,585,737**	**-**
Less: Impairments for loans and advances	**(11,267,987)**							
Total exposure	**247,245,118**							

The Group holds collateral on loans and advances. The table below represents the collateral cover held on various types of loans and advances. Other deposits and margin balances held against off balance sheet facilities are included in other liabilities on note 34(a).

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.5 Risk limit control and mitigation policies (continued)

e) Collateral (continued)

Foreclosed collateral

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

Nature of assets	2019 KShs' 000	2018 KShs' 000
Residential property	50,175	86,973
Other	262,120	294,908
	312,295	**381,881**

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

Renegotiated financial assets

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

	2019 KShs' 000	2018 KShs' 000
Personal and Business Banking		
Vehicle and asset finance	947,490	969,259
Other loans and advances	4,484,729	7,827,828
Corporate and Investment Banking		
Corporate lending	-	-
	5,432,219	**8,797,087**

4.3.6 Default and provisioning policy

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

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

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.6 Default and provisioning policy (continued)

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

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

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

4.3.7 Credit quality

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

Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 40. 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:

- 63% of the total maximum exposure is derived from loans and advances to customers (2018: 62%); 26% represents investments in debt securities (2018: 28%);

- 75% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2018: 86%);

- 88% of the loans and advances portfolio are considered to be neither past due nor impaired (2018: 89%); and

- 99% of all the debt securities, which the Group has invested in, are issued by the Central Bank of Kenya (2018: 99%).

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

b) Credit quality by class

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

Year ended 31 December 2019	Gross Carrying amount	SB 1 - 12		SB 13 - 20		SB 21- 25		Default		Total gross carrying amount of default exposures	Securities and expected recoveries on default exposures	Interest in suspense on default exposures	Balance sheet expected credit loss on default exposures	Gross default coverage	Non-performing exposures
		Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Purchased/ originated credit impaired						
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	%	%
Loans and advances to customers															
PBB	**87,225,131**	**-**	**-**	**59,547,466**	**-**	**-**	**21,824,538**	**5,853,127**	**-**	**5,853,127**	**2,652,815**	**815,975**	**3,041,169**		**7%**
Mortgage loans	**25,580,323**	-	-	16,225,648	-	-	7,510,948	1,843,727	-	1,843,727	1,001,934	293,266	526,836	38%	7%
Vehicle and asset finance	**15,145,671**	-	-	10,981,969	-	-	2,767,929	1,395,773	-	1,395,773	340,284	202,732	925,239	71%	9%
Card debtors	**652,544**	-	-	416,218	-	-	214,238	22,088	-	22,088	4,128	-	17,960	100%	3%
Other loans and advances	**45,846,593**	-	-	31,923,631	-	-	11,331,423	2,591,539	-	2,591,539	1,306,469	319,977	1,571,134	65%	6%
CIB	**79,762,475**	**10,438,409**	**-**	**44,684,044**	**10,277,287**	**58,474**	**812,589**	**13,491,672**	**-**	**13,491,672**	**6,521,264**	**2,414,230**	**4,717,239**	**45%**	**17%**
Corporate	**79,762,475**	10,438,409	-	44,684,044	10,277,287	58,474	812,589	13,491,672	-	13,491,672	6,521,264	2,414,230	4,717,239	45%	17%
	166,987,606	**10,438,409**	**-**	**104,231,510**	**10,277,287**	**58,474**	**22,637,127**	**19,344,799**	**-**	**19,344,799**	**9,174,079**	**3,230,205**	**7,758,408**	**49%**	**12%**
Loans and advances to banks															
Bank	**38,378,650**	**26,850,977**	**-**	**11,527,673**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**649**	0%	**0%**
Gross carrying amount	**205,366,256**	**37,289,386**	**-**	**115,759,183**	**10,277,287**	**58,474**	**22,637,127**	**19,344,799**	**-**	**19,344,799**	**9,174,079**	**3,230,205**	**7,759,057**	49%	**9%**
Less: Total expected credit losses for loans and advances	**(14,171,685)**														
Net carrying amount of loans & advances measured at amortised cost	**191,194,571**														

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

b) Credit quality by class (continued)

Year ended 31 December 2019	Gross Carrying amount KShs	SB 1 - 12 Stage 1 KShs	SB 1 - 12 Stage 2 KShs	SB 13 - 20 Stage 1 KShs	SB 13 - 20 Stage 2 KShs	SB 21- 25 Stage 1 KShs	SB 21- 25 Stage 2 KShs	Default Stage 3 KShs	Default Purchased/originated credit impaired KShs
Financial investments measured at amortised costs									
Corporate	**661,295**	661,295	-	-	-	-	-	-	-
Sovereign	**14,231,070**	14,231,070	-	-	-	-	-	-	-
Gross carrying amount	**14,892,365**								
Less: Total expected credit losses for loans and advances (Note 22.1)	**(2,297)**								
Net carrying amount of financial investments measured at amortised costs	**14,890,068**								
Financial investments at fair value through OCI									
Corporate	**-**	-	-	-	-	-	-	-	-
Sovereign	**21,030,546**	21,030,546	-	-	-	-	-	-	-
Gross carrying amount	**21,030,546**								
Add: Fair value reserve relating to fair value adjustments (before the ECL balance) (Note 21.1)	**(2,304)**								
Net carrying amount of financial investments measured at fair value through OCI	**21,028,242**								

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

b) Credit quality by class (continued)

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

Year ended 31 December 2018	Gross Carrying amount	SB 1 - 12		SB 13 - 20		SB 21- 25		Default		Total gross carrying amount of default exposures	Securities and expected recoveries on default exposures	Interest in suspense on default exposures	Balance sheet expected credit loss on default exposures	Gross default coverage	Non-performing exposures
		Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Purchased/originated credit impaired						
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	%	%
Loans and advances to customers															
PBB	76,393,937	-	-	51,536,603	-	-	20,073,035	4,784,299	-	4,784,299	1,560,942	638,133	2,585,224		**7%**
Mortgage loans	21,024,032	-	-	16,648,603	-	-	2,821,584	1,553,845	-	1,553,845	705,639	240,304	607,902	47%	8%
Vehicle and asset finance	14,394,242	-	-	9,829,299	-	-	3,328,484	1,236,459	-	1,236,459	202,880	129,533	904,046	76%	9%
Card debtors	610,492	-	-	-	-	-	610,492	-	-	-	(18,077)	-	18,077	100%	0%
Other loans and advances	40,365,171	-	-	25,058,701	-	-	13,312,475	1,993,995	-	1,993,995	670,500	268,296	1,055,199	59%	6%
CIB	81,460,640	7,860,447	-	58,455,721	2,677,549	204,453	362,801	11,899,669	-	11,899,669	4,502,664	1,823,815	5,573,191		
Corporate	81,460,640	7,860,447	-	58,455,721	2,677,549	204,453	362,801	11,899,669	-	11,899,669	4,502,664	1,823,815	5,573,191	54%	16%
	157,854,577	7,860,447	-	109,992,324	2,677,549	204,453	20,435,836	16,683,968	-	16,683,968	6,063,606	2,461,948	8,158,415		
Loans and advances to banks															
Bank	28,381,176	27,642,232	-	738,944	-	-	-	-	-	-	-	-	583	0%	**0%**
Gross carrying amount	186,235,753	35,502,679	-	110,731,268	2,677,549	204,453	20,435,836	16,683,968	-	16,683,968	6,063,606	2,461,948	8,158,998	55%	**10%**
Less: Total expected credit losses for loans and advances	(11,251,043)														
Net carrying amount of loans & advances measured at amortised cost	174,984,710														

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

b) Credit quality by class (continued)

Year ended 31 December 2018	Gross Carrying amount	SB 1 - 12		SB 13 - 20		SB 21- 25		Default	
		Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Purchased/originated credit impaired
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Financial investments measured at amortised costs									
Corporate	**708,677**	662,092	-	-	46,585	-	-	-	-
Sovereign	**22,509,806**	17,386,449	-	5,123,357	-	-	-	-	-
Gross carrying amount	**23,218,483**								
Less: Total expected credit losses for loans and advances	**(17,527)**								
Net carrying amount of financial investments measured at amortised costs	**23,200,956**								

Financial investments at fair value through OCI									
Corporate	**5,900**	5,900	-	-	-	-	-	-	-
Sovereign	**17,853,279**	17,853,279	-	-	-	-	-	-	-
Gross carrying amount	**17,859,179**								
Add: Fair value reserve ralating to fair value adjustments (before the ECL balance)	**(1,762)**								
Net carrying amount of financial investments measured at fair value through OCI	**17,857,417**								

Notes (continued)

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.7 Credit quality (continued)

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

Loans and advances less than 90 days past due are not considered 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
	1 to 29 days	30 to 59 days	60 to 89 days	90 to 180 days	More than 180 days	
31 December 2019	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Personal and Business Banking	**7,533,081**	**2,799,640**	**8,538,303**	**-**	**-**	**18,871,024**
Mortgage lending	1,626,465	748,313	302,675	-	-	***2,677,453***
Vehicle and asset finance	1,867,141	997,901	240,745	-	-	***3,105,787***
Other loans and advances	4,039,475	1,053,426	7,994,883	-	-	***13,087,784***
Corporate and Investment Banking	**1,753,202**	**197,506**	**271**	**-**	**-**	**1,950,979**
Corporate lending	1,753,202	197,506	271	-	-	**1,950,979**
Total recognised financial instruments	**9,286,283**	**2,997,146**	**8,538,574**	**-**	**-**	**20,822,003**
31 December 2018						
Personal and Business Banking	**13,459,417**	**3,148,911**	**1,818,619**	**-**	**-**	**18,426,947**
Mortgage lending	2,177,993	757,608	376,744	-	-	**3,312,345**
Vehicle and asset finance	2,101,589	785,140	168,876	-	-	**3,055,605**
Other loans and advances	9,179,835	1,606,163	1,272,999	-	-	**12,058,997**
Corporate and Investment Banking	**13,603,508**	**126,475**	**341,260**	**-**	**-**	**14,071,243**
Corporate lending	13,603,508	126,475	341,260	-	-	***14,071,243***
Total recognised financial instruments	**27,062,925**	**3,275,386**	**2,159,879**	**-**	**-**	**32,498,190**

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk

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

4.4.1 Governance committees

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

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

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

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

ii) Measurement of market risk

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

iii) Management of market risk

The 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, Internal Capital Adequacy Assessment Process (ICAAP) stakeholders, Shareholders (Annual financial statements); Rating agencies; Central Bank of Kenya and other regulators.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.2 Market risk exposure on banking operations

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

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

4.4.3 Approved regulatory capital approaches

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

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

4.4.4 Trading book market risk

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

4.4.5 Approach to managing market risk in the trading book

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

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

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

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

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

a) VaR and SVaR

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

For risk management purposes VaR is based on 250 days of unweighted recent historical data, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in 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 use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.
- The use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully.
- The use of a 95% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intraday exposures.
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

b) Stop-loss triggers

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

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

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

c) Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical and hypothetical simulations. Daily losses experienced during the year ended 31 December 2019 did not exceed the maximum tolerable losses as represented by the Group's stress scenario limits.

d) Back-testing

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

e) Specific business unit and product controls

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

4.4.6 Foreign exchange risk

Definition

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

Approach to managing foreign currency risk

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

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.6 Foreign exchange risk (continued)

Approach to managing foreign currency risk (continued)

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

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

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

The table below summarises the Group's exposure to foreign exchange risk at 31 December 2019.

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

At 31 December 2019	USD	GBP	EUR	Others	Total
Assets					
Cash and bank balances with banks abroad	18,831	1,089	435	1,815	**22,170**
Loans and advances	62,073	850	3,812	19	**66,754**
Balances due from group companies	21,939	-	-	564	**22,503**
Other foreign currency assets	3,177	98	274	326	**3,875**
Total foreign 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**
Loans and advances	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)**

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.6 Foreign exchange risk (continued)

At 31 December 2018	USD	GBP	Euro	Others	Total
Assets					
Cash and bank balances with banks abroad	18,930	851	1,003	1,639	**22,423**
Loans and advances	62,795	740	3,266	13	**66,814**
Investment in Government Securities	5,177	-	-	664	**5,841**
Balances due from Group Companies	20,048	3	-	950	**21,001**
Other foreign currency assets	2,326	-	295	588	**3,209**
Total foreign currency denominated financial assets	**109,276**	**1,594**	**4,564**	**3,854**	**119,288**
Liabilities					
Amounts due to banking institutions abroad	23,476	10	531	707	**24,724**
Deposits	70,116	9,422	5,865	1,446	**86,849**
Loans and advances	3,344	-	-	-	**3,344**
Balances due to Group Companies	13,157	-	220	-	**13,377**
Other foreign currency liabilities	4,534	3	3,596	1,126	**9,259**
Total foreign currency denominated financial liabilities	**114,627**	**9,435**	**10,212**	**3,279**	**137,553**
Net on balance sheet financial position	**(5,351)**	**(7,841)**	**(5,648)**	**575**	**(18,265)**
Off balance sheet net notional position	6,351	7,858	5,862	1,073	**21,144**
Overall net position	**1,000**	**17**	**214**	**1,648**	**2,879**

The table below 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. The table shows the sensitivity analysis for each currency to which the Group has significant exposure and the effect of the change in exchange rate on income statement.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.6 Foreign exchange risk (continued)

Year ended 31 December 2019 Currency	Increase in currency 2019	Effect on profit before tax 2019 KShs'000	Effect on equity 2019 KShs'000	Decrease in currency rate in % 2019	Effect on profit before tax 2019 KShs'000	Effect on equity 2019 KShs'000
USD	**0.98%**	(12,621)	(8,834)	**1.04%**	(13,398)	9,378
GBP	**4.01%**	2,270	1,589	**3.63%**	2,052	(1,437)
EUR	**1.92%**	12,322	8,626	**2.20%**	14,119	(9,884)

Year ended 31 December 2018 Currency	Increase in currency 2018	Effect on profit before tax 2018 KShs'000	Effect on equity 2018 KShs'000	Decrease in currency rate in % 2018	Effect on profit before tax 2018 KShs'000	Effect on equity 2018 KShs'000
USD	**0.92%**	9,225	6,457	**1.09%**	10,929	7,650
GBP	**2.70%**	606	424	**2.34%**	525	367
EUR	**2.19%**	5,407	3,785	**2.01%**	4,963	3,474

4.4.7 Interest rate risk

Interest rate risk in the banking book (IRRBB)

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

IRRBB is further divided into the following sub risk types:

- **Repricing risk:** timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and

- **Yield curve risk**: shifts in the yield curves that have adverse effects on the Group's income or underlying

- **Basis risk:** hedge price not moving in line with the price of the hedged position. Examples include bonds/swap basis, futures/ underlying basis.

- **Optionality risk:** options embedded in Group asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial 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.

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

Approach to managing IRRBB

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

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

Measurement

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

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

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

Limits

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

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

Hedging of endowment risk

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

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

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

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

Notes (continued)

4 Financial risk management (continued)

4.4 Market risk (continued)

4.4.7 Interest rate risk (continued)

Hedging of endowment risk (continued)

Currency	Increase in basis points 2019 KShs'000	Sensitivity of net interest income 2019 KShs'000	Sensitivity of other comprehensive income 2019 KShs'000	Decrease in basis points 2019 KShs'000	Sensitivity of net interest income 2019 KShs'000	Sensitivity of other comprehensive income 2019 KShs'000
KShs	200	694,184	285,855	(200)	(677,205)	(228,684)
Others*	100	(98,089)	-	(100)	80,528	-
Currency	**Increase in basis points 2018 KShs'000**	**Sensitivity of net interest income 2018 KShs'000**	**Sensitivity of other comprehensive income 2018 KShs'000**	**Decrease in basis points 2018 KShs'000**	**Sensitivity of net interest income 2018 KShs'000**	**Sensitivity of other comprehensive income 2018 KShs'000**
KShs	250	815,205	(22,084)	200	(542,511)	17,668
Others*	100	3,250	-	100	(33,954)	-

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

4.5 Liquidity risk

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

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

The Bank's liquidity risk management framework differentiates between:

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

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

- **Structural (long-term) liquidity risk management:** ensuring a structurally sound statement of financial position, a diversified funding base and prudent term funding requirements.
- 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.

Governance committees

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

Approach to managing liquidity risk

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

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

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

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

b) *Foreign currency liquidity management;*

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

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

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

d) *Preserving a diversified funding base;*

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

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

e) Undertaking regular liquidity stress testing;

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

f) Maintaining adequate liquidity contingency plans or liquidity buffer;

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

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

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

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

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

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

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

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

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

Exposure to liquidity risk

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

	2019 %	2018 %
At 31 December	**58.4**	57.9
Average for the year	**54.1**	58.0
Maximum for the year	**59.1**	65.8
Minimum for the year	**44.6**	58.0
Statutory minimum requirement	**20.0**	20.0

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

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

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities - GROUP

	Carrying value	Gross nominal inflow/(outflow)	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing After 5 years
	2019	2019	2019	2019	2019	2019	2019	2019
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Non- derivative financial assets								
Cash and balances to banks	**17,251,087**	**17,251,087**	17,251,087	-	-	-	-	-
Financial assets held for trading	**34,159,611**	**25,099,585**	-	4,000,396	19,106,279	1,970,795	22,115	-
Financial assets at FVOCI	**21,028,242**	**16,670,539**	-	7,780	578,753	838,391	8,793,457	6,452,158
Financial assets at amortised cost	**14,890,068**	**32,416,353**	-	-	4,528,248	4,460,873	10,217,791	13,209,441
Loans and advances to banks	**38,378,001**	**44,596,191**	-	40,034,388	266,615	215,865	4,079,323	-
Loans and advances to customers	**152,816,570**	**176,070,602**	21,785,212	3,149,160	16,398,345	18,894,961	115,842,924	-
Other assets	**4,911,019**	**4,911,019**	3,291,879	-	-	-	-	-
	283,434,598	**317,015,376**	**42,328,178**	**47,191,724**	**40,878,240**	**26,380,885**	**138,955,610**	**19,661,599**
Derivative assets:	**1,611,661**							
- Inflows		(490,620)	-	(39,016)	(219,997)	(137,397)	(94,210)	-
- Outflows		2,215,298	-	167,428	527,514	247,515	762,123	510,718
	1,611,661	**1,724,678**	**-**	**128,412**	**307,517**	**110,118**	**667,913**	**510,718**
Non- derivative financial liabilities								
Amounts due to other banks	**(30,450,594)**	**(29,064,646)**	-	(4,706,848)	(6,355,078)	(5,491,292)	(9,156,679)	(3,354,749)
Customer deposits	**(194,222,319)**	**(187,513,026)**	(170,706,851)	(6,294,944)	(5,610,838)	(4,138,015)	(762,378)	-
Financial liabilities – Held for trading	**(1,486,826)**	**(1,401,393)**	-	(136,252)	(479,054)	(786,087)	-	-
Borrowings	**(9,127,015)**	**(8,982,749)**	-	(60,970)	(288,026)	(307,067)	(5,035,081)	(3,291,605)
Other liabilities	**(14,866,471)**	**(14,866,471)**	(12,608,465)	-	-	-	-	-
	(250,153,225)	**(241,828,285)**	**(183,315,316)**	**(11,199,014)**	**(12,732,996)**	**(10,722,461)**	**(14,954,138)**	**(6,646,354)**
Derivative liabilities:	**(2,756,760)**							
- Inflows		373,803	-	15,916	67,264	96,152	152,506	41,965
- Outflows		(2,486,121)	-	(170,592)	(705,316)	(629,985)	(561,514)	(418,714)
	(2,756,760)	**(2,112,318)**	**-**	**(154,676)**	**(638,052)**	**(533,833)**	**(409,008)**	**(376,749)**

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

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

	Carrying value	Gross nominal inflow/(outflow)	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing After 5 years
	2018	2018	2018	2018	2018	2018	2018	2018
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Non- derivative financial assets								
Cash and balances to banks	**22,061,875**	22,061,875	22,061,875	-	-	-	-	-
Financial investments – FVTPL	**31,202,035**	33,052,574	-	12,500	23,628,540	7,731,995	444,219	1,235,320
Financial investments – (FVOCI)	**17,857,417**	18,461,685	-	1,500,000	12,281,337	4,035,337	645,011	-
Financial investments – (amortised cost)	**23,200,956**	32,416,353	-	-	4,528,248	4,460,873	10,217,791	13,209,441
Loans and advances to banks	**28,380,593**	28,399,896	7,269,352	21,130,544	-	-	-	-
Loans and advances to customers	**146,604,117**	175,384,482	23,153,478	2,719,829	14,209,634	16,318,971	101,079,327	17,903,243
Other assets	**3,231,042**	3,231,042	3,231,042	-	-	-	-	-
	272,538,035	**313,007,907**	**55,715,747**	**25,362,873**	**54,647,759**	**32,547,176**	**112,386,348**	**32,348,004**
Derivative assets:	**1,515,466**							
- Inflows	-	(490,620)	-	(39,016)	(219,997)	(137,397)	(94,210)	-
- Outflows	-	2,215,298	-	167,428	527,514	247,515	762,123	510,718
	1,515,466	**1,724,678**	**-**	**128,412**	**307,517**	**110,118**	**667,913**	**510,718**
Non- derivative financial liabilities								
Amounts due to other banks	**(27,909,239)**	(30,313,729)	-	(903,228)	(4,516,140)	(5,419,368)	(19,474,993)	-
Customer deposits	**(191,584,675)**	(192,660,301)	(175,854,126)	(6,294,944)	(5,610,838)	(4,138,015)	(762,378)	-
Trading liabilities	**(10,040,568)**	(10,287,578)	-	(1,699,825)	(7,747,142)	(840,611)	-	-
Borrowings	**(7,064,013)**	(8,982,749)	-	(60,970)	(288,026)	(307,067)	(5,035,081)	(3,291,605)
Other liabilities	**(6,564,774)**	(6,564,774)	(6,564,774)	-	-	-	-	-
	(243,163,269)	**(248,809,131)**	**(182,418,900)**	**(8,958,967)**	**(18,162,146)**	**(10,705,061)**	**(25,272,452)**	**(3,291,605)**
Derivative liabilities:	**(1,881,658)**							
- Inflows	-	373,803	-	15,916	67,264	96,152	152,506	41,965
- Outflows	-	(2,486,121)	-	(170,592)	(705,316)	(629,985)	(561,514)	(418,714)
	(1,881,658)	**(2,112,318)**	**-**	**(154,676)**	**(638,052)**	**(533,833)**	**(409,008)**	**(376,749)**

Notes (continued)

4 Financial risk management (continued)

4.5 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities (continued)

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

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

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

The table below analyses the Company’s non-derivative financial assets and liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet 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 balances, as the impact of discounting is not significant.

COMPANY

	0-3 MONTHS
At 31 December 2019	**KShs'000**
Cash and balances to banks	136,851
Other liabilities	(130,010)
	6,841
At 31 December 2018	
Cash and balances to banks	130,867
Other liabilities	(109,553)
	21,314

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

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

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

Notes (continued)

4 Financial risk management (continued)

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

As at 31 December 2019, the Bank had cash margins of KShs 1,517,139,000 (2018: KShs 1,331,651,000) held as collateral against loans and advances to customers. Therefore, the credit facilities secured by cash margins can be settled at net.

The ISDA* and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the bank or the counterparties following other predetermined events. In addition the Group and its counterparties do not intent 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 Banks Act requirements.
Deposits and current accounts	Banking Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banks Act requirements.

IAS 32 Financial Instruments: Presentation (IAS 32) requires financial assets and financial liabilities to be offset and the net amount presented in the statement of financial position when, and only when, the 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 Operating Segments

The Group is organised into two business units – Corporate and Investment Banking (CIB), Personal and Business Banking (PBB). The results of the business units are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance.

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.

Notes (continued)

5 Operating Segments (continued)

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

Management has determined the operating segments based on the reports reviewed by the Group's Chief Executive (CE) with the assistance of the Group's Executive Committee (EXCO) and the Asset and Liability Committee (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:

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

Corporate and Investment Banking (CIB)

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

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

The Group does not have any one major customer that contributes more than 10% of the Group's revenues. However, the Group has one major customer whose deposits contribute 10.7% of total deposits as at December 2019 (2018: 10.7%). The interest expense paid to this customer is reported under the Corporate and Investment Banking segment.

Notes (continued)

5 Segment information (continued)

5 (a) Results by business units

Income statement	Total 2019 KShs'000	Total 2018 KShs'000	CIB 2019 KShs'000	CIB 2018 KShs'000	PBB 2019 KShs'000	PBB 2018 KShs'000
Interest income	20,960,926	19,247,721	11,617,708	11,322,422	9,343,218	7,925,299
Interest expense	(7,613,186)	(7,118,076)	(5,185,038)	(4,910,442)	(2,428,148)	(2,207,634)
Net interest income	**13,347,740**	**12,129,645**	**6,432,670**	**6,411,980**	**6,915,070**	**5,717,665**
Credit impairment losses	(3,150,559)	(2,064,462)	(1,575,258)	(809,143)	(1,575,301)	(1,255,319)
Net income after credit impairment losses	**10,197,181**	**10,065,183**	**4,857,412**	**5,602,837**	**5,339,769**	**4,462,346**
Fees and commission revenue	5,652,635	4,997,605	2,661,619	2,244,668	2,991,016	2,752,937
Fees and commission expense	(545,202)	(442,225)	(190,211)	(125,035)	(354,991)	(317,190)
Net fees and commission income	**5,107,433**	**4,555,380**	**2,471,408**	**2,119,633**	**2,636,025**	**2,435,747**
Trading revenue	5,386,939	5,350,670	5,386,939	5,350,670	-	-
Net income from financial instruments at fair value through profit and loss	172,942	40,938	172,942	40,938	-	-
Other income	48,760	26,288	48,760	21,382	-	4,906
Other gains and losses on financial instruments	716,999	891	709,093	891	7,906	-
Net trading and other income	**6,325,640**	**5,418,787**	**6,317,734**	**5,413,881**	**7,906**	**4,906**
Total income	**21,630,254**	**20,039,350**	**13,646,554**	**13,136,351**	**7,983,700**	**6,902,999**
Employee benefits expense	(6,633,135)	(5,840,859)	(2,875,792)	(2,443,280)	(3,757,343)	(3,397,579)
Depreciation and amortisation expense	(704,364)	(667,536)	(245,936)	(261,711)	(458,428)	(405,825)
Depreciation on right-of use assets	(357,470)	-	(60,485)	-	(296,985)	-
Other operating expenses	(6,076,275)	(4,486,990)	(3,716,706)	(2,313,094)	(2,359,569)	(2,173,896)
Finance costs	(149,246)	(96,208)	(57,655)	(94,745)	(91,591)	(1,463)
Profit before income tax	**7,709,764**	**8,947,757**	**6,689,980**	**8,023,521**	**1,019,784**	**924,236**
Income tax expense	(1,329,148)	(2,670,591)	(1,357,702)	(2,354,547)	28,554	(316,044)
Profit for the year	**6,380,616**	**6,277,166**	**5,332,278**	**5,668,974**	**1,048,338**	**608,192**

Notes (continued)

5 Segment information (continued)

5 (a) Results by business units (continued)

Statement of financial position	Total 2019 KShs'000	Total 2018 KShs'000	CIB 2019 KShs'000	CIB 2018 KShs'000	PBB 2019 KShs'000	PBB 2018 KShs'000
Assets						
Cash and balances with Central Bank of Kenya	17,251,087	22,061,875	11,978,572	15,754,092	5,272,515	6,307,783
Financial investments	70,077,921	72,260,408	70,077,921	72,260,408	-	-
Derivative assets	1,611,661	1,515,466	1,611,661	1,515,466	-	-
Loans and advances to banks	38,378,001	28,380,593	37,720,224	27,778,160	657,777	602,433
Loans and advances to customers	152,816,570	146,604,117	70,858,522	75,017,036	81,958,048	71,587,081
Other assets and prepayments	4,911,019	3,727,559	2,326,373	370,601	2,584,646	3,356,958
Investment in subsidiaries and other investments	17,500	17,500	17,500	17,500	-	-
Property, equipment and other intangible assets	3,371,044	3,485,095	1,320,231	1,336,268	2,050,813	2,148,827
Intangible assets - goodwill	9,349,759	9,349,759	8,882,271	8,882,271	467,488	467,488
Right-of-use assets (buildings)	1,315,356	-	570,875	-	744,481	-
Current tax asset	-	-	-	-	-	-
Deferred tax asset	4,397,153	3,167,882	2,952,715	2,179,472	1,444,438	988,410
Asset classified as held-for-sale	127,521	-	127,521	-	-	-
Total assets	**303,624,592**	**290,570,254**	**208,444,386**	**205,111,274**	**95,180,206**	**85,458,980**
Liabilities						
Deposits from customers	194,222,319	191,584,675	93,981,420	101,263,763	100,240,899	90,320,912
Deposits from banks	30,450,594	27,909,239	30,450,594	27,909,239	-	-
Lease liabilities	1,370,953	-	620,607	-	750,346	-
Current tax liability	397,781	1,039,984	373,735	742,739	24,046	297,245
Deferred tax liability	25,273	-	6,742	-	18,531	-
Derivative liabilities	2,756,760	1,881,658	2,756,760	1,868,003	-	13,655
Financial liabilities – FVTPL	1,486,826	10,040,568	1,486,826	10,040,568	-	-
Other liabilities and accrued expenses	14,725,225	6,426,697	9,654,075	3,661,863	5,071,150	2,764,834
Borrowings	9,127,015	7,064,013	5,339,828	1,737,539	3,787,187	5,326,474
Liabilities directly associated with assets classified as held-for-sale	27,081	-	27,081	-	-	-
Total liabilities	**254,589,827**	**245,946,834**	**144,697,668**	**147,223,714**	**109,892,159**	**98,723,120**
Shareholders' equity	**49,034,765**	**44,623,420**	**32,780,750**	**29,512,853**	**16,254,015**	**15,110,568**
Funding	**-**	**-**	**30,965,968**	**28,374,708**	**(30,965,968)**	**(28,374,708)**
Total equity and liabilities	**303,624,592**	**290,570,254**	**208,444,386**	**205,111,274**	**95,180,206**	**85,458,980**

Notes (continued)

5 Segment information (continued)

5 (b) Results by geographical area

Income statement	Total 2019 KShs'000	Total 2018 KShs'000	Kenya 2019 KShs'000	Kenya 2018 KShs'000	South Sudan 2019 KShs'000	South Sudan 2018 KShs'000
Interest income	20,960,926	19,247,721	20,957,302	19,246,098	3,624	1,623
Interest expense	(7,613,186)	(7,118,076)	(7,597,158)	(7,111,291)	(16,028)	(6,785)
Net interest income	**13,347,740**	**12,129,645**	**13,360,144**	**12,134,807**	**(12,404)**	**(5,162)**
Credit impairment losses	(3,150,559)	(2,064,462)	(3,145,537)	(2,113,139)	(5,022)	48,677
Net income after credit impairment losses	**10,197,181**	**10,065,183**	**10,214,607**	**10,021,668**	**(17,426)**	**43,515**
Fees and commission revenue	5,652,635	4,997,605	4,882,066	4,306,231	770,569	691,374
Fees and commission expense	(545,202)	(442,225)	(542,164)	(438,547)	(3,038)	(3,678)
Net fees and commission income	**5,107,433**	**4,555,380**	**4,339,902**	**3,867,684**	**767,531**	**687,696**
Trading revenue	5,386,939	5,350,670	5,025,433	4,909,965	361,506	440,705
Net income from financial instruments at fair value through profit and loss	172,942	40,938	172,925	40,938	17	-
Other income	48,760	16,841	34,824	16,841	13,936	-
Other gains and losses on financial instruments	716,999	891	716,999	891	-	-
Net trading and other income	**6,325,640**	**5,409,340**	**5,950,181**	**4,968,635**	**375,459**	**440,705**
Total income	**21,630,254**	**20,029,903**	**20,504,690**	**18,857,987**	**1,125,564**	**1,171,916**
Employee benefits expense	(6,633,135)	(5,894,324)	(6,285,130)	(5,582,175)	(348,005)	(312,149)
Depreciation and amortisation expense	(704,364)	(667,536)	(699,326)	(663,280)	(5,038)	(4,256)
Depreciation on right-of use assets	(357,470)	-	(315,822)	-	(41,648)	-
Other operating expenses	(6,076,275)	(4,424,078)	(5,711,913)	(4,070,895)	(364,362)	(353,183)
Finance costs	(149,246)	(96,208)	(35,442)	(56,785)	(113,804)	(39,423)
Profit before income tax	**7,709,764**	**8,947,757**	**7,457,057**	**8,484,852**	**252,707**	**462,905**
Income tax expense	(1,329,148)	(2,670,591)	(1,241,764)	(2,604,689)	(87,384)	(65,902)
Profit for the year	**6,380,616**	**6,277,166**	**6,215,293**	**5,880,163**	**165,323**	**397,003**

Notes (continued)

5 Segment information (continued)

5 (b) Results by geographical area (continued)

Statement of financial position	Total 2019 KShs'000	Total 2018 KShs'000	Kenya 2019 KShs'000	Kenya 2018 KShs'000	South Sudan 2019 KShs'000	South Sudan 2018 KShs'000
Assets						
Cash and balances with Central Bank of Kenya	17,251,087	22,061,875	15,797,542	20,062,020	1,453,545	1,999,855
Financial investments – FVTPL	-	-	-	-	-	-
Financial investments	70,077,921	72,260,408	70,077,921	72,260,408	-	-
Derivative assets	1,611,661	1,515,466	1,611,661	1,515,466	-	-
Loans and advances to banks	38,378,001	28,380,593	24,578,842	15,056,486	13,799,159	13,324,107
Loans and advances to customers	152,816,570	146,604,117	152,802,134	146,591,893	14,436	12,224
Other assets and prepayments	4,911,019	3,727,559	6,775,144	3,680,786	(1,864,125)	46,773
Investment in subsidiaries and other investments	17,500	17,500	17,500	17,500	-	-
Property, equipment and other intangible assets	3,371,044	3,485,095	3,240,317	3,404,498	130,727	80,597
Intangible assets - goodwill	9,349,759	9,349,759	9,349,759	9,349,759	-	-
Right-of-use assets (buildings)	1,315,356	-	945,639	-	369,717	-
Current tax asset	-	-	-	-	-	-
Deferred tax asset	4,397,153	3,167,882	4,409,000	3,158,662	(11,847)	9,220
Asset classified as held-for-sale	127,521	-	127,521	-	-	-
Total assets	**303,624,592**	**290,570,254**	**289,732,980**	**275,097,478**	**13,891,612**	**15,472,776**
Liabilities						
Deposits from customers	194,222,319	191,584,675	184,724,430	180,953,083	9,497,889	10,631,592
Deposits from banks	30,450,594	27,909,239	28,757,048	26,822,398	1,693,546	1,086,841
Lease liabilities	1,370,953	-	988,482	-	382,471	-
Deferred tax liability	25,273	-	25,273	-	-	-
Current tax liability	397,781	1,039,983	388,483	975,595	9,298	64,388
Financial liabilities – FVTPL	1,486,826	10,040,568	1,486,826	10,040,568	-	-
Derivative liabilities	2,756,760	1,881,658	2,756,760	1,881,658	-	-
Borrowings	9,127,015	7,064,013	9,127,015	7,064,013	-	-
Other liabilities and accrued expenses	14,725,225	6,426,698	13,408,922	3,649,540	1,316,303	2,777,158
Liabilities directly associated with assets classified as held-for-sale	27,081	-	27,081	-	-	-
Total liabilities	**254,589,827**	**245,946,834**	**241,690,320**	**231,386,855**	**12,899,507**	**14,559,979**
Shareholders' equity	**49,034,765**	**44,623,420**	**48,042,660**	**43,710,623**	**992,105**	**912,797**
Total equity and liabilities	**303,624,592**	**290,570,254**	**289,732,980**	**275,097,478**	**13,891,612**	**15,472,776**

Notes (continued)

5 Segment information (continued)

5 (b) Results by geographical area (continued)

Reconciliation of reportable assets and liabilities

	GROUP	
	2019	**2018**
	KShs'000	**KShs'000**
Assets		
Total assets for reportable segments	303,624,592	305,410,533
Elimination of inter-branch balances with South Sudan	-	(14,840,279)
Entity's assets	**303,624,592**	**290,570,254**
Liabilities		
Total liabilities and equities for reportable segments	303,624,592	305,410,533
Elimination of inter-branch balances with South Sudan	1	(14,840,279)
Entity's liabilities and equities	**303,624,593**	**290,570,254**

6 Interest income

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Loans and advances to customers	16,305,930	14,589,388	-	-
Financial assets – (FVOCI)	1,947,256	2,362,958	-	-
Financial investments – (amortised cost)	2,146,283	1,982,526	-	-
Placements and other bank balances	561,457	312,849	1,579	16,214
	20,960,926	**19,247,721**	**1,579**	**16,214**

7 Interest expense

Current accounts	1,439,624	1,222,518	-	-
Savings and term deposit accounts	3,803,446	3,277,462	-	-
Deposits and placements from other banks	1,396,315	1,935,371	-	-
Interest on borrowed funds	848,549	682,725	-	-
Interest expense on lease liabilities	125,252	-	-	-
	7,613,186	**7,118,076**	**-**	**-**
Net interest income	**13,347,740**	**12,129,645**	**1,579**	**16,214**

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

Notes (continued)

8 Fees and commission revenue	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Account transaction fees	1,673,586	1,499,767	-	-
Knowledge based fees and commission	1,705,569	1,309,297	-	-
Electronic banking fees	644,985	545,982	-	-
Foreign service fees	403,448	540,178	-	-
Documentation and administration fees	346,969	286,904	-	-
Brokerage commission	318,333	270,812	-	-
Other	559,745	544,665	-	-
	5,652,635	**4,997,605**	**-**	**-**

9 Fees and commission expense	GROUP 2019	GROUP 2018	COMPANY 2019	COMPANY 2018
Card based commission	199,545	165,407	-	-
Knowledge based fees and commission	122,035	90,199	-	-
Other bank - related fees and commission	223,550	186,619	-	-
Card based commission expense	72	-	-	-
	545,202	**442,225**	**-**	**-**

Other bank related fees and commission relates to card courier fees.

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 288,001,164 (2018: KShs 305,885,000).

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

10 Trading revenue	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Net foreign exchange income	5,386,939	5,350,670	-	-

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

Fixed Income-financial assets-(FVTPL/ Held for trading)	172,942	40,938	-	-

11 (b) Other gains and losses on financial instruments

Net gain on disposal of financial assets - FVTPL	716,999	-	-	-
Net gain on disposal of financial assets - FVOCI	-	891	-	-
	716,999	891	-	-

Notes (continued)

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
12 Other income	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Gain on disposal of property and equipment	-	2	-	-
Dividend income	-	95	1,924,000	2,500,016
Other income	48,760	16,745	-	-
	48,760	**16,842**	**1,924,000**	**2,500,016**

13 Employee benefits expense

Salaries and wages	5,296,314	5,491,091	-	-
Retirement benefit costs	424,913	403,233	-	-
Voluntary early retirement costs	911,908	-	-	-
	6,633,135	**5,894,324**	**-**	**-**
Included in retirement benefit costs are;				
Defined contribution scheme	422,249	400,310	-	-
National Social Security Fund	2,664	2,923	-	-
	424,913	**403,233**	**-**	**-**

Average staff numbers for the year;

Management	341	353	-	-
Supervisory	442	485	-	-
Clerical	214	234	-	-
Other categories	27	40	-	-
Total	1,024	1,112	-	-

14 Breakdown of expenses by nature		GROUP		COMPANY	
		2019	**2018**	**2019**	**2018**
	Notes	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Profit before tax has been arrived at after charging-;					
Employees benefit	13	6,633,135	5,894,324	-	-
Audit fees		38,200	39,387	2,801	2,278
Directors' fees		51,489	44,754	8,230	9,085
Depreciation of property and equipment	26	444,990	414,148	-	-
Depreciation on right-of use assets	30	357,470	-	-	-
Amortisation of right-of-use leasehold land	27	2,953	2,953	-	-
Amortisation of intangible assets	28	256,425	250,435	-	-
Franchise fees	42 (j)	733,929	-	-	-
Information technology	42 (j)	199,444	-	-	-
Advance Payment Guarantee Claim		1,505,422	-	-	-

Notes (continued)

		GROUP		COMPANY	
		2019	**2018**	**2019**	**2018**
15 Finance costs	**Notes**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Bank charges		92,318	86,792	738	860
Loss in monetary value		56,928	9,416	-	-
		149,246	**96,208**	**738**	**860**
16 Income tax expense					
Current income tax		2,540,724	2,728,485	517	4,773
Current year charge	37	2,540,724	2,973,709	517	4,773
Previous year current income tax over provision		-	(245,224)	-	-
Deferred income tax		(1,211,576)	(57,894)	38	165
Current year charge asset (credit)/debit	38 (a)	(1,236,718)	(664,388)	38	165
Previous year deferred income tax under provision	38 (a)	(131)	606,494	-	-
Current year charge liability (credit)/ debit	38 (b)	25,273	-	-	-
Income tax expense for the year		**1,329,148**	**2,670,591**	**555**	**4,938**

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:

	2019	2018	2019	2018
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Profit before income tax	**7,709,764**	**8,947,757**	**1,903,072**	**2,488,504**
Tax at statutory tax rate of 30% (2018: 30%)	2,312,929	2,684,327	570,922	746,551
Tax effect of:				
Income not subjected to tax	(789,797)	(594,089)	(577,200)	(750,005)
Expenses not deductible for tax purposes	299,428	154,495	6,833	8,392
Previous year's current tax over provision	(630,478)	(245,224)	-	-
Previous year's deferred income tax under provision	-	606,494	-	-
Effect of tax paid in other jurisdictions	(2,232)	64,588	-	-
Income tax expense	**1,189,850**	**2,670,591**	**555**	**4,938**

17 Earnings per share

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

Notes (continued)

17 Earnings per share (continued)

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Earnings (Profit after tax)				
Earnings for the purposes of basic earnings per share (KShs' 000)	6,380,616	6,277,166	1,902,517	2,483,566
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	395,322	395,322	395,322	395,322
Earnings per share (KShs) basic and diluted	**16.14**	**15.88**	**4.81**	**6.28**

There were no potentially dilutive shares as at 31 December 2019 or 31 December 2018. Therefore, diluted earnings per share are the same as basic earnings per share.

18 Dividend

	GROUP AND COMPANY	
	2019	**2018**
The calculation of dividends per share is based on:		
Dividends for the year attributable to ordinary shareholders:		
Interim dividend paid (KShs ‘000)	494,152	889,475
Final dividend proposed (KShs ‘000)	2,292,869	1,403,392
	2,787,021	**2,292,867**
Number of ordinary shares at issue date (thousands)	395,322	395,322
Dividends per share – KShs	**7.05**	**5.80**

At the annual general meeting to be held on 15 May 2020, a final dividend in respect of the year ended 31 December 2019 of KShs 5.82 (2018: KShs 3.55) per share amounting to a total of KShs 2,292,869,000 (2018: KShs 1,403,392,000) is to be proposed. These financial statements do not reflect this dividend as payable, the proposed dividend has however been transferred to a separate category of equity.

During the year an interim dividend of KShs 1.25 (2018: KShs 2.25) per share, amounting to a total of KShs 494,152,000 (2018: KShs 889,475,000) was paid. The total dividend for the year, if the final dividend will be declared, will therefore be KShs 7 (2018: KShs 6) per share, amounting to a total of KShs 2,787,021,000 (2018: KShs 2,292,867,000).

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

Notes (continued)

19 Cash and balances with Central Bank of Kenya

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Cash in hand	2,737,198	2,024,503	-	-
Balances with Central Bank of Kenya	14,513,889	20,037,372	-	-
	17,251,087	**22,061,875**	**-**	**-**

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 2019, the cash reserve requirement was 5.25% of the eligible deposits (2018: 5.25%).

The cash reserve requirement balance for the year ended 31 December 2019 is KShs. 9,700,376,333 (2018: KShs 9,017,102,168).The Central Bank allows a daily minimum of 3% (2018: 3%) of CRR when the average total reserving for the month is above KShs 5,250,000,000. The Bank therefore held KShs 5,543,072,190 as at 31 December 2019 (2018: KShs 5,152,629,810) to fulfil this prudential requirement.

20 Financial investments and liabilities – FVTPL

20 (a) Financial investments – FVTPL

	GROUP	
	2019	2018
Debt securities	KShs'000	KShs'000
Government treasury bills and bonds	34,159,611	31,202,021
Corporate bonds	-	14
	34,159,611	**31,202,035**
Maturity analysis;		
Maturing within 1 month	13,354,457	-
Maturing after 1 months but within 6 months	15,104,917	23,059,441
Maturing after 6 months but within 12 months	5,542,901	7,196,326
Maturing after 12 within	157,336	946,268
	34,159,611	**31,202,035**

The maturities represent periods to contractual redemption of trading assets recorded. Trading assets had a redemption value at 31 December 2019 of KShs 34,625,634,000 (2018: KShs 32,147,772,000). The weighted average effective interest yield on debt securities held for trading at 31 December 2019 was 7.61% (2018: 10.28%).

20 (b) Financial liabilities – FVTPL

	GROUP	
	2019 KShs'000	2018 KShs'000
Unlisted	1,486,826	10,040,568
Maturity analysis;		
Maturing within 1 month	139,280	1,349,175
Maturing after 1 months but within 6 months	464,094	7,844,401
Maturing after 6 months but within 12 months	781,120	846,992
Maturing after 12 months	102,332	-
	1,486,826	**10,040,568**

Notes (continued)

20 Financial investments and liabilities – FVTPL (continued)

20 (b) Financial liabilities – FVTPL (continued)

The maturities represent periods to contractual redemption of trading liabilities recorded. Dated trading liabilities had a redemption value at 31 December 2019 of KShs. 1,448,797,000(2018: KShs 10,296,401,000). The weighted average effective interest cost on debt securities held for trading at 31 December 2019 was 8.30% (2018: 6.91%).

21 Financial investments – (FVOCI)

	Note	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Financial assets – (FVOCI)	21 (a)	20,453,551	15,994,375
Pledged assets – (FVOCI)	21 (b)	574,691	1,863,042
		21,028,242	**17,857,417**

21 (a) Financial assets – (FVOCI)

	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Debt securities – at fair value:		
Listed	55	2,374,913
Unlisted	20,455,800	13,621,224
	20,455,855	**15,996,137**
Comprising:		
Government bonds	55	2,374,913
Government treasury bills	20,455,800	13,615,324
Equities	-	5,900
	20,455,855	**15,996,137**
Allowances for impairments		
Expected credit loss for debt securities measured at fair value through OCI (IFRS 9)	(2,304)	(1,762)
Credit impairment losses	**(2,304)**	**(1,762)**
Net pledged assets at FVOCI	**20,453,551**	**15,994,375**

Maturity analysis	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Maturing within 1 month	2,975,794	1,465,376
Maturing after 1 month but within 6 months	9,092,097	12,062,516
Maturing after 6 months but within 12 months	8,385,660	1,879,025
Maturing after 12 months	-	587,458
	20,453,551	**15,994,375**

Financial investment securities had a redemption value at 31 December 2019 of KShs. 21,684,000,000 (2018: KShs 16,285,000,000).

Notes (continued)

21 Financial investments – (FVOCI) (continued)

21 (b) Pledged assets – (FVOCI)

	GROUP	
	2019	**2018**
	KShs'000	**KShs'000**
Fair value through OCI	574,691	1,863,042
	574,691	1,863,042
Maturity analysis		
Maturing after 6 months but within 12 months	-	1,863,042
Maturing after 12 months but within 5 years	574,691	-
	574,691	**1,863,042**

Dated pledged assets at fair value through OCI had a redemption value at 31 December 2019 of KShs. 534,000,000 (2018: KShs 2,000,000,000).

The weighted average effective interest yield on investment securities at FVOCI on 31 December 2019 was 7.7% (2018:10.77%). A fair value gain of KShs. 11,723,000 (2018: loss of KShs 320,469,000) has been recognised in the statement of other comprehensive income. A realised gain of KShs. Nil (2018: KShs 891,000) has been transferred to the statement of profit or loss.

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

Notes (continued)

21 Financial investments – (FVOCI) (continued)

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

	Opening ECL 1 Jan 2019	Total transfers between stages	Income statement movements				Net ECL raised/ (released)1	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 Dec 2019
			ECL on new exposure raised	Change in ECL due to modifications	Subsequent changes in ECL	Change in ECL due to derecognition				
GROUP	**Kshs**	**Kshs**	**Kshs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Pledged assets (Fair value through OCI)										
Sovereign	**(317)**	**-**	**-**	**-**	**-**	**317**	**317**	**-**	**-**	**-**
Stage 1	(317)	-	-	-	-	317	317	-	-	-
Financial Investments (Fair value through OCI)										
Sovereign	**(1,445)**	**-**	**(2,193)**	**-**	**12**	**-**	**(2,181)**	**1,322**	**-**	**(2,304)**
Stage 1	(1,445)	-	(2,193)	-	12	-	(2,181)	1,322	-	(2,304)
Total	**(1,762)**	**-**	**(2,193)**	**-**	**12**	**317**	**(1,864)**	**1,322**	**-**	**(2,304)**

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

Notes (continued)

21 Financial investments – (FVOCI) (continued)

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

	Opening ECL 1 Jan 2018	Total transfers between stages	Income statement movements: ECL on new exposure raised	Income statement movements: Change in ECL due to modifications	Income statement movements: Subsequent changes in ECL	Income statement movements: Change in ECL due to derecognition	Net ECL raised/ (released)1	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 Dec 2018
GROUP	**Kshs**	**Kshs**	**Kshs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Pledged assets (Fair value through OCI)										
Sovereign	**-**	**-**	**(317)**	**-**	**-**	**-**	**(317)**	**-**	**-**	**(317)**
Stage 1	-	-	(317)	-	-	-	(317)	-	-	(317)
Financial Investments (Fair value through OCI)										
Sovereign	**(2,858)**	**-**	**(1,344)**	**-**	**189**	**2,568**	**1,413**	**-**	**-**	**(1,445)**
Stage 1	(2,858)	-	(1,344)		189	2,568	1,413			
Total	**(2,858)**	**-**	**(1,661)**	**-**	**189**	**2,568**	**1,096**	**-**	**-**	**(1,762)**

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

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

	Balance at beginning of the year 2019	Reclassifications	Net change in fair value	Realised fair value adjustments and reversal to profit or loss	Net expected credit loss raised/ (released) during the period	Exchange and other movements	Balance at end of the year 2019
	KShs	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
GROUP							
Sovereign	(21,957)	-	(11,723)	-	-	-	(33,680)
Total	(21,957)	-	(11,723)	-	-	-	(33,680)

Notes (continued)

21 Financial investments – (FVOCI) (continued)

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

	Balance at beginning of the year 2018 KShs	Reclassifications KShs	Net change in fair value KShs	Realised fair value adjustments and reversal to profit or loss KShs	Net expected credit loss raised/ (released) during the period KShs	Exchange and other movements KShs	Balance at end of the year 2018 KShs
GROUP							
Sovereign	(343,317)	-	320,469	891	-	-	(21,957)
Total	(343,317)	-	320,469	891	-	-	(21,957)

Notes (continued)

22 Financial investments – (amortised cost)

	Note	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Pledged assets – (amortised cost)	22 (a)	4,186,089	3,912,058
Financial assets – (amortised cost)	22 (b)	10,703,979	19,288,898
		14,890,068	**23,200,956**

22 (a) Pledged assets – (amortised cost)

	Note	2019 KShs'000	2018 KShs'000
Amortised cost/held to collect debt securities		4,186,154	3,913,272
Gross pledged assets at amortised cost		**4,186,154**	3,913,272
Allowances for impairments			
Expected credit loss for financial investments measured at amortised cost (IFRS 9)	22.1	(65)	(1,214)
Credit impairment losses		**(65)**	**(1,214)**
Net pledged assets at amortised cost		**4,186,089**	**3,912,058**
Maturity analysis:			
Maturing after 1 months but within 6 months		500,171	-
Maturing after 6 months but within 12 months		-	2,902,127
Maturing after 12 months but within 5 years		3,685,918	1,009,931
		4,186,089	**3,912,058**

Dated pledged assets at amortized cost had a redemption value at 31 December 2019 of KShs. 4,604,000,000 (2018: KShs 4,000,000,000).

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

22 (b) Financial assets – (amortised cost)

	Note	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Debt securities:			
Listed		10,706,211	18,841,855
Unlisted		-	463,356
Gross financial investments at amortised cost		10,706,211	19,305,211
Allowances for impairments			
Expected credit loss for financial investments measured at	22.1	(2,232)	(16,313)
Credit impairment losses		(2,232)	(16,313)
Net pledged assets at amortised cost		10,703,979	19,288,898

Notes (continued)

22 Financial investments – (amortised cost) (continued)

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

		GROUP	
		2019	2018
Comprising:	**Note**	**KShs'000**	**KShs'000**
Government bonds		9,890,491	17,845,822
Government treasury bills		-	463,356
Corporate bonds		815,720	979,720
		10,706,211	19,288,898
Maturity analysis:			
Maturing within 1 month		-	-
Maturing after 1 month but within 6 months		661,296	3,578,824
Maturing after 6 months but within 12 months		274,693	509,026
Maturing after 12 months but within 5 years		4,768,780	3,543,021
Maturing after 5 years		5,001,442	11,658,027
		10,706,211	**19,288,898**

Dated held to collect assets had a redemption value at 31 December 2019 of KShs. 10,537,975,000 (2018: KShs 19,069,656,000).

The weighted average effective interest yield on held to collect investment securities at 31 December 2019 was 11.88% (2018: 10.31%).

Notes (continued)

22 Financial investments – (amortised cost) (continued)

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

	Opening ECL 1 January 2019	Total transfers between stages	Income statement movements				Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2019
			ECL on new exposure raised	Change in ECL due to modifications	Subsequent changes in ECL	Change in ECL due to derecognition				
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Sovereign	**(647)**	**-**	**-**	**-**	**-**	**647**	**-**	**-**	**-**	**-**
Stage 1	(647)	-	-	-	-	647	-	-	-	-
Financial Investments Amortised cost										
Sovereign	**(15,665)**	**-**	**(1,190)**	**-**	**1,039**	**13,584**	**(2,232)**	**-**	**-**	**(2,232)**
Stage 1	(15,665)	-	(1,190)	-	1,039	13,584	(2,232)	-	-	(2,232)
Corporate	**(1,215)**	**-**	**(65)**	**-**	**-**	**1,215**	**(65)**	**-**	**-**	**(65)**
Stage 1	(443)	-	(65)	-	-	443	(65)			(65)
Stage 2	(772)	-	-	-	-	772	-			-
Total	**(17,527)**	**-**	**(1,255)**	**-**	**1,039**	**15,446**	**(2,297)**	**-**	**-**	**(2,297)**

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

Notes (continued)

22 Financial investments – (amortised cost) (continued)

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

	Opening ECL 1 January 2018	Total transfers between stages	Income statement movements				Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2018
			ECL on new exposure raised	Change in ECL due to modifications	Subsequent changes in ECL	Change in ECL due to derecognition				
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Sovereign	**(245)**	**-**	**(466)**	**64**	**-**	**-**	**(402)**	**-**	**-**	**(647)**
Stage 1	(245)	-	(466)	64	-		(402)	-	-	(647)
Financial Investments Amortised cost										
Sovereign	**(11,021)**	**-**	**(10,960)**	**-**	**3,946**	**2,358**	**(4,656)**	**-**	**11**	**(15,666)**
Stage 1	(11,010)	-	(10,960)		3,946	2,358	(4,656)	-	-	(15,666)
Stage 2	(11)	-	-	-	-	-	-	-	11	-
Corporate	**(3,725)**	**-**	**2,416**	**-**	**95**	**-**	**2,511**	**-**	**-**	**(1,214)**
Stage 1	(537)	-	-	-	95	-	95			(442)
Stage 2	(3,188)	-	2,416	-	-	-	2,416			(772)
Total	**(14,991)**	**-**	**(9,010)**	**64**	**4,041**	**2,358**	**(2,547)**	**-**	**11**	**(17,527)**

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

Notes (continued)

23 Loans and advances

23 (a) Loans and advances to banks

	Note	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Balances with banks		11,301,271	7,269,351	-	-
Balances due from Group banks	42 (a)	27,077,379	21,111,825	136,851	130,867
		38,378,650	**28,381,176**	**136,851**	**130,867**
Allowances for impairments					
Impairment Stages 1 & 2 (performing loans)		(649)	(583)	-	-
Impairment Stage 3 (non-performing loans)		-	-	-	-
Credit impairment allowances		**(649)**	**(583)**	**-**	**-**
Net loans and advances		**38,378,001**	**28,380,593**	**136,851**	**130,867**
Maturity analysis:					
Redeemable on demand		35,328,870	6,560,349	136,851	130,867
Maturing within 1 month		-	21,820,244	-	-
Maturing after 1 month but within 12 months		49,131	-	-	-
Maturing after 12 month but within 5 years		3,000,000	-	-	-
Net loans and advances to banks		38,378,001	28,380,593	136,851	130,867

Notes (continued)

23 Loans and advances (continued)

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

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

BANKS	Opening ECL 1 January 2019	Total transfers between stages	Income statement movements: ECL on new exposure raised	Income statement movements: Change in ECL due to modifications	Income statement movements: Subsequent changes in ECL	Income statement movements: Change in ECL due to derecognition	Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2019
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Stage 1	53,130	-	-	-	2,714	-	2,714	-	(2,648)	53,196
Stage 2	(52,547)	-	-	-	-	-	-	-	-	(52,547)
Stage 3	-	-	-	-	-	-	-	-	-	-
Total	**583**	**-**	**-**	**-**	**2,714**	**-**	**2,714**	**-**	**(2,648)**	**649**

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

BANKS	Opening ECL 1 January 2018	Total transfers between stages	Income statement movements: ECL on new exposure raised	Income statement movements: Change in ECL due to modifications	Income statement movements: Subsequent changes in ECL	Income statement movements: Change in ECL due to derecognition	Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2018
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Stage 1	61,539	64	-	-	265	(4)	261	-	(8,734)	53,130
Stage 2	64	(64)	(7)	-	-	(52,540)	(52,547)	-	-	(52,547)
Stage 3	28,777	-	-	-	-	(28,777)	(28,777)	-	-	-
Total	**90,380**	**-**	**(7)**	**-**	**265**	**(81,321)**	**(81,063)**	**-**	**(8,734)**	**583**

Notes (continued)

23 Loans and advances (continued)

23 (b) Loans and advances to customers

	Note	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Mortgage lending		25,580,324	21,024,274
Vehicle and asset finance		15,145,670	15,735,947
Overdraft and other demand lending		19,185,307	23,153,478
Term lending		106,426,791	97,330,386
Card lending		649,514	610,492
Gross loans and advances to customers		**166,987,606**	**157,854,577**
Allowances for impairments			
Expected credit loss for loans and advances measured at amortised cost (IFRS 9)	23(c (i))	(14,171,036)	(11,250,460)
Credit impairment allowances		**(14,171,036)**	**(11,250,460)**
Net loans and advances		**152,816,570**	**146,604,117**
Maturity analysis:			
Redeemable on demand		17,667,934	20,587,811
Maturing within 1 month		6,808,928	10,826,141
Maturing after 1 month but within 6 months		16,178,854	12,646,294
Maturing after 6 months but within 12 months		6,612,328	4,812,204
Maturing after 12 months but within 5 years		65,152,584	46,316,216
Maturing after 5 years		40,395,942	51,415,451
Net loans and advances		**152,816,570**	**146,604,117**

The weighted average effective interest rate on loans and advances to customers as at 31 December 2019 was 10.06% (2018: 10.49%). The Bank extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment sales and overdrafts.

Notes (continued)

23 Loans and advances (continued)

23 (c) Allowances for Impairment

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

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

	Opening ECL 1 Jan 2019	Total transfers between stages	Income statement movements			Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 Dec 2019	Interest in suspense	Total
			ECL on new exposure raised	Subsequent changes in ECL	Change in ECL due to derecognition						
Customers	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Mortgage loans	**841,906**	**-**	**25,012**	**236,095**	**-**	**261,107**	**(794)**	**(1,180)**	**1,101,039**	**52,960**	**1,153,999**
Stage 1	21,669	27,696	5,303	(4,038)	-	1,265	-	-	22,934	-	22,934
Stage 2	181,018	(11,984)	18,394	111,552	-	129,946	-	-	310,964	-	310,964
Stage 3	639,219	(15,712)	1,315	128,581	-	129,896	(794)	(1,180)	767,141	52,960	820,101
Vehicle and asset finance	**1,473,027**	**-**	**143,854**	**199,617**	**-**	**343,471**	**(192,404)**	**(2,873)**	**1,639,648**	**73,199**	**1,712,847**
Stage 1	110,294	72,145	41,507	(55,618)	-	(14,111)	-	-	96,183	-	96,183
Stage 2	478,605	(90,572)	73,886	(75,405)	-	(1,519)	-	11,605	488,691	-	488,691
Stage 3	884,128	18,427	28,461	330,640	-	359,101	(192,404)	(14,478)	1,054,774	73,199	1,127,973
Card debtors	**51,587**	**-**	**5,983**	**75,724**	**-**	**81,707**	**(47,626)**	**(3,797)**	**82,484**	**-**	**82,484**
Stage 1	17,165	4,655	3,155	3,336	-	6,491	-	-	23,656	-	23,656
Stage 2	16,344	(5,268)	2,828	20,702	-	23,530	-	993	40,867	-	40,867
Stage 3	18,078	613	-	51,686	-	51,686	(47,626)	(4,790)	17,961	-	17,961
Other loans and advances	**2,028,757**	**-**	**491,255**	**585,959**	**-**	**1,077,214**	**(155,256)**	**4,511**	**2,970,630**	**51,682**	**3,022,312**
Stage 1	175,437	99,782	139,741	(64,254)	-	75,487	-	-	250,924	-	250,924
Stage 2	674,652	(115,186)	159,844	24,409	-	184,253	-	21,371	880,276	-	880,276
Stage 3	1,178,668	15,404	191,670	625,804	-	817,474	(155,256)	(16,860)	1,839,430	51,682	1,891,112
Corporate	**6,855,183**	**-**	**1,016,910**	**620,967**	**(188,332)**	**1,449,545**	**(724,060)**	**25,677**	**7,608,979**	**590,415**	**8,199,394**
Stage 1	450,054	35,024	307,138	44,987	(136,759)	215,366	-	(8,089)	657,331	-	657,331
Stage 2	140,053	(37,658)	236,823	(52,699)	(18,807)	165,317	-	47,404	352,774	-	352,774
Stage 3	6,265,076	2,634	472,949	628,679	(32,766)	1,068,862	(724,060)	(13,638)	6,598,874	590,415	7,189,289
Total	**11,250,460**	**-**	**1,683,014**	**1,718,362**	**(188,332)**	**3,213,044**	**(1,120,140)**	**22,338**	**13,402,780**	**768,256**	**14,171,036**

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

Notes (continued)

23 Loans and advances (continued)

23 (c) Allowances for Impairment (continued)

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

	Opening ECL 1 Jan 2018	Total transfers between stages	Income statement movements			Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 Dec 2018	Interest in suspense	Total
			ECL on new exposure raised	Subsequent changes in ECL	Change in ECL due to derecognition						
Customers	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Mortgage loans	**653,664**	**-**	**13,418**	**147,392**	**-**	**160,810**	**(12,832)**	**8,948**	**810,590**	**31,316**	**841,906**
Stage 1	15,476	25,087	4,655	(27,804)	-	(23,149)	-	4,255	21,669	-	21,669
Stage 2	178,453	(23,359)	8,763	16,805	-	25,568	-	356	181,018	-	181,018
Stage 3	459,735	(1,728)	-	158,391	-	158,391	(12,832)	4,337	607,903	31,316	639,219
Vehicle and asset	**1,259,900**	**-**	**180,186**	**608,621**	**-**	**788,807**	**(473,314)**	**(82,446)**	**1,492,947**	**(19,920)**	**1,473,027**
Stage 1	103,558	5,938	66,365	(65,567)	-	798	-	-	110,294	-	110,294
Stage 2	279,476	(17,542)	113,821	102,850	-	216,671	-	-	478,605	-	478,605
Stage 3	876,866	11,604	-	571,338	-	571,338	(473,314)	(82,446)	904,048	(19,920)	884,128
Card debtors	**53,918**	**-**	**3,827**	**54,114**	**-**	**57,941**	**(50,483)**	**(9,789)**	**51,587**	**-**	**51,587**
Stage 1	14,820	410	2,616	(681)	-	1,935	-	-	17,165	-	17,165
Stage 2	20,891	1,099	1,211	(6,857)	-	(5,646)	-	-	16,344	-	16,344
Stage 3	18,207	(1,509)	-	61,652	-	61,652	(50,483)	(9,789)	18,078	-	18,078
Other loans and	**1,726,445**	**-**	**312,410**	**45,279**	**-**	**357,689**	**(262,836)**	**83,990**	**1,905,288**	**123,469**	**2,028,757**
Stage 1	164,191	23,994	96,022	(109,714)	-	(13,692)	-	944	175,437	-	175,437
Stage 2	781,513	(81,386)	216,388	(241,334)	-	(24,946)	-	(529)	674,652	-	674,652
Stage 3	780,741	57,392	-	396,327	-	396,327	(262,836)	83,575	1,055,199	123,469	1,178,668
Corporate	**5,280,395**	**-**	**413,142**	**872,997**	**(322,147)**	**963,992**	**-**	**(52,314)**	**6,192,073**	**663,110**	**6,855,183**
Stage 1	405,041	(71,828)	169,461	58,377	(110,997)	116,841	-	-	450,054	-	450,054
Stage 2	2,103,329	(1,848,316)	41,976	(28,611)	(76,011)	(62,646)	-	(52,314)	140,053	-	140,053
Stage 3	2,772,025	1,920,144	201,705	843,231	(135,139)	909,797	-	-	5,601,966	663,110	6,265,076
Total	**8,974,322**	**-**	**922,983**	**1,728,403**	**(322,147)**	**2,329,239**	**(799,465)**	**(51,611)**	**10,452,485**	**797,975**	**11,250,460**

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

Notes (continued)

23 Loans and advances (continued)

23 (c) Allowances for Impairment

23 (d) Credit impairment losses

	Note	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Loans impairment (credit)/charge for financial investments		(15,411)	1,454
Loans impairment for non-performing customer loans		2,427,019	2,097,504
Loans impairment for performing customer loans		786,025	231,736
Loans impairment charge/(credit) for performing bank loans		2,714	(81,063)
Loans impairment for non-performing off balance sheet Letters of credit and guarantees	43 (c)	18,054	19,447
Loans impairment for performing off balance sheet Letters of credit and guarantees	43 (c)	84,390	(53,534)
Amounts recovered during the year		(152,232)	(151,082)
Net credit impairment losses		**3,150,559**	**2,064,462**

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 2019 KShs'000	GROUP 2018 KShs'000
Maturity analysis:		
Not later than 1 year	1,320,334	1,048,546
Later than 1 year and not later than 5 years	13,790,532	14,446,703
Later than 5 years	34,804	240,698
	15,145,670	**15,735,947**

Notes (continued)

23 Loans and advances (continued)

23 (f) Loans to employees

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

	GROUP	
	2019	**2018**
	KShs'000	**KShs'000**
At start of year	4,194,627	3,848,482
New loans issued	1,186,065	1,564,065
Interest on loan	205,921	437,271
Loan repayments	(1,692,248)	(1,655,191)
At end of year	**3,894,365**	**4,194,627**

24 Other assets and prepayments

		GROUP		COMPANY	
		2019	**2018**	**2019**	**2018**
	Note	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Uncleared effects		1,757,910	1,647,390	20,000	-
Off market loan adjustment		687,614	686,626	-	-
Trade receivables and prepayments		1,865,675	663,339	-	-
Due from related companies	42 (h)	558,673	693,949	-	-
Others		41,147	36,255	-	-
		4,911,019	**3,727,559**	**20,000**	**-**

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

25 Investment in subsidiaries and other investments

25 (a) Investment in subsidiaries

	Company			
	Beneficial	**Country of**	**2019**	**2018**
Company	**ownership**	**Incorporation**	**KShs'000**	**KShs'000**
Stanbic Bank Kenya Limited	100%	Kenya	18,009,808	18,009,808
SBG Securities Limited	100%	Kenya	165,530	165,530
Stanbic Insurance Agency Limited	100%	Kenya	42,174	42,174
			18,217,512	**18,217,512**

Notes (continued)

25 Investment in subsidiaries and other investments (continued)

25 (a) Investment in subsidiaries (continued)

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

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

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

Stanbic Insurance Agency Limited was acquired from Stanbic Bank Kenya Limited in 2017 for Kshs 42,174,000.

25 (b) Other investments

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Unquoted:	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Equity investment at fair value through profit and loss default	17,500	17,500	-	-
At 31 December	**17,500**	**17,500**	**-**	**-**

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 value (cost) approximates its fair value.

Notes (continued)

26 Property and equipment

26 a) GROUP

Year ended 31 December 2019	Land and premises KShs'000	Equipment, furniture & fittings KShs'000	Motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost					
At 1 January 2018	385,493	4,201,105	184,984	180,932	4,952,514
Additions	-	208,211	-	332,831	541,042
Disposals/retirement	-	-	(16,828)	-	(16,828)
Transfers from work in progress	-	127,350	-	(127,350)	-
Transfers from intangible assets	-	34,687	-	-	34,687
Transferred to asset held-for-sale	-	(33)	-	-	(33)
Hyperinflation adjustment	-	(12,889)	-	-	(12,889)
At 31 December 2019	**385,493**	**4,558,431**	**168,156**	**386,413**	**5,498,493**
Depreciation					
At 1 January 2019	(124,535)	(2,510,649)	(130,960)	-	(2,766,144)
Depreciation for year	(12,713)	(416,439)	(15,838)	-	(444,990)
Disposals/ Retirement	-	-	14,304	-	14,304
Transferred to asset held-for-sale	-	33	-	-	33
Foreign exchange revaluation	-	(3)	-	-	(3)
At 31 December 2019	**(137,248)**	**(2,927,058)**	**(132,494)**	**-**	**(3,196,800)**
Net book value at 31 December 2019	**248,245**	**1,631,373**	**35,662**	**386,413**	**2,301,693**

Year ended 31 December 2018	Land and premises KShs'000	Equipment, furniture & fittings KShs'000	Motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost					
At 1 January 2018	385,493	3,884,547	204,656	171,516	4,646,212
Additions	-	235,686	8,553	118,364	362,603
Disposals/retirement	-	(12,239)	(28,122)		(40,361)
Transfers	-	108,948		(108,948)	-
Foreign exchange revaluation	-	(19,536)	(103)	-	(19,639)
Hyperinflation adjustment	-	3,699	-	-	3,699
At 31 December 2018	**385,493**	**4,201,105**	**184,984**	**180,932**	**4,952,514**
Depreciation					
At 1 January 2018	(108,869)	(2,139,915)	(141,153)	-	(2,389,937)
Depreciation for year	(15,666)	(380,450)	(18,032)	-	(414,148)
Disposals/ Retirement	-	8,440	28,122	-	36,562
Foreign exchange revaluation	-	1,276	103	-	1,379
At 31 December 2018	**(124,535)**	**(2,510,649)**	**(130,960)**	**-**	**(2,766,144)**
Net book value at 31 December 2018	**260,958**	**1,690,456**	**54,024**	**180,932**	**2,186,370**

Notes (continued)

26 Property and equipment (continued)

26 (b) COMPANY

	Computer Equipment	
	2019	**2018**
	KShs'000	**KShs'000**
Cost		
At 1 January	1,659	1,659
At 31 December	**1,659**	**1,659**
Depreciation		
At 1 January	(1,659)	(1,659)
Charge for the year	-	-
At 31 December	**(1,659)**	**(1,659)**
Net book value 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 2019 and 31 December 2018, there were no items of property and equipment pledged by the Group and Company to secure liabilities. No items of property and equipment were obtained from borrowed funds hence no capitalization of borrowing costs.

Prepaid operating leases of KShs. 47,994,000 were reclassified into right-of-use assets (Note 27).

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 and Stanbic Bank in 2008. The fair value of the properties was determined using the market comparable method. This means that valuations performed by the valuer were based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property.

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

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

27 Right-of-use leasehold land

	GROUP	
	2019	**2018**
	KShs'000	**KShs'000**
Cost		
At 1 January	85,499	85,499
At 31 December	**85,499**	**85,499**
Amortisation		
At 1 January	(37,505)	(34,552)
Charge for the year	(2,953)	(2,953)
At 31 December	**(40,458)**	**(37,505)**
Net book value at 31 December	**45,041**	**47,994**

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. In 2018, the land was recognised as prepaid operating lease under IAS 17.

Notes (continued)

28 Other Intangible assets

	GROUP			
	Work in progress	Software	Other intangible assets	Total
Year ended 31 December 2019	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cost				
At 1 January 2019	327,506	2,821,402	1,099,059	4,247,967
Additions	1,788	62,787	-	64,575
Transfer from work in progress	(278,832)	278,832	-	-
Transfer to property and equipment (Note 26)	(34,687)	-	-	(34,687)
Transferred to asset held-for-sale	-	(841)	-	(841)
At 31 December 2019	**15,775**	**3,162,180**	**1,099,059**	**4,277,014**
Amortisation				
At 1 January 2019	-	(2,098,103)	(899,133)	(2,997,236)
Amortisation charge for the year	-	(211,158)	(45,267)	(256,425)
Foreign exchange revaluation	-	116	-	116
Transferred to asset held-for-sale	-	841	-	841
At 31 December 2019	**-**	**(2,308,304)**	**(944,400)**	**(3,252,704)**
Net book value at 31 December 2019	**15,775**	**853,876**	**154,659**	**1,024,310**

	Work in progress	Software	Other intangible assets	Total
Year ended 31 December 2018	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cost				
At 1 January 2018	193,026	2,810,805	1,099,059	4,102,890
Additions	134,480	11,427	-	145,907
Foreign exchange difference	-	(420)	-	(420)
Hyperinflation adjustment	-	(410)	-	(410)
At 31 December 2018	**327,506**	**2,821,402**	**1,099,059**	**4,247,967**
Amortisation				
At 1 January 2018	-	(1,892,974)	(853,866)	(2,746,840)
Amortisation charge for the year	-	(205,168)	(45,267)	(250,435)
Foreign Exchange revaluation	-	39	-	39
At 31 December 2018	**-**	**(2,098,103)**	**(899,133)**	**(2,997,236)**
Net book value at 31 December 2018	**327,506**	**723,299**	**199,926**	**1,250,731**

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

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

Notes (continued)

28 Other Intangible assets (continued)

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

As at 31 December 2019, the intangible assets had an average remaining useful life of 5 years.

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

	Cost	Useful life
	KShs'000	Years
Trade names	260,000	15
Customer relationships	475,000	5 - 15
Others	364,059	2 - 5
	1,099,059	

29 Intangible assets - goodwill

	Group		Company	
	2019	**2018**	**2019**	**2018**
Cost	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January and 31st December	9,349,759	**9,349,759**	-	**-**

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 2019. The recoverable amount was determined to be the value in use. Unless indicated otherwise, the value in use in 2019 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% (2018: 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 (2018: 17.63%). The cost of equity assigned to the cash-generating unit and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is derived from an equity pricing model deemed appropriate based on the entity under review. The risk-free rate used to determine the cost of equity has been derived from the 10-year US Dollar government bonds adjusted for inflation differential and country risk yield.

Notes (continued)

29 Intangible assets - goodwill (continued)

Goodwill is allocated to the Group’s cash-generating units (CGUs) identified according to operating segment. 95% of the goodwill has been allocated to Corporate CIB CGU and the remaining 5% has been allocated to PBB CGU.

30 Right-of-use assets (buildings)

Year ended 31 December 2019

	2019
	KShs'000
At start of year	-
Effect of change in accounting policy (Note 2 (c) (ii))	1,717,096
Additions	-
Depreciation charge for the year	(357,470)
Hyperinflation adjustment	(44,270)
At end of year	1,315,356

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.

Under the previous accounting policy prepaid operating lease rentals were recognised at historical cost and subsequently amortised over the lease period. The carrying amount of prepaid operating lease rentals of KShs. 85,499,000 at 1 January 2019 has been reclassified as right-of-use assets (Note 27).

31 Lease liabilities

	2019
	KShs'000
Non-current	1,091,953
Current	279,000
	1,370,953

Reconciliation of lease liabilities arising from financing activities:	**Group**
	2019
	KShs'000
At start of year	-
Effect of change in accounting policy (Note 2 (c) (ii))	1,717,096
Interest charged to profit or loss	125,105
Cash flows:	
- Operating activities (interest paid)	(125,105)
- Payments under leases	(346,143)
At end of year	1,370,953

Notes (continued)

32 Ordinary share capital and share premium

32 (a) Authorised share capital

	2019		2018	
	Number of shares (thousands)	Share capital KShs'000	Number of shares (thousands)	Share capital KShs '000
Balance as at 1 January and 31 December	473,684	2,368,421	473,684	2,368,421

32 (b) Issued share capital

	2019		2018	
	Number of shares (thousands)	Share capital KShs'000	Number of shares (thousands)	Share capital KShs '000
Balance as at 1 January and 31 December	395,322	1,976,608	395,322	1,976,608
Unissued shares	78,362	391,813	78,362	391,813

32 (c) Ordinary share premium

	2019	2018
	KShs'000	KShs'000
At 1 January and 31 December	16,897,389	16,897,389

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.

Notes (continued)

33 Derivative assets and derivative liabilities (continued)

33.1 Use and measurement of derivative instruments (continued)

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

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

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

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

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

33.2 Derivatives held-for-trading

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

30.2.1 Foreign exchange derivatives

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

30.2.2 Interest rate derivatives

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

33.3 Day one profit or loss

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

Notes (continued)

33 Derivative assets and derivative liabilities (continued)

33.4 Fair values

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

33.5 Notional amount

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

Notes (continued)

33 Derivative assets and derivative liabilities (continued)

33.5 Notional amount (continued)

	GROUP					
	2019 Fair values			2018 Fair values		
	Notional contract amount KShs'000	Assets KShs'000	Liabilities KShs'000	Notional contract amount KShs'000	Assets KShs'000	Liabilities KShs'000
Foreign exchange derivatives						
Currency forwards	49,309,165	122,670	669,860	21,217,066	68,719	474,075
Currency swaps	45,395,823	164,391	454,961	41,953,501	434,412	213,484
Currency options	18,701,947	295,997	190,831	16,400,923	263,256	177,888
Total over-the-counter derivatives	**113,406,935**	**583,058**	**1,315,652**	**79,571,490**	**766,387**	**865,447**
Interest rate derivatives						
Interest rate swaps	-	-	-	58,532,021	749,079	1,016,211
Cross currency interest rate swaps	66,102,554	1,028,603	1,441,108	-	-	-
Total over-the-counter derivatives	66,102,554	1,028,603	1,441,108	**58,532,021**	**749,079**	**1,016,211**
Total derivative assets held for trading	**179,509,489**	**1,611,661**	**2,756,760**	**138,103,511**	**1,515,466**	**1,881,658**
Current	141,880,274	548,167	1,360,659	86,671,101	697,359	852,660
Non-current	37,629,215	1,063,494	1,396,101	51,432,410	818,107	1,028,998
Total	**179,509,489**	**1,611,661**	**2,756,760**	**138,103,511**	**1,515,466**	**1,881,658**

Notes (continued)

34 Deposits and current accounts from banks and customers

34 (a) Deposits from banks

	Note	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Deposits from banks		11,899,978	12,438,426
Deposits due to Group banks	42 (b)	18,550,616	15,470,813
Total deposits from banks		**30,450,594**	**27,909,239**

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

	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Repayable on demand	3,137,917	3,488,780
Maturing within 1 month	6,609,958	-
Maturing after 1 month but within 6 months	3,178,336	1,476,287
Maturing after 6 months but within 12 months	4,560,912	444,637
Maturing after 12 months	12,963,471	22,499,535
	30,450,594	**27,909,239**

Included in balances due to group companies are borrowings of KShs. 16,958,318,000 (2018: 13,942,567,000). Interest rate for these borrowings is libor + 1.91% (2018: 1.4%).

34 (b) Deposits from customers

	GROUP 2019 KShs'000	GROUP 2018 KShs'000
Current accounts	111,272,175	119,955,590
Call deposits	9,798,489	8,949,555
Savings accounts	43,598,065	42,611,190
Term deposits	24,727,933	16,404,173
LC acceptances	4,825,657	3,664,167
Total deposits from customers	**194,222,319**	**191,584,675**
Total deposits from banks and customers	**224,672,913**	**219,493,914**

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

	2019	2018
Repayable on demand	164,668,730	171,750,427
Maturing within 1 month	9,501,375	6,278,970
Maturing after 1 month but within 6 months	13,314,648	8,963,597
Maturing after 6 months but within 12 months	5,816,254	3,919,456
Maturing after 12 months	921,312	672,225
	194,222,319	**191,584,675**

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 2019 was 1.79% (2018: 3.43%).

Notes (continued)

35 Borrowings

At 31 December 2019

	Notional value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	4,000,000	3,998,451	12.95%	15-Dec-14	15-Dec-21
Subordinated debt - USD 30M	3,052,017	3,054,502	6.82%	28-Feb-18	28-Feb-28
Subordinated debt - USD 20M	2,018,400	2,074,062	6.28%	30-Jan-19	12-Dec-28
Total	**9,070,417**	**9,127,015**			

At 31 December 2018

	Notional value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
Stanbic Bond	4,000,000	3,992,347	12.95%	15-Dec-14	15-Dec-21
Subordinated Debt	3,052,017	3,071,666	6.82%	28-Feb-18	28-Feb-28
Total	**7,052,017**	**7,064,013**			

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 Group has not had any defaults of principal, interest or other breaches with regard to any borrowings during 2019 and 2018. The borrowings are payable on their maturity dates at the notional value.

The surbodinated debt relates to USD 30M obtained from Standard Bank of South Africa in 2018.There are no covenants relating to this financing.

The surbodinated debt relates to USD 20m obtained from the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in 2019.

The above loans were unsecured.

The Group has complied with all covenants throughout the reporting year.

Interest expense incurred in the above borrowings was KShs. 833,674,393 (2018: KShs 682,725,000). The weighted average effective interest rate on borrowings as at 31 December 2019 was 9.38% (2018: 9.88%).

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

Notes (continued)

36 Other liabilities and accrued expenses

36 (a) Other liabilities and accrued expenses

		Group		Company	
		2019	2018	2019	2018
	Note	KShs'000	KShs'000	KShs'000	KShs'000
Accruals		2,702,179	2,357,802	7,811	12,416
Deferred bonus scheme	36 (b)	115,267	158,067	-	-
Unpresented bank drafts		112,722	104,498	-	-
Margin on guarantees and letters of credit		-	1,331,651	-	-
Items in transit		114,881	127,585	-	-
Due to group companies	42 (i)	327,092	256,086	-	-
Sundry creditors		11,068,177	1,952,933	122,352	97,137
Expected credit losses on off balance sheet items	43 (c)	141,246	138,076	-	-
Other operating costs		143,661	-	-	-
		14,725,225	**6,426,698**	**130,163**	**109,553**

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

36 (b) Deferred bonus scheme (DBS)

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

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

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

The provision in respect of liabilities under the scheme amounts to KShs 115,267,000 at 31 December 2019 (2018: KShs 158,067,000) and the amount charged for the year was KShs 63,458,000 (2018: KShs 29,315,000).

	Units	Units
Reconciliation	**2019**	**2018**
Units outstanding at beginning of the year	52,238	140,662
Granted	40,842	-
Exercised	(59,626)	(80,649)
Lapsed	(745)	(13,450)
Transfers	26,443	5,675
Units outstanding at end of the year	**59,152**	**52,238**
Weighted average fair value at grant date (ZAR)*	182.43	220.97
Expected life (years)	2.51	2.51
Risk-free interest rate (%)	-	-

* South African Rand

Notes (continued)

37 Current income tax asset/ (liability)

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

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

		GROUP	
		2019	**2018**
	Note	**KShs'000**	**KShs'000**
Kenya operations	37 (a)	(397,781)	(1,039,983)
Foreign operations	37 (b)	-	-
As at 31 December		**(397,781)**	**(1,039,983)**

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

		GROUP		COMPANY	
		2019	**2018**	**2019**	**2018**
	Note	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January		(1,039,983)	66,358	15,713	18,054
Exchange difference on translation		(12,722)	27,831	-	-
Current income tax charge	16	(2,540,724)	(2,957,041)	(364)	(4,773)
Income tax paid		3,197,531	1,577,646	-	2,432
Transferred to asset held-for-sale		(1,883)	-	-	-
Prior year provision		-	245,223	-	-
		(397,781)	**(1,039,983)**	**15,349**	**15,713**

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

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

Foreign operations

	GROUP	
	2019	**2018**
	KShs'000	**KShs'000**
As at 1 January	-	16,668
Current tax charge	-	(16,668)
As at 31 December	**-**	**-**

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

Notes (continued)

38 Deferred income tax asset/ (liability)

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

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

Kenya operations		**GROUP**		**COMPANY**	
		2019	**2018**	**2019**	**2018**
	Note	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At start of year		3,167,882	2,444,394	38	203
Impact of initial application of IFRS 9		-	670,988	-	-
		3,167,882	3,115,382	38	203
Credit /debit to statement of profit or loss	16	1,236,718	19,035	(38)	(165)
Credit/ debit to OCI		(5,978)	33,452	-	-
Transferred to asset held-for-sale		(25)	-	-	-
Exchange difference on translation		(1,444)	13	-	-
At 31 December		**4,397,153**	**3,167,882**	**-**	**38**

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

	1.1.2019	**(Credited)/ charged to statement of profit or loss**	**Charge to SOCI**	**Translation movement**	**31.12.2019**
Year ended 31 December 2019	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Arising from:					
Property and equipment	(12,815)	(17,438)	-	-	(30,253)
Unrealised gain on bonds- FVOCI	42,038	-	(5,978)	-	36,060
Unrealised gain on bonds- FVTPL	111,218	207,460	-	-	318,678
Right-of-use assets	-	(8,022)	-		(8,022)
Impairment charges on loans and advances	2,500,166	576,721	-	-	3,076,887
Other provisions	618,056	470,891	-	-	1,088,947
Group intangible assets	(90,275)	-	-	-	(90,275)
Unrealised gain on South Sudan paid up capital	(7,700)	-	-	-	(7,700)
Exchange difference on translation	(2,026)	1,429	-	(1,469)	(2,066)
South Sudan deffered tax asset	9,220	5,677	-	-	14,897
Net deferred asset	**3,167,882**	**1,236,718**	**(5,978)**	**(1,469)**	**4,397,153**

Notes (continued)

38 Deferred income tax asset/ (liability)

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

Year ended 31 December 2018	1.1.2018 KShs'000	(Charge)/ Credited to statement of profit or loss KShs'000	Charge to SOCI KShs'000	Translation movement KShs'000	31.12.2018 KShs'000
Arising from:					
Property and equipment	(71,594)	58,779	-	-	(12,815)
Unrealised gain on bonds- FVOCI	8,586	-	33,452	-	42,038
Unrealised gain on bonds- FVTPL	37,114	74,104		-	111,218
Impairment charges on loans and advances	2,259,119	241,047	-	-	2,500,166
Leasing	-	-	-	-	-
Other provisions	771,757	(153,701)	-	-	618,056
Group intangible assets	(90,275)	-	-	-	(90,275)
Unrealised gain on South Sudan paid up capital	209,950	(217,650)	-	-	(7,700)
Exchange difference on translation	(9,277)	7,236	-	15	(2,026)
South Sudan deffered tax asset	-	9,220	-	-	9,220
Net deferred asset	**3,115,380**	**19,035**	**33,452**	**15**	**3,167,882**

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

Notes (continued)

38 Deferred income tax asset/ (liability)

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

	Note	2019 Kshs'000	2018 Kshs'000
At start of year		-	(38,859)
(Credit)/debit to statement of profit or loss	16	(25,273)	38,859
At end of year		**(25,273)**	**-**

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 economies, deferred tax relating to this branch is recognised using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their restated carrying amounts.

Foreign operations

Year ended 31 December 2019	01.01.2019	(Credited)/ charged to statement of profit or loss	Credited to OCI	31.12.2019
Arising from:				
Property and equipment	-	5,194	-	5,194
Right-of-use assets	-	20,079	-	20,079
Net deferred income tax liability	-	25,273	-	25,273

Year ended 31 December 2018	01.01.2018	(Credited)/ charged to statement of profit or loss	Credited to OCI	31.12.2018
Arising from:				
Property and equipment	38,859	(38,859)	-	-
Net deferred income tax liability	38,859	(38,859)	-	-

Notes (continued)

39 Notes to the cash flow statement

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

	Note	Group 2019 KShs'000	Group 2018 KShs'000	Company 2019 KShs'000	Company 2018 KShs'000
Net income before income tax		7,709,764	8,947,757	1,903,072	2,488,504
Adjusted for:					
Depreciation - property and equipment	26	444,990	414,148	-	-
Amortisation of intangible assets	28	256,425	250,435	-	-
Amortisation of prepaid operating lease	27	2,953	2,953	-	-
Depreciation on right-of use assets	30	357,470	-	-	-
Change in fair value of derivatives		778,907	329,730	-	-
Share based payment reserve	45	1,274	18,801	-	-
Changes in operating assets and liabilities held-for-sale		(98,582)	-	-	-
Gain on disposal of property and equipment		(3,876)	(3,946)	-	-
Cash flows from operating activities		**9,449,325**	**9,959,878**	**1,903,072**	**2,488,504**

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

	Group 2019 KShs'000	Group 2018 KShs'000	Company 2019 KShs'000	Company 2018 KShs'000
Unrestricted cash and balances with CBK	7,550,711	13,044,773	-	-
Treasury bills	44,068,629	24,630,105	-	-
Loans and advances to banks	35,272,189	26,929,233	136,851	130,867
Amounts due to other banks	(1,680,839)	(3,563,714)	-	-
Cash and cash equivalent at the end of the year	**85,210,690**	**61,040,397**	**136,851**	**130,867**

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

Notes (continued)

40 Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

The table below categorises the Group's assets and liabilities as at 31 December 2019 between those that are financial and non-financial.

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

Year ended 31 December 2019	Fair value through profit and loss - default KShs'000	Fair value through profit or loss - designated KShs'000	Amortised cost KShs'000	Fair value through OCI KShs'000	Other non-financial assets/liabilities	Total carrying amount KShs'000	Fair value KShs'000
Assets							
Cash and balances with Central Bank of Kenya	12,437,574	-	4,813,513	-	-	**17,251,087**	17,251,087
Financial assets – held for trading	34,159,611	-	-	-	-	**34,159,611**	34,159,611
Financial assets – FVOCI	-	-	-	21,028,242	-	**21,028,242**	21,028,242
Financial assets – amortised cost	-	-	14,890,068	-	-	**14,890,068**	21,148,103
Derivative assets	1,611,661	-	-	-	-	**1,611,661**	1,611,661
Loans and advances to banks	-	3,052,017	35,325,984	-	-	**38,378,001**	36,093,726
Loans and advances to customers	-	-	152,816,570	-	-	**152,816,570**	197,649,567
Other financial assets	-	-	4,911,019	-	-	**4,911,019**	4,911,019
Investment securities	17,500	-	-	-	-	**17,500**	17,500
Other non - financial assets	-	-	-	-	18,560,833	**18,560,833**	-
	48,226,346	**3,052,017**	**212,757,154**	**21,028,242**	**18,560,833**	**303,624,592**	**333,870,516**
Liabilities							
Deposits from customers	-	-	(194,222,319)	-	-	**(194,222,319)**	(182,308,567)
Deposits from banks	-	-	(30,450,594)	-	-	**(30,450,594)**	(27,112,542)
Derivative liabilities	(2,756,760)	-	-	-	-	**(2,756,760)**	(2,756,760)
Trading liabilities	(1,486,826)	-	-	-	-	**(1,486,826)**	(1,486,826)
Borrowings	-	-	(9,127,015)	-	-	**(9,127,015)**	(10,142,911)
Other financial liabilities	-	-	(14,725,225)	-	-	**(14,725,225)**	(14,725,225)
Other non - financial liabilities	-	-	-	-	(1,821,088)	**(1,821,088)**	-
	(4,243,586)	**-**	**(248,525,153)**	**-**	**(1,821,088)**	**(254,589,827)**	**(238,532,831)**

Notes (continued)

40 Classification of assets and liabilities (continued)

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

Year ended 31 December 2018	Fair value through KShs'000	Fair value through profit KShs'000	Amortised cost KShs'000	Fair value through OCI KShs'000	Other non-financial assets/liabilities KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets							
Cash and balances with Central Bank of Kenya	11,041,605	-	11,020,270	-	-	22,061,875	22,061,875
Financial assets – held for trading	31,202,035	-	-	-	-	31,202,035	31,202,035
Financial assets – FVOCI	-	-	-	17,857,417	-	17,857,417	17,857,417
Financial assets – amortised cost	-	-	23,200,956	-	-	23,200,956	32,301,824
Derivative assets	1,515,466	-	-	-	-	1,515,466	1,515,466
Loans and advances to banks	3,052,017	-	25,328,576	-	-	28,380,593	28,363,776
Loans and advances to customers	-	-	146,604,117	-	-	146,604,117	162,757,149
Other financial assets	-	-	3,727,559	-	-	3,727,559	3,727,559
Investment securities	17,500	-	-	-	-	17,500	17,500
Other non - financial assets	-	-	-	-	16,002,736	16,002,736	-
	46,828,623	**-**	**209,881,478**	**17,857,417**	**16,002,736**	**290,570,254**	**299,804,601**
Liabilities							
Deposits from customers	-	-	(191,584,675)	-	-	(191,584,675)	(192,494,661)
Deposits from banks	-	-	(27,909,239)	-	-	(27,909,239)	(30,216,470)
Derivative liabilities	(1,881,658)	-	-	-	-	(1,881,658)	(1,881,658)
Trading liabilities	(10,040,568)	-	-	-	-	(10,040,568)	(10,040,568)
Borrowings	-	-	(7,064,013)	-	-	(7,064,013)	(9,010,645)
Other financial liabilities	-	-	(6,426,698)	-	-	(6,426,698)	(6,426,698)
Other non - financial liabilities	-	-	-	-	(1,039,983)	(1,039,983)	-
	(11,922,226)	**-**	**(232,984,625)**	**-**	**(1,039,983)**	**(245,946,834)**	**(250,070,700)**

Notes (continued)

41 Fair value of financial instruments

Valuation process

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

Level hierarchy

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

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

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

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

Significant unobservable inputs

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

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

Notes (continued)

41 (a) Financial instruments measured at fair value

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

Financial instruments measured at fair value on a recurring basis

At 31 December 2019	Note	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets					
Cash and balances with Central Bank of Kenya (minimum regulatory reserve)		12,437,574	-	-	12,437,574
Financial investments – FVTPL	20 (a)	-	34,159,611	-	34,159,611
Financial investments – FVOCI	21 (a)	-	21,028,242	-	21,028,242
Equity investments	25 (b)	-	-	17,500	17,500
Derivative assets	33	-	1,611,661	-	1,611,661
		12,437,574	**56,799,514**	**17,500**	**69,254,588**
Liabilities					
Financial liabilities – FVTPL	20 (b)	-	1,486,826	-	1,486,826
Derivative liabilities	33	-	2,756,760	-	2,756,760
		-	**4,243,586**	**-**	**4,243,586**

At 31 December 2018	Note	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets					
Cash and balances with Central Bank of Kenya (minimum regulatory reserve)		11,041,605	-	-	11,041,605
Financial investments – FVTPL	20 (a)	-	31,202,035	-	31,202,035
Financial investments – FVOCI	21 (a)	-	17,857,417	-	17,857,417
Equity investments	25(b)	-	-	17,500	17,500
Derivative assets	33	-	1,515,466	-	1,515,466
		11,041,605	**50,574,918**	**17,500**	**61,634,023**
Liabilities					
Financial liabilities – FVTPL	20 (b)	-	10,040,568	-	10,040,568
Derivative liabilities	33	-	1,881,658	-	1,881,658
		-	**11,922,226**	**-**	**11,922,226**

There were no transfers between levels in 2019 and 2018.

Financial instruments in level 1

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

Sensitivity of fair value of level 2 financial instruments

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

Notes (continued)

41 Fair value of financial instruments (continued)

41 (a) Financial instruments measured at fair value (continued)

Level 2 financial assets and financial liabilities

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

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

Notes (continued)

41 Fair value of financial instruments (continued)

41 (b) Financial instruments not measured at fair value

Financial assets and Financial liabilities

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

At 31 December 2019	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs '000	Carrying value KShs'000
Assets					
Cash and balances with the Central Bank of Kenya	4,813,513	-	-	4,813,513	4,813,513
Loans and advances to banks	-	-	36,093,726	36,093,726	38,378,001
Loans and advances to customers	-	-	197,649,567	197,649,567	152,816,570
Financial investments- amortised cost	-	21,148,103	-	21,148,103	14,890,068
Other investments	-	-	17,500	17,500	17,500
Other assets	-	-	4,911,019	4,911,019	4,911,019
	4,813,513	**21,148,103**	**238,671,812**	**264,633,429**	**215,826,671**
Liabilities					
Deposits from banks	-	-	(27,112,542)	(27,112,542)	(30,450,594)
Deposits from customers	-	-	(182,308,567)	(182,308,567)	(194,222,319)
Borrowings	-	-	(10,142,911)	(10,142,911)	(9,127,015)
Other liabilities	-	-	(14,583,979)	(14,583,979)	(14,583,979)
	-	**-**	**(234,147,999)**	**(234,147,999)**	**(248,383,907)**

At 31 December 2018	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs '000	Carrying value KShs'000
Assets					
Cash and balances with the Central Bank of Kenya	11,020,270	-	-	11,020,270	11,020,270
Loans and advances to banks	-	-	28,363,776	28,363,776	28,380,593
Loans and advances to customers	-	-	162,757,149	162,757,149	146,604,117
Financial investments - amortised cost	-	32,301,824	-	32,301,824	23,200,956
Other investments	-	-	17,500	17,500	17,500
Other assets	-	-	3,231,042	3,231,042	3,231,042
	-	**32,301,824**	**194,369,467**	**226,671,291**	**201,434,208**
Liabilities					
Deposits from banks	-	-	(30,216,470)	(30,216,470)	(27,909,239)
Deposits from customers	-	-	(192,494,661)	(192,494,661)	(191,584,675)
Borrowings	-	-	(9,010,645)	(9,010,645)	(7,064,013)
Other liabilities	-	-	(6,288,622)	(6,288,622)	(6,288,622)
	-	**-**	**(238,010,398)**	**(238,010,398)**	**(232,846,549)**

Notes (continued)

41 Fair value of financial instruments (continued)

41 (b) Financial instruments not measured at fair value (continued)

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

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

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

There were no transfers between financial assets and fair value hierarchy in the year 2019 and 2018.

42 Related party transactions

Stanbic Holdings Plc is a subsidiary of Stanbic Africa Holdings Limited (SAHL), incorporated in the United

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

In the normal course of business, nostro and vostro accounts are operated and placings of both foreign and local

For the year ended 31 December 2019, the Group has made provision for doubtful debts relating to long outstanding amounts owed by related parties KShs 275,290,000 (2018: KShs 275,290,000) as indicated on Note 42 (h).

Notes (continued)

42 (a) Loans due from group banks

	GROUP		COMPANY	
	2019 KShs'000	**2018 KShs'000**	**2019 KShs'000**	**2018 KShs'000**
Stanbic Bank Kenya Limited	234,103	-	136,851	130,867
Stanbic Bank Uganda Limited	1,680	60,973	-	-
Stanbic Bank Tanzania Limited	684,613	1,233	-	-
Standard Bank (Mauritius) Limited	21	5	-	-
Standard Bank of South Africa Limited	4,938,459	1,001,226	-	-
Standard Bank Isle of Man Limited	21,890,881	20,048,108	-	-
Stanbic Bank Botswana Limited	-	239	-	-
Stanbic Bank Ghana Limited	223	41	-	-
	27,749,980	**21,111,825**	**136,851**	**130,867**
Interest income earned on the above is:	**464,605**	**230,142**	**16,214**	**22,451**

42 (b) Deposits due to group banks

	GROUP	
	2019 KShs'000	**2018 KShs'000**
Standard Bank of South Africa Limited	1,404,458	2,040,969
Standard Bank Namibia Limited	8,528	561
Stanbic Bank Uganda Limited	126,479	69,597
Stanbic Bank Zambia Limited	764	325
Stanbic Bank Zimbabwe Limited	128	814
Stanbic Bank Botswana Limited	612	-
Standard Bank (Mauritius) Limited	710,289	833,845
Standard Bank Malawi Limited	351	582
Standard Bank Isle of Man Limited	16,280,661	12,513,772
Stanbic Bank Tanzania Limited	18,112	10,274
Standard Bank Swaziland Limited	234	74
	18,550,616	**15,470,813**
Interest expense incurred on the above is:	**603,011**	**737,797**

The weighted average effective interest rate on loans and advances to group companies as at 31 December 2019 is 2.46% (2018: 2.33%) and on amounts due to group companies was 2.14% (2018: 4.41%).

Notes (continued)

42 Related party transactions (continued)

42 (c) Deposits due to group companies non-bank

	GROUP	
	2019 KShs'000	**2018 KShs'000**
The Heritage Insurance Company Limited	331,809	306,843
STANLIB Kenya Limited	135,777	185,788
Liberty Life Assurance Kenya Ltd	401,354	97,519
	868,940	590,150

42 (d) Trading liabilities with group companies non-bank

	2019	2018
STANLIB Kenya Limited	-	1,295,481
	-	1,295,481

42 (e) Key management compensation

Key management personnel include: the members of the Stanbic Holdings Plc board of directors and prescribed officers effective for 2019 and 2018. Non-executive directors are included in the definition of key management personnel as required by IAS 24 Related Party Disclosures. The definition of key management includes the close family members of key management personnel and any entity over which key management exercise control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by that person in their dealings with the Group. They include the person's domestic partner and children, the children of the person's domestic partner, and dependants of the person or the person's domestic partner.

Key management have transacted with the Group as indicated in note 42 (f) and 42 (g);

42 (f) 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 2019 and 31 December 2018 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 199,952,000 (2018: KShs 776,515,000).

No specific credit impairments have been recognised in respect of loans granted to key management (2018: KShs nil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

42 (g) Key management compensation

	GROUP		COMPANY	
	2019 KShs'000	**2018 KShs'000**	**2019 KShs'000**	**2018 KShs'000**
Fees for services as a director	51,489	44,754	8,230	9,085
Salaries and other short-term employment benefits	134,123	68,409	-	-
Post-employment pension	3,036	3,315	-	-
Share-based payments	15,864	5,283	-	-
	204,512	121,761	8,230	9,085

Notes (continued)

42 Related party transactions (continued)

42 (h) Amounts due from related companies

	GROUP	
	2019	**2018**
	KShs'000	**KShs'000**
Liberty Life Assurance Limited	3,272	2,483
The Heritage Insurance Company Limited	841	142
Standard Bank Jersey Limited	3,760	1,936
Stanbic Bank Uganda Limited	3,712	3,645
Stanbic Bank Tanzania Limited	297,318	297,314
Standard Bank of South Africa Limited	507,744	647,186
Stanbic Bank Zambia Limited	975	2,275
Standard Bank Malawi Limited	2,571	1,384
Standard Bank RDC SARL	12	-
Standard Bank Isle of Man Limited	4,356	-
Standard Bank Swaziland Limited	216	216
Standard Bank de Angola S.A.	8,146	7,147
Standard Advisory London Limited	-	1,619
STANLIB Kenya Limited	-	3,525
Standard Bank Namibia Limited	374	367
Mozambique: Standard Bank s.a.r.l.	553	-
Standard Bank (Mauritius) Limited	3	-
SBSA Dubai Branch Limited	110	-
	833,963	**969,239**
Provisions on regional costs balances	(275,290)	(275,290)
	558,673	**693,949**

42 (i) Other payables due to related companies

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Standard Bank of South Africa Limited	318,508	245,592	-	-
Stanbic Bank Uganda Limited	5,255	5,697	-	-
Stanbic Bank Tanzania Limited	-	1,631	-	-
Stanbic Bank Jersey Limited	3,329	3,166	-	-
	327,092	**256,086**	-	-

There is no interest accruing for these outstanding liabilities

42 (j) Related party expenses

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

	GROUP	
	2019	**2018**
	KShs'000	**KShs'000**
Franchise fees	733,929	639,799
Information technology	199,444	52,547
Other operating costs	861,333	77,497
	1,794,706	**769,843**

Notes (continued)

43 Contingent liabilities - Group

	GROUP	
	2019	**2018**
Commitments were with respect to:	**KShs'000**	**KShs'000**
Letters of credit and acceptances	7 378 734	3 603 396
Guarantees	62 099 420	75 056 875
Unutilised facilities	9 947 993	10 651 153
	79 426 147	**89 311 424**

43 (a) Nature of contingent liabilities

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

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

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

In 2018 a contingent liability existed on an advance payment guarantee. The guarantee was issued on behalf of a well-rated Foreign Bank and a claim arose following a disagreement between the applicant (client of the Foreign Bank) and the beneficiary.

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.

43 (b) Segmental analysis of off-balance sheet liabilities

	2019		**2018**	
	KShs'000	**%**	**KShs'000**	**%**
Agriculture	1 071 103	1%	800 681	4%
Manufacturing	4 785 461	6%	7 329 822	7%
Construction	18 423 129	23%	12 939 274	8%
Energy	98 475	0%	622 164	18%
Transport and communication	1 269 508	2%	2 002 709	6%
Distribution/wholesale	15 803 464	20%	10 663 335	9%
Financial Services	36 243 273	46%	53 322 058	40%
Tourism	120 863	0%	169 858	3%
Other activities and social service	1 610 871	2%	1 461 523	5%
	79 426 147	**100%**	**89 311 424**	**100%**

Notes (continued)

43 Contingent liabilities - Group (continued)

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

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

	Opening ECL 1 January 2019	Total transfers between stages	Income statement movements			Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2019
			ECL on new exposure raised	Derecognition	Subsequent changes in ECL				
Off balance sheet	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Stage 1	**(40,765)**	**-**	**(53,905)**	**33,185**	**-**	**(20,720)**	**-**	**-**	**(61,485)**
Letters of credit	(5,638)	-	(4,894)	1,236	-	***(3,658)***	-	-	(9,296)
Guarantees	(35,127)	-	(49,011)	31,949	-	***(17,062)***	-	-	(52,189)
Stage 2	**(17,342)**	**-**	**(70,790)**	**7,807**	**(353)**	**(63,336)**	**-**	**740**	**(79,938)**
Letters of credit	(9,163)	-	-	-	-	**-**	-	-	(9,163)
Guarantees	(8,179)	-	(70,790)	7,807	(353)	***(63,336)***	-	740	(70,775)
Stage 3	**(79,969)**	**-**	**(18,054)**	**-**	**(334)**	**(18,388)**	**98,200**	**334**	**177**
Letters of credit	(19,270)	-	-	-	-	**-**	-	-	(19,270)
Guarantees	(60,699)	-	(18,054)	-	(334)	***(18,388)***	98,200	334	19,447
Total ECL	**(138,076)**	**-**	**(142,749)**	**40,992**	**(687)**	**(102,444)**	**98,200**	**1,074**	**(141,246)**

Notes (continued)

43 Contingent liabilities - Group (continued)

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

	Opening ECL 1 January 2018	Total transfers between stages	Income statement movements			Net ECL raised/ (released)[1]	Impairment accounts written-off	Exchange and other movements	Closing ECL 31 December 2018
			ECL on new exposure raised	Derecognition	Subsequent changes in ECL				
Off balance sheet	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Stage 1	**(78,848)**	**4,494**	**(36,253)**	**-**	**69,842**	**33,589**	**-**	**-**	**(40,765)**
Letters of credit	(35,953)	4,494	(4,925)	-	30,746	***25,821***	-	-	(5,638)
Guarantees	(42,895)	-	(31,328)	-	39,096	***7,768***	-	-	(35,127)
Stage 2	**(32,793)**	**(4,494)**	**(8,167)**	**-**	**28,112**	**19,945**	**-**	**-**	**(17,342)**
Letters of credit	(18,493)	(4,494)	(175)	-	13,999	***13,824***	-	-	(9,163)
Guarantees	(14,300)	-	(7,992)	-	14,113	***6,121***	-	-	(8,179)
Stage 3	**(60,699)**	**-**	**(80,146)**	**-**	**60,699**	**(19,447)**	**-**	**177**	**(79,969)**
Letters of credit	-	-	(80,146)	-	60,699	***(19,447)***	-	177	(19,270)
Guarantees	(60,699)	-	-	-	-	-	-	-	(60,699)
Total ECL	**(172,340)**	**-**	**(124,566)**	**-**	**158,653**	**34,087**	**-**	**177**	**(138,076)**

43 (d) Legal proceedings

In the conduct of its ordinary course of business, the Bank is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims arising, that the Bank has adequate insurance programmes and provisions in place to meet such claims. The amounts provided for in other liabilities are KShs 25,000,000 (2018: KShs 25,000,000).

Notes (continued)

44 Other reserves

For the year ended 31 December 2019	Pre-acquisition reserve Kshs'000	Revaluation of financial assets- at FVOCI Kshs'000	Regulatory credit risk reserve Kshs'000	Revaluation reserve on buildings Kshs'000	Share-based payment reserve Kshs'000	Foreign currency translation reserve Kshs'000	Total Kshs'000
At 1 January 2019	**(126,078)**	**21,957**	**938,245**	**122,598**	**34,805**	**(1,074,702)**	**(83,175)**
Total comprehensive income for the year	**-**	**11,723**	**-**	**(7,662)**	**-**	**(84,724)**	**(80,664)**
Currency translation difference for foreign operations	-	-	-	-	-	(84,731)	(84,731)
Transfer of excess depreciation to retained earnings	-	-	-	(7,662)	-	-	(7,662)
Realised fair value adjustment on available for sale financial assets transferred to profit	-	-	-	-	-	7	7
Fair value changes on financial assets	-	11,723	-	-	-	-	11,723
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	-	-	-	-	1,274	-	**1,274**
Total transactions with owners of the Group	**-**		**-**	**-**	**1,274**	**-**	**1,274**
At 31 December 2019	**(126,078)**	**33,679**	**938,245**	**114,936**	**36,079**	**(1,159,426)**	**(162,566)**

Notes (continued)

44 Other reserves (continued)

For the year ended 31 December 2018	Pre-acquisition reserve	Revaluation of financial assets- Fair value	Regulatory credit risk reserve	Revaluation reserve on buildings	Share-based payment reserve	Foreign currency translation reserve	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
At 31 December 2017	**(126,078)**	**343,317**	**73**	**122,598**	**16,004**	**(804,230)**	**(448,316)**
IFRS 9 transition adjustment			**(73)**				**(73)**
At 1 January 2018	**(126,078)**	**343,317**	**-**	**122,598**	**16,004**	**(804,230)**	**(448,389)**
Total comprehensive income for the year	**-**	**(321,360)**	**-**	**-**	**-**	**(270,472)**	**(591,832)**
Currency translation difference for foreign operations	-	-	-	-	-	(270,472)	(270,472)
Fair value changes on financial assets	-	(321,360)	-	-	-	-	(321,360)
Transfer of statutory credit risk reserve	-	**-**	**938,245**	**-**	**-**	**-**	**938,245**
Transactions with owners recorded directly in equity, contributions by and distributions to owners of the Group							
Share based payment reserve	-	-	-	-	18,801	-	**18,801**
Total transactions with owners of the Group	**-**	**-**	**-**	**-**	**18,801**	**-**	**18,801**
At 31 December 2018	**(126,078)**	**21,957**	**938,245**	**122,598**	**34,805**	**(1,074,702)**	**(83,175)**

Notes (continued)

44 Other reserves (continued)

		Group	
		2019	**2018**
	Note	**KShs'000**	**KShs'000**
Pre-acquisition reserve		(126,078)	(126,078)
Revaluation of financial assets- Fair value		33,679	21,957
Regulatory credit risk reserve		938,245	938,245
Revaluation reserve on buildings		114,936	122,598
Share-based payment reserve	45	36,079	34,805
Foreign currency translation reserve		(1,159,426)	(1,074,702)
At end of year		**(162,566)**	**(83,175)**

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

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

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

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

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

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

Notes (continued)

45 Share-based payment reserve

	2019 KShs'000	2018 KShs'000
At start of year	34,805	16,004
Equity growth scheme for the year	1,274	18,801
At end of year	**36,079**	**34,805**

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

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

At 31 December 2019, the total amount included in staff costs for Group Share Incentive Scheme was KShs 1,014,677 (2018: KShs 10,247,000) and for Equity Growth Scheme was KShs 258,572 (2018: KShs 8,553,000).

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

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

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

Group Share Incentive Scheme	**Option price range (ZAR) 2019**	**Number of options 2019**	**2018**
Options outstanding at beginning of the year		**60,000**	**72,251**
Granted		22,750	
Transfers		-	-
Exercised	98.80	(46,000)	(12,251)
Lapsed		(500)	-
Options outstanding at end of the year		**36,250**	**60,000**

The weighted average SBG share price for the year to 31 December 2019 was ZAR 183.51 (2018: ZAR 192.35).

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			

Notes (continued)

45 Share-based payment reserve (continued)

The following options granted to employees had not been exercised at 31 December 2018:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
3,750	111.94	111.94	Year to 31 December 2020
56,250	98.80 - 107.55	101.65	Year to 31 December 2021
60,000			

	Number of rights	
Equity Growth Scheme	**2019**	**2018**
Rights outstanding at beginning of the year	3,000	41,813
Transfers	2,375	-
Exercised	-	(38,813)
Lapsed	-	-
Rights outstanding at end of the year[1]	**5,375**	**3,000**

[1] *At 31 December 2019 the Bank would need to issue 2,223 (2018: 1,378) SBG shares to settle the outstanding appreciated rights value.*

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	98.8	Year to 31 December 2021
5,375			

The following rights granted to employees had not been exercised at 31 December 2018:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
3,000	96.68	96.68	Year to 31 December 2021
3,000			

Notes (continued)

46 Capital commitments

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

	2019 KShs'000	2018 KShs'000
Authorised and contracted for	277,986	330,808
Authorised but not contracted for	614,837	1,186,830

47 Operating leases

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

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

	2019 KShs'000	2018 KShs'000
Less than one year	15,361	273,999
Between one and five years	10,782	845,488
More than five years	-	99,568
	26,143	**1,219,055**

The decrease in operating lease rentals is as a result of adoption of IFRS 16 (Note 2 c) (ii))

48 Fiduciary activities

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

	2019 KShs'000	2018 KShs'000
Assets held on behalf of individual's trusts and other institutions	**341,824,041**	**292,161,154**

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:

Notes (continued)

49 Assets and liabilities classified as held-for-sale

	2019 KShs '000
Assets	
Intangible assets	-
Trade and other receivables	17,731
Cash and cash equivalents	107,907
Current income tax	1,883
	127,521
Liabilities	
Trade and other payables	27,056
Deferred tax	25
	27,081

SBG Securities Limited (Rwanda Branch) has been prepared on a break up basis following a strategic review by the directors.