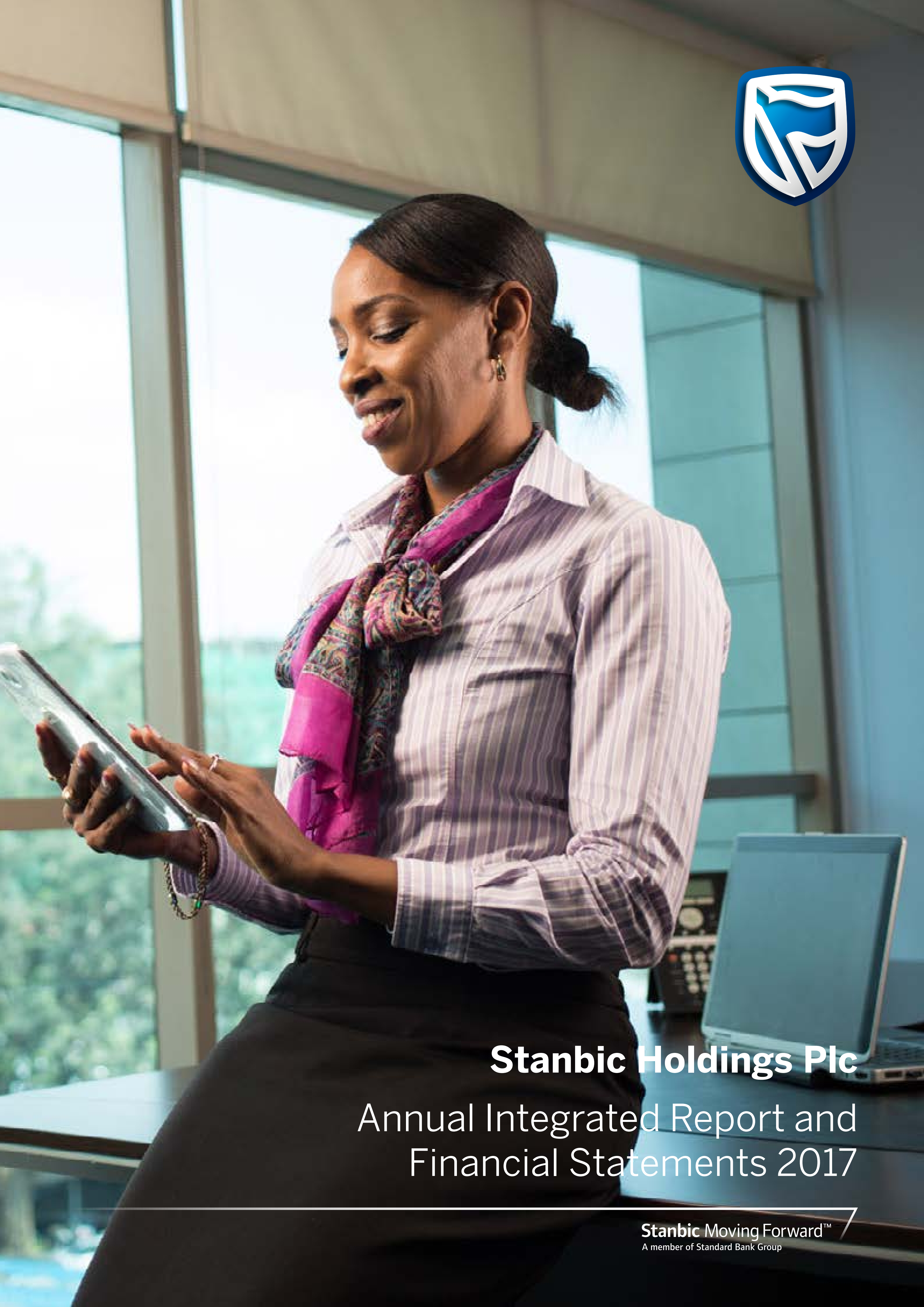


Stanbic Holdings Plc

Annual Integrated Report and Financial Statements 2017

Stanbic Moving Forward™
A member of Standard Bank Group


We are not just a safe bank.
We are the safest.
As voted by Global Finance Safest Bank Awards 2015, 2016 & 2017.
Stanbic Bank
#SafeWithStanbicBank
For more information, call us on
+254 711 068 888/ 0732 113 888 or visit our website on www.stanbicbank.co.ke
Stanbic Bank Moving Forward™
A member of Standard Bank Group

Our report

Our 2017 Annual Integrated Report is a demonstration of our commitment to, and strategies for, creating value for our customers, people, shareholders and community. This report aims to inform stakeholders about our financial and non-financial performance in 2017. This includes a look at how we create value over time and how our new strategy is structured to address the challenges, risks and opportunities Stanbic faces in a fast-changing world. We are committed to the principles of integrated reporting as they align with long-term value creation and the role we play as a bank in society, in moving Kenya forward.

Our scope and content

Unless otherwise stated, all information included in this report refers to the year ended 31st December 2017. It covers the operations of Stanbic Holdings Plc and the ways we are creating value for our stakeholders – in the context of our operating environment. All financial information presented, including the comparative periods, is in accordance with the International Financial Reporting Standards (IFRS) applicable to our operations and businesses. The non-financial sections of this report are guided by the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework. We have determined the content of this report after extensive engagement with our customers, people, shareholders and community.

Our materiality review

We consider a material theme to be any matter that has the capacity to affect our shared value creation from the standpoint of the "Group" and its main stakeholders. Determining material themes is crucial to guide decision-making, since it provides a broader vision of the risks and opportunities inherent to the business and connects the strategies to the multiple outside interests.

As part of our engagement with stakeholders, we have identified the environmental, social and governance issues presenting significant risk and opportunity to our business, and our ability to create value. Following this year's materiality review, prioritised themes for disclosure remain similar to 2016.

Responding to our stakeholders

CUSTOMERS

- Retail
- Corporate

EMPLOYEES AND THEIR REPRESENTATIVES

- Long-term employees
- Short-term employees
- Banking, insurance and Finance union

REGULATORS AND GOVERNMENTS

- National Treasury
- Central Bank of Kenya
- Bank of South Sudan
- Capital Market Authority
- Securities Exchange
- Bankers Associations

SHAREHOLDERS AND INVESTMENT ANALYSTS

- Investors
- Shareholders
- Analysts

COMMUNITIES AND CIVIL SOCIETY

- Beneficiaries
- Corporate Social Investment
- Partners
- Media
- Advocacy Groups
- Public

Our stakeholders are those individuals or organisations that have an interest in and whose actions impact on our ability to execute our strategy.

Our intention is to build and promote stakeholder engagement activities and relationships that are meaningful, and support us in fulfilling our purpose, enhancing our reputation and meeting regulatory requirements.

Material issues

The world around us is constantly changing. This section highlights several trends that have a major impact on both our operating environment and that of our competitors. This includes the economy and current interest rate environment, increasing regulatory scrutiny and costs, IFRS 9, digitisation and changing customer behaviour, and what our stakeholders expect of us.

OUR BUSINESS

6

OUR STRATEGIC PROGRESS

12

CONTENTS

36
OUR PERFORMANCE

64
SEE REPORT

72
OUR ACCOUNTABILITY

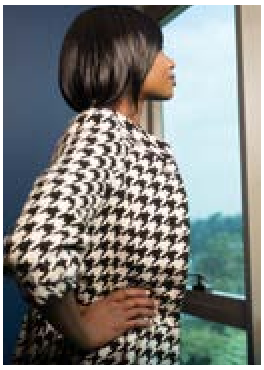
96
ANNUAL FINANCIAL STATEMENTS

206
ADDITIONAL INFORMATION

HOW TO READ OUR REPORT

We produce a full suite of reports to cater for the diverse needs of our stakeholders.

Our business



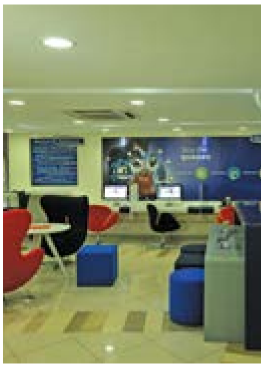
This section provides information on who we are , our mission and vision statement. It also details the performance highlights for 2017

Frameworks* applied

- King Code IV
- <IR> Framework of the International Integrated Reporting Council

pg 6

Our strategic progress



This section provides information on our value creation model, our strategy, details on how we use our resources and distribute value to our stakeholders and our leadership team.

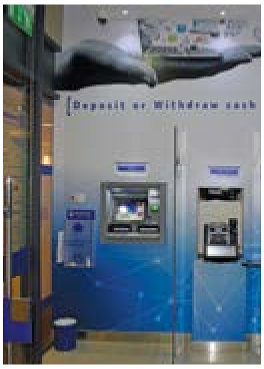
It provides a holistic assessment of the group's ability to create value. It considers the issues that are material to our commercial viability and social relevance, which are required to achieve our strategy in the medium to long term. These include the macroeconomic and socio-political conditions in which we operate.

Frameworks* applied

- King Code IV
- <IR> Framework of the International Integrated Reporting Council

pg 12

Our performance



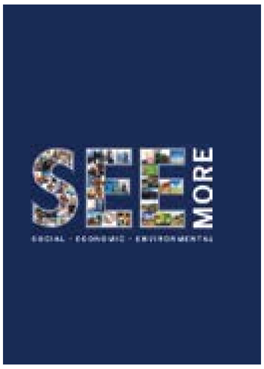
This section contains messages from the Chairman and Chief Executives as well as the Business unit heads. It also details the execution of the various facets of our strategy

Frameworks* applied

- IFRS
- Companies Act
- Banking Act
- CBK Prudential Guidelines

pg 36

SEE report



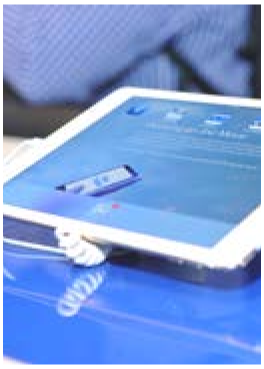
This section details' the group's social, economic and environmental impacts and how these contribute to the group's sustainability and its ability to achieve its purpose.

Frameworks* applied

- Equator principles
- King code IV

pg 64

Our accountability



A detailed review of the group's risk management statement and corporate governance and remuneration practices, including the group's remuneration policy.

Frameworks* applied

- Basel II & III
- Companies Act
- Banking Act
- CBK Prudential Guidelines
- King Code

pg 72

Annual financial statements

Sets out the group's full audited annual financial statements.

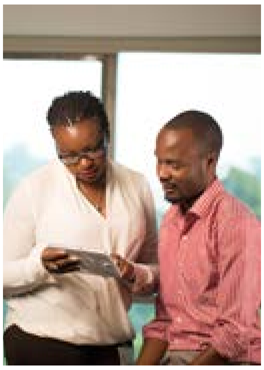
Frameworks* applied

- IFRS
- Companies Act
- CBK Risk Management Guidelines
- Banking Act
- CBK Prudential Guidelines
- The Group accounting policies

Assurance
Unmodified audit opinion expressed by PricewaterhouseCoopers

pg 96

Additional information



This section includes other documents such as the AGM Notice and the Proxy Form as well as an appendix on our progress in the implementation of the CMA guidelines on Corporate Governance

Frameworks* applied

- Companies Act
- CMA Guidelines

pg 206

Intended readers: primarily ***our providers of financial capital****, being our shareholders, depositors and corporate bondholders, but information relevant to our other stakeholders is also included.*

***Definitions:**

IFRS – International Financial Reporting Standards
Companies Act – Kenya Companies (Amendment) Act of 2017
CBK Risk Management Guidelines - CBK Risk Management Guidelines of 2013
Banking Act – Banking (Amendment) Act of 2016
CBK Prudential Guidelines – Central Bank of Kenya Prudential Guidelines of 2013
CMA Guidelines - Capital Markets Authority Guidelines
King Code – King Report on Corporate Governance, also known as King IV
The group – Stanbic Holdings

The invitation to the annual general meeting and the notice of the resolutions to be tabled at the meeting are on page **217**

OUR BUSINESS

WHAT'S YOUR **NEXT?**

Kenya is our home and we are passionate about driving her growth and fulfilling the aspirations of our customers and play a central role in changing their lives.

As part of our purpose, we are focused on placing our customers at the heart of everything we do and being aware that they are uniquely different with specific needs and aspirations.

Our customers are increasingly on digital platforms and we are making this possible through our digitisation agenda that has revolutionised the products and services we offer. We continue to invest in mutually beneficial relationships with our customers and demonstrate that we are the best partner for them.

In everything we do, we are enabling our customers to step up to their 'Next'- whether it is a car, a house, growing their business, opening up new markets or making an online purchase.

We must learn and change quickly and always strive to be better. We are bringing technology, data and analytics together and combining that with service excellence in a new way that will empower our customers and ensure we continuously deliver an exceptional and personalised experience.

WHO WE ARE

We are a customer-centric, digitally enabled universal financial services organisation.

Stanbic at a Glance

Kenya is our home and we are focused on fostering its socio economic growth. Founded on a solid legacy that spans over 100 years, we are a leading financial services organisation with an on-the-ground presence in Kenya and South Sudan. Stanbic is a member of the Standard Bank Group Limited, Africa's leading bank and financial services group, which operates in 20 countries.

Our Purpose
– the reason we exist

Kenya is our home,
we drive her growth

Our Vision
– what we aspire to be

To be a leading nationally relevant financial services organisation in Kenya, delivering exceptional customer experiences and superior value

DIVERSIFIED UNIVERSAL FINANCIAL SERVICES OFFERING

Personal & Business Banking

Banking and other financial services to individual customers and small-to medium-sized enterprises in Kenya.

Corporate & Investment Banking

Corporate and investment banking services to customers, including governments, parastatals, larger corporates, financial institutions and multinational corporates.

Wealth

Wealth services and product offerings, including insurance, investment, fiduciary, bespoke banking and multi-generational wealth preservation solutions to high net worth individuals, retail, business, commercial, and corporate customers across the group's footprint.

27
branches

54
ATMs

Recognised brand

Standard Bank | Stanbic Bank

Valued people

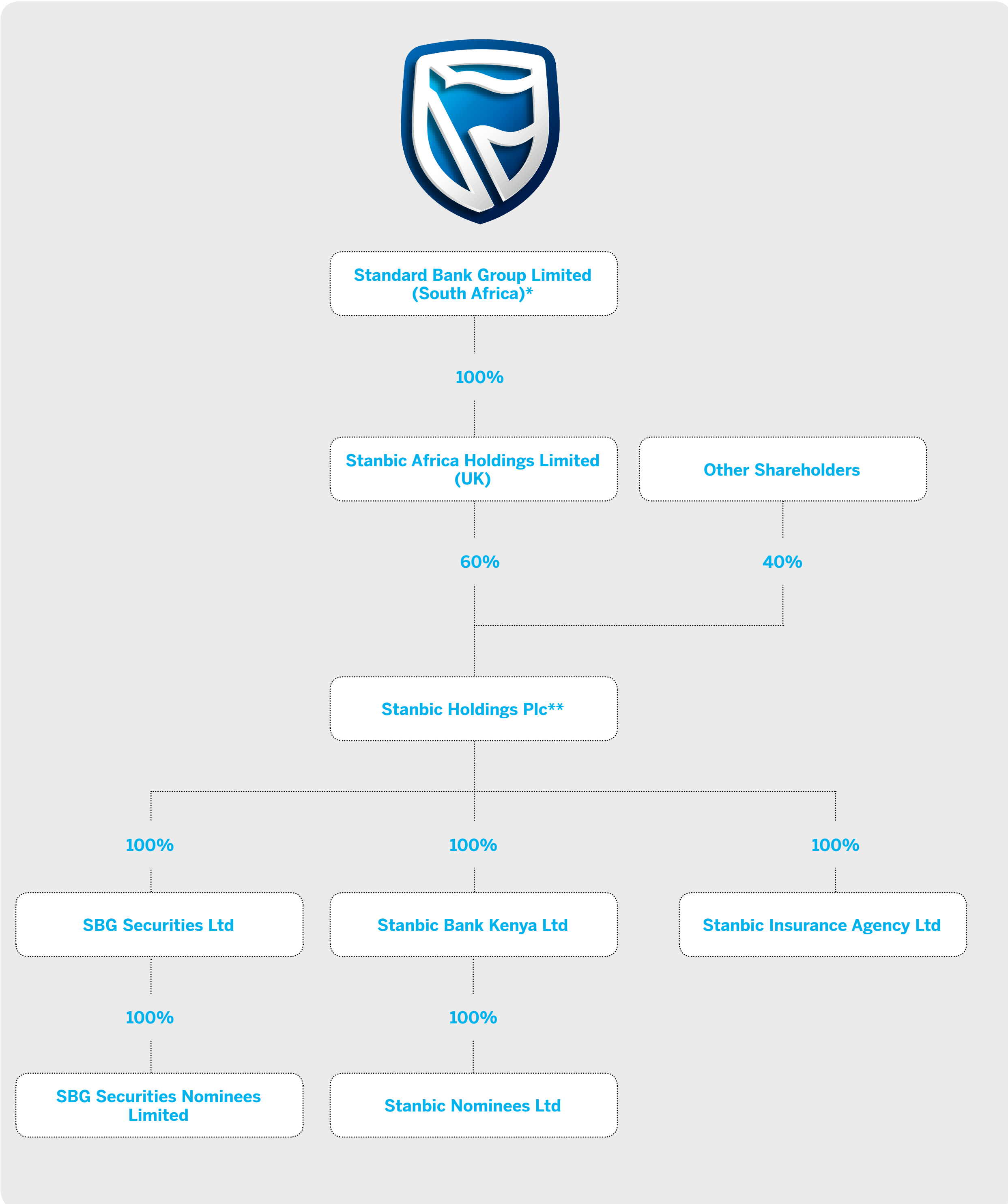
1,113 EMPLOYEES

Digital capabilities

BEST-IN-CLASS TECHNOLOGY

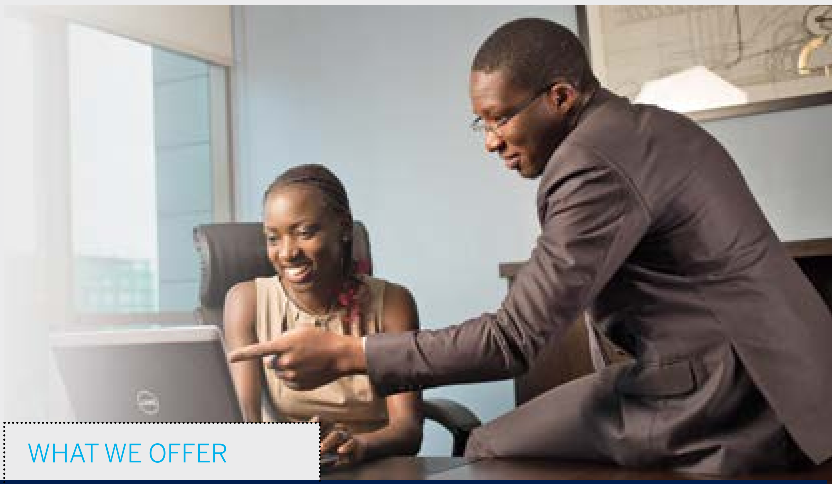
Modernised core banking platforms.

Our Business structure



*Listed on the Johannesburg Stock Exchange
**Listed at the Nairobi Securities Exchange

Our Business units



GROUP

WHAT WE OFFER

PERSONAL & BUSINESS BANKING

Provides banking and other financial services to individual customers and small to medium-sized enterprises.

- Transactional products
- Lending products
- Bancassurance
- Digital banking solutions
- Vehicle and asset financing
- Trade finance
- Chinese desk

KShs 6,965 million

TOTAL REVENUE

2016: KShs 6,987 million

CORPORATE AND INVESTMENT BANKING

Provides corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties.

- Global markets
- Investment banking
- Transactional products and services

KShs 12,099 million

TOTAL REVENUE

2016: KShs 11,530 million

WEALTH

Offers valuable advice that enables individuals or businesses to plan and manage their wealth over time with an objective of growing, preserving and protecting their wealth by taking a long-term approach to their financial matters.

2017 PERFORMANCE HIGHLIGHTS

KShs 19,064 million
TOTAL REVENUE
2016: KShs 18,517 million

KShs 4,309 million
PROFIT AFTER TAX
2016: KShs 4,419 million

KShs 154,661 million
CUSTOMER DEPOSITS
2016: KShs 119,328 million

KShs 248,739 million
TOTAL ASSETS
2016: KShs 214,683 million

KShs 10.90
EPS
2016: KShs 11.18

57.2%
COST TO INCOME RATIO
2016: 57.9%

10.4%
RETURN ON EQUITY
2016: 11.3%

KShs 130,536 million
CUSTOMER LOANS
2016: KShs 115,588 million

KShs 5.25
DPS
2016: KShs 5.25

1,113
EMPLOYEES
2016: 1,116

OUR STRATEGIC PROGRESS


Telephone Banking
Interested?
Enquire from our
Customer Service Consultants
about our digital experience
MOBILE BANKING
BUSINESS ONLINE
CUSTOMER SERVICE
innovation
INTERNET
SECURE

OUR APPROACH TO VALUE CREATION

OUR CUSTOMERS

Our customers are at the centre of everything we do.

This is our central organising principle in building a digitally enabled universal financial services organisation. It aligns our efforts to change the way we do things, develop our people and shift our culture and ultimately creates a sustainable competitive advantage in a changing industry.

OUR PEOPLE, SHAREHOLDERS AND OTHER STAKEHOLDERS

Our stakeholders are the providers of the financial and non-financial capital we need to create value.

Stakeholder inclusivity and responsiveness and delivering the outcomes our stakeholders expect, enable us to secure and maintain these inputs. It also allows us to identify opportunities and challenges, which inform our strategic decision-making.

pg 22 – 23 Our shared value model.
pg 38 – 39 Chairman's statement.

GROUP STRATEGY

Our group strategy is focused on creating shared value.

Our group strategy represents our commitment to the shared future we intend to create for our customers, our people and our stakeholders.

Our strategic value drivers and focus areas align our allocation of resources to our strategy. They define and provide the basis for measuring the value we create.

pg 16 Our group strategy.
pg 26 – 34 Our strategic progress.
pg 50 – 63 Our performance.

RISK APPETITE

Our group strategy is achieved within the parameters of our risk appetite, which is underpinned by conscious risk-taking in pursuit of growth.

We align our risk appetite to changes in our operating context, instil a risk-aware culture throughout the group and continually enhance our risk management capabilities.

pg 74-85 Risk overview.

GOVERNANCE APPROACH

Governance for shared value

Our governance framework promotes strategic decision-making aimed at achieving the best possible shorter-term and longer-term outcomes for our stakeholders.

pg 89 – 94 Corporate governance overview.

An engaged team

We are embedding a culture that combines high performance and ethical behaviour, and creating an environment in which our people are empowered and motivated to deliver exceptional customer experiences.

pg 62 – 63 An engaged team.

Remuneration overview

Our reward philosophy reflects the group's strategy. We combine reward elements that link directly to our values, our strategic focus areas, value drivers and financial performance criteria and thresholds.

pg 95 Remuneration overview.

ACTING ON OUR MATERIAL ISSUES

Our material issues synthesise the interests of the group and those of our stakeholders, and take into account structural shifts and cyclical pressures in our operating context. They are linked to our strategic value drivers, direct the focus of our strategic planning and management priorities, and inform our reporting to stakeholders.

OUR KEY STAKEHOLDER GROUPS	MATERIAL ISSUES – IMPACTING OUR COMMERCIAL VIABILITY AND SOCIAL RELEVANCE	VALUE DRIVERS – HOW WE DEFINE AND MEASURE VALUE
CUSTOMERS	• Understanding the needs of our customers. • Providing our customers with a personalised and comprehensive financial services offering. • Empowering our people to better provide an excellent and consistent customer experience. • Making it easier, faster and safer to transact by accelerating innovation and digitisation.	**Customer focus** Exceptional customer experience – placing the customer at the centre of everything we do.
		+
EMPLOYEES EMPLOYEE REPRESENTATIVES	• Attracting and retaining deeply committed people with the right skills and capabilities. • Enabling our people to be agile and adaptive to remain relevant in a rapidly evolving environment. • Creating an environment in which our people are engaged and enabled to take care of their well-being.	**Employee engagement** Making Stanbic Holdings a great place to work.
		+
REGULATORS GOVERNMENTS	• Proactively responding to increased cybersecurity threats and protecting customer information. • Maintaining the stability, security and speed of our IT systems. • Conducting our business in a responsible manner by doing the right business the right way. • Responding to the pace, volume and scale of regulatory change. • Supporting steps to combat financial crime, fraud and illicit financial flows.	**Risk and conduct** Doing the right business the right way.
		=
SHAREHOLDERS INVESTMENT ANALYSTS	• Growing our customer base, retail franchise and revenues. • Political stability in South Sudan. • Responding to challenging economic conditions. • Interest rate caps • Maintaining the resilience of our balance sheet.	**Financial outcomes** Delivering superior value to our shareholders.
COMMUNITIES CIVIL SOCIETY	• Investing in the region's infrastructure, notably that of green energy. • Supporting innovation and investment that drives financial inclusion, education and a green economy. • Harnessing the commercial opportunities of addressing societal challenges.	**SEE impact areas** Creating and maintaining shared value.

PG 18 – 20 For a detailed review of our material issues

OUR GROUP STRATEGY

Our strategy is designed to realise the opportunities that Kenya presents.

OUR PURPOSE

Kenya is our home, we drive her growth.

OUR VISION

To be a leading nationally relevant financial services organisation in Kenya, delivering exceptional customer experiences and superior value.

OUR VALUES

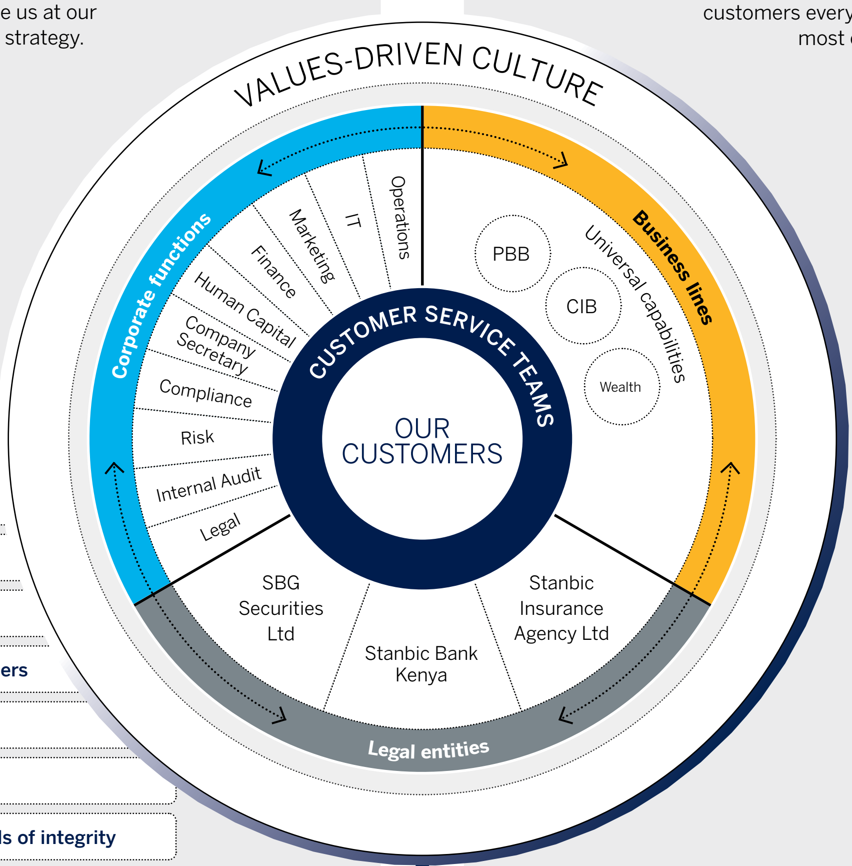
serve as beacons for the behaviour and qualities that define us at our best as we execute our strategy.

- **Being proactive**
- **Growing our people**
- **Constantly raising the bar**
- **Working in teams**
- **Delivering to our stakeholders**
- **Respecting each other**
- **Serving our customers**
- **Upholding the highest levels of integrity**

OUR KEY FOCUS AREAS

work together to ensure we offer our customers everything they need in the most effective way possible.

- **Customer centricity**
- **Digitisation**
- **Universal financial services organisation**



OUR STRATEGIC VALUE DRIVERS

Focus our efforts and measure the progress we are making against our group strategy and vision.

Customer focus + Employee engagement + Risk and conduct = Financial outcome

SEE impact areas

THE WAY WE WORK / THE WAY WE WIN

Customer centricity places our customers at the centre of everything we do.

CUSTOMER CENTRICITY requires that our people and processes are outwardly focused on our customers as their needs and expectations change. This means we align the way we plan, deliver and execute work, doing the basics brilliantly and consistently so that we can do what our customers value.

We are working to:

- See customers as **real people, not numbers**.
- Provide our customers with **relevant solutions**.
- Be a **trustworthy partner** on our customers' growth journeys.
- **Do the basics brilliantly** and **deliver on our promises** quickly, efficiently, reliably and respectfully.

Digitisation means we are always on and always there to deliver our customers' and employees' needs in a secure, personalised and relevant way.

DIGITISATION is more than just technology – it is about delivering the full range of financial services through secure, personalised, relevant and digitally enhanced experiences to our customers and employees in real time, all the time.

We are working to:

- Ensure that the services our customers and employees need are **consistently available, anywhere, anytime**.
- **Use data proactively** to discover valuable insights and deliver personalised experiences.
- Remove friction, paper-based processes and waste to ensure **intuitive, easy to use, reliable interfaces** for our customers and employees.
- Create a workplace that encourages **curiosity, digital thinking and continuous improvement** for quick and frequent refinement of ideas and brilliant delivery.

Our ability to offer an integrated service to our customers is a key differentiator.

Offering a complete range of **FINANCIAL SERVICES** follows from our commitment to customer centricity, and reinforces the competitive advantages of our scale, scope and expertise. This means that our business units, legal entities and corporate functions must work as an integrated whole to service our customers' financial needs in a seamless way.

We are working to **seamlessly and efficiently deliver** the financial services organisation, so our customers have access to and experience all our propositions relevant to their needs.

OUR VALUES-DRIVEN CULTURE

Our culture is 'the way we do things'. Our work to shift our culture for the better recognises that how we do things is as important as the things we do. Our culture is determined by our purpose, vision, values and our approach to ethics. Our code of ethics guides us to be responsible and respectful in our dealings with all our stakeholders, as we work to become East Africa's leading financial services organisation. It outlines acceptable business conduct and is an important reference point for employees acting on behalf of Stanbic Group. These clearly defined parameters empower us to make faster, more confident decisions that have the interests of our customers, and the people of the region, at heart.

We are focusing on three critical behaviours that will shift our culture and make the most difference in supporting our strategic journey:

- Connect every team's work to the group's larger purpose of **serving our customers with integrity**.
- **Create common goals** across different areas and follow through urgently.
- Enable people to **take ownership** of their work and help to remove obstacles.

HOW OUR MATERIAL ISSUES AFFECT OUR STAKEHOLDERS

The world around us is constantly changing. This section highlights several trends that have a major impact on both our operating environment and what our stakeholders expect of us. Stakeholders are the parties with which we have interdependent relationships. The engagement with these stakeholders has enabled us to gain learning to perfect our decision-making process and improve our capacity to generate shared value. In addition, we believe that cultivating mutual trust and respect with stakeholders is clearly the seed for sustainable performance.

Customers

Customer centricity is the most important topic for stakeholders. This includes areas such as customer privacy, responsible lending, fair pricing and proactive communications, and usability and accessibility of our products and services. Transparency and openness are just as important and many stakeholders are increasingly expecting more in this area. Banks, entrusted with details of companies and private individuals, must continuously weigh pros and cons between transparency and privacy. Within these boundaries, we continuously look for ways to provide more transparency.

The way people access money and banking is changing. More and more, our customers are taking advantage of digital banking. They can access it anywhere, at any time of the day – while seeking a personalised experience. Our customers are increasingly transacting across our digital platforms while over-the-counter transactions are falling. Moving forward, our challenge is to make it clear to our customers that we are a partner that backs them. We are investing in building profitable, mutually beneficial relationships with our customers based on the quality of our service and the differentiating experience we offer them. We intend to continue working hard to win their hearts and minds, demonstrating our concern for them and all our stakeholders. We intend to be even clearer about the strategic choices we make. We are doing this through our customer relationships and utilising technology to revolutionize financial services that will have a positive impact on their lives. Investment in innovation and digitisation will help us deliver great experiences to our customers.

Technology is removing a number of the barriers to entry that once insulated our business. We face competition from many different directions, with relatively new players providing more segmented offers to our customers and customers. Technology giants, payment specialists, retailers, telecommunication companies, crowd-funding initiatives and aggregators are all encroaching on the market for traditional banking services. Our customers are in turn, taking up these offers. Banks strive to act in the interests of their customers. Safe banking requires specific knowledge of financial services, in-depth knowledge of customers, and rigorous risk-management systems. As competition from outside the banking sector continues to increase, we have to become faster, more agile and more innovative.

Our long track record and strong brand place us well to seize these opportunities and become a better company for all of our stakeholders. We seek to be a leader in digital banking, to build scale and leverage from the local market expertise acquired over the years. We are investing in our technology and systems to ensure that were are the obvious financial partner for the future.

See management response on page 27

Employees and employee representatives

Attracting and retaining the best people in the industry is critical to delivering on our objectives. Our reputation for great thought leadership attracts external talent to constructively disrupt and accelerate strategic delivery. And our practice of developing and empowering our people at all levels serves to retain our talent The ideal employee is one that relates to customers better, ready to evolve and is better at decision making. That employee must also be motivated, enabled and energized because they are the primary resource and ambassadors of the bank and have the ability to enhance the performance of the bank.

With our large pool of employees, it is a requirement that we be a responsible employer that provides staff with good working conditions and opportunities for growth. In the digital world, human touch remains important. Therefore we strive to create an entrepreneurial, open, collaborative, innovative and energetic culture that attracts and motivates employees and helps to deliver on our strategy. We offer training and opportunities for staff to develop professionally, improving people's general employability. We see this as part of our responsibility as an employer. While we accept that technology is fast changing the role of employees, we are committed to remain engaged with or people and ensure that they continue to play a critical role in the success of the Group.

See management response on page 29

Regulators and Government

The role of banks as financial institutions is to support and encourage economic, social and environmental progress that leads to a better quality of life. Building community confidence in banks, both through our own actions and through industry led initiatives, is important. There has been a lot of scrutiny on the banking sector and the placement of a few banks under receivership has resulted in diminished trust in the sector. The banking industry must strive to maintain a reputation as a trusted, respected and solid partner. There are increased efforts to achieve this through strengthening public trust and confidence in the banking industry. As Stanbic, we are committed to transparency and accountability for our customers, and we are working with the Kenya Bankers' Association (KBA) to implement initiatives for real and lasting reform.

Big data and cyber security is of huge concern in our industry. Capturing and analyzing data helps us understand our customers' needs and preferences, allowing us to offer them tailored products and improved service. As a bank we collect and store vast amounts of data, such as customer profiles, payment transactions, complaints and more. Besides giving us meaningful insights to better understand our customers, it improves the accuracy of our internal and external reporting, for example to regulators. At the same time, we see an increasing focus on data security across all industries. For banks, this especially relates to people's personal financial information. Customers trust us to store their data with care and safety. This trust is also at the core of our relationship with our customers. The wishes of our customers are critical whenever data is processed for services and offers.

Protecting our customers' financial information is a priority. Our customers expect it, and it is our legal duty. Analyzing data helps us innovate and serve our customers better. For instance, by studying the data from our mobile banking apps we can improve those apps and the services they provide. We can also use advanced analytics to offer customers products that are most relevant to them. Data analysis also helps us protect customers. We use analysis of erratic or unusual activity to identify potential bank-card fraud. Improved insight into consumer payment patterns allows us to warn customers sooner if they risk defaulting on monthly credit obligations. Through analyzing their data, we help customers better understand their financial situation, anticipate their future needs, and make smarter decisions.

Still, there is controversy about the use of "big data". We strive to comply strictly with all data protection laws and regulations, both in the letter and spirit of the law. We aim to maintain strong safeguards around our customers' privacy and only analyze their data to provide better product offers and services where they give us explicit permission, allowing them to withdraw that permission at any time if they choose. The internet places so much power in the hands of any technically proficient individual that there will continue to be risks online. We work to raise our customers' awareness of what they can do to safeguard their own information, such as using strong passwords, installing updates and not sharing personal information with others.

In 2017, the fast pace of regulatory change continued. We recognise the importance of the regulatory changes introduced in response to the financial sector stability and support them. Much has been accomplished to increase the resilience of the financial sector and ensure that it can continue to reliably play its role in supporting customers and the development of economies. However, there remains concerns about the scale of regulatory change, the multiple regulatory initiatives being pursued and the lack of clarity and coordination regarding the combined impact on the future of the financial sector and on consumers and businesses that depend on it.

Some of the key regulations introduced in the year that touch on the banking sector include:

1. CBK Guidance Note on the Implementation of IFRS 9 on Financial Instruments
2. CBK Guidance Note on Cyber Security
3. Proceeds of Crime and Anti-Money Laundering (Amendment) Act 2017
4. Moveable Property Security Rights Act, 2017
5. Capital Markets (Online Foreign Exchange Trading) Regulations 2017
6. The Statute Law (Miscellaneous Amendments) Act, (No. 11 of 2017)
7. CMA Circular MRT/005/2017 –Market Certification and Competency Standards
8. The Companies (General) (Amendment) Regulations, 2017
9. Financial Services Authority (FSA) Bill 2017
10. Risk Based Supervision
11. Oversight of Collective Investment Scheme (CIS) funds
12. Amendment of the Kenya Deposit Insurance Corporation Act (KDIC)

See management response on page 31

Shareholders and Investment Analysts

2017 was a challenging year for both of the economies that we operate in. In Kenya, which is our largest market and domicile country, the year was characterised by a prolonged electioneering period and drought that hit the agricultural sector. This resulted in a slowdown in business activity in an economy that was already grappling with dwindling growth. GDP growth for the year was below 5% and credit growth was at its record lowest in recent history. Businesses were hard hit and the industry saw an increase in Non-performing loans (NPLs). However, we have in place a solid strategy that enabled us to register good underlying growth across our businesses and guarantee a sustainable return to our shareholders.

After the introduction of interest rate cap in 2016, banks net interest margin has come under pressure. We actively managed our interest rate risk exposure and successfully rolled out initiatives that have seen us increase our non-funded income so as to shore up our revenues. We are also putting more emphasis on generating fee-based income and are reassessing our product characteristics.

This is also the third year that we are reporting on all of these material topics in an "integrated" report that includes both financial and non-financial information. We have seen a shift in materiality results since 2015, with shareholders requesting for more and more disclosure on non-financial performance. In 2017, topics such as customer centricity and privacy were extremely important, and themes such as digitisation, cyber security, prevention of corruption and anti-competitive behaviour have become more important. These high-priority issues show that we need to balance financial and non-financial expectations if we want to effectively address shareholders' concerns. Our strategy fits well with this as it encompasses both financial and non-financial components.

See management response on page 33

Communities and civil society

Sustainability forms an integral part of any economy and this is embedded in our business. Society demands that banks empower people by striving to make banking clear and easy, available anytime and anywhere and by making financial empowerment tools available to them so they better understand their financial needs and can make well informed financial decisions. There is also increased pressure on corporates to understand and manage both environmental and social risks. At Stanbic, sustainability is inherent in our strategy where we purpose ourselves to operate in a way that meets stakeholder expectations; socially, economcally and environmentally. We are working to minimise any negative, and maximise positive, social and environmental impacts of our products and services.

Banks are scrutinised on whether they have robust policies when dealing with sensitive sectors and customers, as well as important topics such as climate change and human rights. Our comprehensive and detailed Environmental and Social Risk (ESR) framework sets out a clear checklist when deciding which companies or activities to finance and under which conditions. We also believe it is important to discuss these challenges with other banks to learn from each other and reach common ground to really create sustainable change across the sector.

As a bank we are subject to a regulatory framework that focuses on structural measures to reduce systemic risk. These regulations inform the way we allocate capital. We have increased the strength of our capital base to protect customers and contribute to a sustainable financial environment. At the same time, innovative business developments are also important to stakeholders. We aim to be a leader in transforming banking, staying at the forefront of digital developments. We are also mandated to generate as sustainable return to shareholders through annual dividends as well as meet our tax obligation and champion social initiatives through Corporate Social Investment (CSI) programs. These activities require capital as well as sustained solid financial performance. Under the current interest rate capping regime we are limited as to increasing profitability by raising prices or lowering interest rates paid on savings accounts, but reasonable pricing of our products and services is also very important both to us and our customers, as we know we must remain competitive and profitable.

See management response on page 34

OUR SHARED VALUE MODEL

Our shared value model connects commercial and social realities in a dynamic environment of competing stakeholder expectations, competitive forces and regulatory pressures.

INPUTS

Social and relationship capital

The quality of our relationships with our customers, providers of capital, regulators and other stakeholders underpins our legitimacy, reputation and competitiveness. We protect, advance and reconcile the individual and collective interests of our stakeholders to remain commercially viable and socially relevant.

- Profitable customer relationships.
- Good standing with investors.
- Constructive relationships and dialogue with regulators and government.
- Collaborative relationships with suppliers and associates.
- Social and environmental risk management in financing activities.
- Our customer deposit as at 31/12/2017 was KShs 155bn

Human capital

Our people are our strongest competitive advantage. Their expertise, resilience and motivation is required to serve our customers and fulfil the expectations of our other stakeholders, according to our values and within the parameters of compliance and risk appetite.

- KShs 115mn invested in training our employees in 2017
- Knowledge, capacity and energy of 1,113 employees
- Good relationships with employee representatives.
- Reward structures linked to our values, strategy and financial performance.
- High-performance ethical culture.
- Robust risk and compliance structures.

Intellectual capital

The systems and processes that underpin our business and align our people, culture, technology and organisational architecture to our strategic direction. An important aspect of our intellectual capital is the strategic investments we make in associate companies, enabling us to stay abreast of disruptive change and remain competitive.

- Strong brand locally and affiliated to Standard Bank, a strong Pan African Bank.
- Strategic partnership with ICBC.
- Experienced and skilled Board and strong executive and leadership teams.
- Customer-focused, digitally enabled ways of working.
- A culture of digitisation and innovation.

Manufactured capital

Our channel and IT infrastructure, particularly our modernised IT platforms and digital channels and the national infrastructure of the countries we operate in, which we use to conduct our business.

- Core banking IT platforms.
- Fit-for-purpose branch network and digital touch points.
- Backup systems to mitigate the risk of business disruption and utility outages.
- Our manufactured capital consists of 27 branches, 54 ATMs and 19 Bulk Note Acceptors (BNAs)

Financial capital

The funding from the providers of capital used to run our business and invest in our strategy.

- Affordable access to capital, and resilient and diverse capital structure which includes an optimised mix of equity and debt.
- Subordinated debt (KShs 4bn) and core capital (KShs 31bn) for the banking business.

Natural capital

Our indirect impact on natural resources through our financing activities and, more directly, the utilities we require to operate.

- Working with customers to promote the preservation of natural capital in their projects.
- Investing in renewable energy projects like M-KOPA Solar.
- Initiatives that minimise our direct environmental footprint.

GOVERNANCE

Our governance and risk frameworks are integrated across our operations, enabling enhanced accountability, effective risk management, clear performance management, greater transparency and effective leadership.

Our ethical and effective leadership unites our purpose and performance by embedding an ethical and risk-aware culture that recognises the trust of our stakeholders is the basis on which we compete and win.

KEY RISK TYPES:

- Credit and country risk
- Liquidity and Interest rate risk
- Business and reputational risk
- Market risk
- Operational risk, including compliance, environmental and/or social risk

OUTPUTS

What we enable our customers to do

Borrow to achieve their personal and business goals, supporting employment and inclusive economic growth in the markets we operate.

Transact through convenient access to and movement of funds.

Invest to create wealth by generating long-term returns and mitigate the erosion of their capital due to inflation.

Access financial markets and invest in the markets we operate, based on the advice we provide.

SHARED VALUE OUTCOMES

What we invest in to support what we do for our customers

Our universal financial services offering and capabilities delivered through PBB, CIB and Wealth.

Our people, to equip them to deliver exceptional customer experiences in a changing world of work.

Our operations, including our IT platforms, to enhance our capabilities, improve efficiency and remain compliant with all applicable laws and regulations.

Strategic investments that support our access to innovation, and drive socioeconomic development in Kenya.

We strive to employ our resources and relationships responsibly in what we do and how we do it, to create the best outcomes for our customers, our people, our shareholders and our other stakeholders.

pg 74 – 85 Risk overview

VALUE DRIVERS

Customer focus
Exceptional customer experience – placing the customer at the centre of everything we do.

+

Employee engagement
Making Stanbic Holdings a great place to work.

+

Risk and conduct
Doing the right business the right way.

=

Financial outcomes
Delivering superior value to our shareholders.

SEE impact areas
Creating and maintaining shared value.

pg 26 – 34 Our strategic progress.

VALUE ADDED STATEMENT

Our Value Added Statement depicts the value that has been created by the Group through the effective acquisition, deployment and management of our capitals – relational, financial, human, intellectual, manufactured and natural - and the resultant distribution of value to our stakeholders. This statement showcases our commitment to creating stakeholder value through our business model and sound business practices.

	2017	2016	2015	2014	2013
Value addition	KShs. 000'	KShs. 000'	KShs. 000'	KShs. 000'	KShs. 000'
Interest Income,Fees,Commission and Other income	25,429,557	25,121,892	22,632,847	20,297,873	19,305,858
Interest Paid to Depositors and other costs	(13,150,926)	(12,420,312)	(8,885,055)	(7,023,527)	(6,866,391)
Interest paid on borrowings	(521,104)	(685,049)	(838,412)	(531,753)	(546,805)
Wealth Created	11,757,527	12,016,531	12,909,379	12,742,592	11,892,662
Employee benefits	(5,735,195)	(5,440,584)	(5,035,142)	(4,472,141)	(4,030,095)
Government - Tax	(1,091,754)	(1,630,497)	(2,453,680)	(2,013,585)	(2,096,849)
Shareholder's Dividends	(2,075,439)	(2,075,439)	(2,431,229)	(2,431,229)	(849,942)
Retention to support future Business Growth:					
Retained Earnings	(2,234,055)	(2,343,150)	(2,474,505)	(3,255,432)	(4,277,214)
Depreciation and Amortisation	(613,769)	(517,500)	(503,832)	(556,912)	(623,358)
Social Capital-CSI	(7,315)	(9,361)	(10,992)	(13,294)	(15,204)
Distribution of wealth	(11,757,527)	(12,016,531)	(12,909,379)	(12,742,592)	(11,892,662)

MEASURING OUR STRATEGIC PROGRESS

Our strategic value drivers are the framework we apply in measuring our strategic progress. They inform our allocation of resources and guide our trade-off decisions. We have made further progress in aligning our governance, planning and reporting processes to our strategic value drivers, and will continue to refine the underlying metrics to ensure that we are measuring what matters most in delivering our group strategy.

CUSTOMER FOCUS

Always connecting with our customers.

We place our customers at the centre of everything we do. Through deeply understanding our customers, we aim to provide holistic, relevant and appropriate products and services seamlessly through their preferred channels. We want to do valuable things to our customers through digital channels, redesign our operating models, develop our people and shift our culture – for long-term sustainable competitive advantage

WHAT SUCCESS LOOKS LIKE

- We understand our customers and offer them the services and solutions they need to achieve their goals.
- We serve our customers quickly,efficiently,reliably,consistent and respectfully.
- We earn and keep our customers' trust.
- We build relationships that help our customers grow.
- We employ proactive, personalised approach to financial solutions throughout the customer life cycle.
- We want to be known as a trusted partner, secure, efficient and value adding bank.

HOW WE MEASURE OUR PROGRESS

To understand how satisfied our customers are with our service, internally facilitated customer surveys appropriate for each business unit are conducted in phases throughout the year.

Our indicators

- Net promoter score (NPS) for PBB.
- Customer satisfaction index (CSI) for CIB.
- Internal Service Survey (ISS)*

HOW WE PERFORMED

PBB

Our focus on delivering an exceptional, consistent and seamless customer experience that offers value to individuals and businesses have led to an improvement in our NPS score to 28 in 2017 from 13 in the prior year.

CIB

The overall customer satisfaction index score remained unchanged from prior year at 7.7 out of 10. Our customers rated their relationship managers higher than prior year at 8.5 from 8.3. Strong satisfaction with relationship managers aligns to the finding that Stanbic Bank's competitive advantage is largely related to the quality of its people.

***Internal service survey (ISS)**

This is an internal survey which is dependent on the levels of departmental engagements and perceived support within units that depend on each other for an end to end service delivery. It is measured at a total bank level. A scale of 1 to 10 is applied where 1 is poor internal customer service and 10 is excellent service. The total overall bank score in 2017 was 9 out of a target of 9.5

Key customer concerns

- Simplified processes.
- Provision of timely offerings.
- Improving their banking experience.
- Increase points of representation/footprint.
- Cheaper and more convenient banking services.
- Quicker turn around times.

Related material issues

- Understanding the needs of our customers.
- Providing our customers with a personalised and comprehensive financial services offering.
- Empowering our people to better provide an excellent and consistent customer experience.
- Making it easier, faster and safer to transact by accelerating innovation and digitisation.

KEY DEVELOPMENTS IN 2017

To address our customers' key concerns and our material issues, we have:

- Successfully launched M-Shares, Kenya's first ever USSD mobile trading platform that enables individuals to directly buy and sell shares in the Nairobi Securities Exchange with their phones and access real time market information.
- Accelerated the penetration and enhanced functionality of digital channels.
- Successfully launched ***LIPA360*** for schools and we we the first in Kenya to launch the mpesa float on our BNA's
- Successfully launched the Wealth pillar which will consolidate our offering by leveraging of the capabilities we have in Standard Bank group combining Heritage, Liberty, Stanlib and Stanbic bank to offer a full suite of solutions.
- Simplified processes and increased the use of data analytics to understand and respond more precisely to our customers' needs.
- Improved IT security capabilities.
- Completed several landmark transactions for our CIB customers.

PRIORITIES IN 2018

To drive improvements in our customer satisfaction scores, we will:

- Continue to simplify processes to respond more precisely to our customers' needs.
- Deepen existing customer relationships in support of their growth journeys.
- Leverage data and advanced analytics to gain deep customer insights and provide timely and relevant offerings.
- Continue to implement digitally enabled solutions that improve customer convenience.
- Continue to provide our customers with the choice to interact with us digitally or through our branch networks.
- Leverage the ICBC and Liberty relationship to support the growth strategies of, for example, Chinese multinationals operating in Kenya, growing Stanbic Insurance agency.

pg 38 – 63 Our performance.

KEY TRADE-OFFS

- Increasing our use of data analytics and developing digitally enabled solutions that are innovative, accessible and affordable have to be done within the non-negotiable constraints of protecting our customers' personal information and mitigating cybersecurity risk.
- The customer experience benefits of digital platforms and the efficiencies gained from increasing the digitisation of processes require additional IT development and maintaining IT stability and security, which increases costs and the depreciation and amortisation of our IT assets.

PEOPLE AND CULTURE

'Building a team of champions'

How our people think and feel about their work correlates directly with how satisfied our customers are, and how successful we are in delivering our strategy.

WHAT SUCCESS LOOKS LIKE

- Empowered high performing organisation.
- We are considered a great place to work and our people feel deeply connected to our purpose and our customers.
- Our people are empowered to, and are openly recognised for, delivering against our strategic objectives.
- Our people make the most of every opportunity to achieve their full potential.

HOW WE MEASURE OUR PROGRESS

In line with global best practice, in 2017 we introduced a new survey methodology to determine an employee net promoter score (eNPS), as an indicator of how likely an employee is to recommend the group as a good place to work.

Our indicator

- **eNPS:** calculated by subtracting the percentage of detractors from the percentage of promoters. This value can range from -100 (if every employee is a detractor) to +100 (if every employee is a promoter).

HOW WE PERFORMED

Employee net promoter score

Kenya scored +45

South Sudan scored +51

Global benchmarks: Any score over +20 is great. Over +50 is outstanding.

Participation:

57% of employees in South Sudan responded.

67% of employees in Kenya responded.

Employee turnover

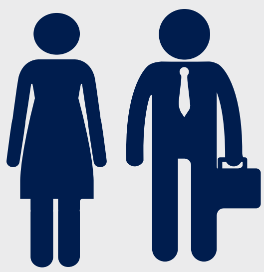
9.2% overall employee turnover rate (2016: 8.6%)

6.4% voluntary employee turnover rate (2016: 6.0%)

1.4% voluntary regrettable employee turnover rate (2016: 2.3%)

- The primary reason for employees leaving our employ is for better career opportunities.

Employment equity



48% 52%

Key employee and union concerns

- Access to career growth opportunities.
- Continuous learning environment to enhance current skills and develop new skills.
- Work - life balance.

Related material issues

- Attracting and retaining the right people with the right skills and capabilities.
- Enabling our people to be agile and adaptive to remain relevant in a rapidly evolving environment.
- Creating an environment in which our people are engaged and enabled to take care of their well-being.

KEY DEVELOPMENTS IN 2017

To address the key concerns of our employees and our material issues, we have:

- Continued to invest in skills development to build future skills and empower frontline employees.
- Maintained our focus on identifying and developing diverse talent pools.
- Continued to provide flexi hours to nursing mothers.

PRIORITIES IN 2018

To drive improvements in our employee engagement, we will:

- Create an enabling environment for people to thrive and deliver to full potential.
- Empower employees through investing in their development and offering career growth opportunities.
- Provide learning solutions to enable employees to deliver on our customer promises.
- Optimise and further enhance the digitisation and use of automated human capital processes.

pg 62 – 63 An engaged team.

KEY TRADE-OFFS

- Digitisation is key to our future competitiveness and will necessitate far-reaching changes in the way we do business.
- Shifts in our future capability requirements will need to be managed in a responsible manner that balances commercial pragmatism with social considerations.
- Capability shifts, particularly with respect to scarce skills or emerging skills requirements, will be necessary to deliver on our strategy and aspirations, and will require a significant investment to develop and retain key skills.

RISK AND CONDUCT

Doing the right business, the right way, boldly!

WHAT SUCCESS LOOKS LIKE

- Doing the right business the right way, without exception.
- Contributing to safe financial systems in the markets in which we operate.
- No breaches of legislation.
- No harm to our reputation.

HOW WE MEASURE OUR PROGRESS

RISK

We manage our capital levels to support business growth, maintain depositor and creditor confidence, create value for our shareholders and other stakeholders and promote regulatory compliance. Our risk measures are regulatory requirements and indicate our ability to withstand financial stress and unexpected losses, and the quality and liquidity of the assets we hold.

Our indicators

- **Core capital to total risk weighted assets:** a measure of solvency that assesses capital strength against our risk-weighted assets (RWA). Core capital consists primarily of retained earnings, profit for the year share capital and share premium.
- **Core capital to total deposits liabilities:** a measure of solvency that assesses capital strength against our total deposits.
- **Total capital to total risk weighted assets:** a measure of solvency that assesses total capital strength against our risk-weighted assets (RWA). Total capital consists primarily of retained earnings, profit for the year, share capital and share premium and subordinated debt.
- **Liquidity ratio:** measures our ability to manage a sustained outflow of customer funds and also meet our short term obligations.
- **Liquidity coverage ratio (LCR):** measures our ability to manage a sustained outflow of customer funds in an acute stress event over a 30-day period.
- **Net stable funding ratio (NSFR):** the amount of available stable funding relative to the amount of required stable funding, in accordance with Basel III.

CONDUCT

Our compliance with laws and regulations is non-negotiable. Any contravention comes at a cost in financial losses, fines or diminished reputational capital. We deal with such instances through well-developed disciplinary processes and appropriate action.

HOW WE PERFORMED

Risk

Our risk appetite measures are above our internal risk appetite targets and, where applicable, regulatory requirements.

Core capital / total deposit liabilities
19.7%
(2016: 23.1%)
Minimum statutory ratio: 8.0%

Core capital / total risk weighted assets
15.0%
(2016: 15.9%)
Minimum statutory ratio: 10.5%

Total capital / total risk weighted assets
16.5%
(2016:18.1%)
Minimum statutory ratio: 14.5%

Liquidity ratio
52.3%
(2016: 54.6%)
Minimum statutory ratio: 20.0%

LCR
>105%
Target: 105%

NSFR
>102.5%
Target: 102.5%

Key government, regulator and civil society concerns	Related material issues
• Addressing cyber risk and the impact on customers' safety. • Enhancing trust and maintaining stability in the financial sector. • Improving the control environment. • Embedding compliance and risk-aware behaviour. • Ethical and transparent supplier and vendor relationships. • Debt intervention mechanisms for low-income, financially distressed consumers.	• Proactively responding to increased cybersecurity threats and protecting customer information. • Maintaining the stability, security and speed of our IT systems. • Conducting our business in a responsible manner by doing the right business the right way. • Responding to the pace, volume and scale of regulatory change. • Supporting steps to combat financial crime, fraud and illicit financial flows.

KEY DEVELOPMENTS IN 2017

To address the key concerns of our government, regulator and civil society stakeholders and our material issues, we have:

- Informing the Bank's adjustments to risk appetite and risk acceptance criteria in order to maintain acceptable returns on equity targets;
- Development of tools to manage new risks such as, Cyber-crime leading to enhanced investment by the Bank in risk management resources and capabilities;
- Maintaining an agile business structure that quickly adapts to the ever changing customer needs and business environment; and
- Increased focus on managing the business across the risk classifications resulting in early identification of risks and implementation of corrective actions.
- Implementation of IFRS 9. See pages 48 - 49 for more details

PRIORITIES IN 2018

To drive improvements in our risk and conduct measures, we will:

- Continue to regularly review and amend our risk appetite in response to changes in our operating environments, and manage our exposures responsibly.
- Continue to embed a culture of ethical behaviour and ensure that we keep doing the right business the right way.
- Continue to invest in our capabilities to mitigate financial crime and cyber risks.

pg 59 Stanbic 2.0.

pg 74 – 85 Risk overview.

KEY TRADE-OFFS

- In managing our exposures responsibly in line with both macroeconomic and socio-political realities, we are sometimes required to tighten our risk appetite in lending to vulnerable sectors and customers. This inhibits customer growth and our revenue generation opportunities, but reduces the potential for operational losses and impairments.
- Managing the natural tension between customer convenience and the speed with which we can fulfil their needs, and the parameters of our mature and continually evolving regulatory, supervisory and control environment.
- Managing the rising cost of compliance, including extensive employee training and adaptations to business systems to comply with new and forthcoming legislation, in line with the reputational benefit of being a trusted organisation.

FINANCIAL OUTCOME

'Hit our targets'

Delivering sustainable returns to our shareholders depends on the extent to which our investments in satisfied customers,engaged employees and managing risk and conduct are effective and efficient. In turn, we need to ensure that we balance the capital we allocate to these strategic investments with competitive returns.

WHAT SUCCESS LOOKS LIKE

- Continuing to demonstrate value creation for all of our stakeholders by delivering growth in profitability and driving ROE to 25+
- Maintaining the resilience of our balance sheet to support the execution of our strategy.

HOW WE MEASURE OUR PROGRESS

By delivering positive results on our customer focus, employee engagement and risk and conduct value drivers, we seek to improve our financial outcome, which is measured by the following indicators:

- **Return on equity (ROE):** shows how much profit we generate with the money shareholders have invested in us. ROE is the result of all the measures below and, therefore, the ultimate measure of our effectiveness in executing our strategy.
- **Return on assets (ROA):** measures our profitability in relation to our total assets. We seek to improve our profit each year by continuing to grow our revenue while managing our costs and risks.
- **Cost-to-income ratio (CTI):** measures our efficiency in generating revenues relative to the costs we have incurred. We aim to reduce our CTI, making sure that the growth in our costs does not exceed the rate at which we grow our revenues.
- **Credit loss ratio (CLR):** measures our impairment charges as a percentage of average loans and advances. We aim to maintain our CLR at an acceptable level in line with our risk appetite.

HOW WE PERFORMED

ROE

ROE
10.4%
(2016: 11.3%)

ROA

ROA
1.9%
(2016: 2.1%)

CTI

57.2%
(2016: 57.9%)

CLR

2.1%
(2016: 1.5%)

Key shareholder and investment analyst concerns

- Revenue pressures in our South Sudan operations.
- Pressure on Net Interest margins (NIMs).
- Growing the retail franchise.
- Challenging operating environment which may impact our results.
- Uptick in Non performing loans and increased provisioning.
- Managing costs and improving our CTI ratio.
- Achieving and maintaining our ROE targets.

Related material issues

- Growing our customer base, retail franchise and revenues.
- Political stability in South Sudan.
- Responding to challenging economic conditions.
- Interest rate caps
- Maintaining the resilience of our balance sheet.

KEY DEVELOPMENTS IN 2017

To address the key concerns of our shareholders and the investment community, and our material issues, we have:

- Focused efforts on managing and containing costs.
- Our earnings streams are diversified and the portfolio effect across products and geographies has proven to reduce earnings volatility.
- Focused efforts on ensuring compliance with IFRS 9 by 1 January 2018.

PRIORITIES IN 2018

To drive improvements in our financial performance, we will:

- Continue to deepen our progress in aligning processes to our value drivers so that we are able to measure what matters most in delivering on our ROE target.
- Continue to respond effectively to macroeconomic challenges.
- Maintain earnings growth by partnering with high-growth customers in high-growth markets.
- Reduce our CTI by driving revenue growth faster than cost growth.
- Seek to maintain our CLR within 100 basis points (bps) to 160 bps range.
- Maintain a resilient balance sheet.

KEY TRADE-OFFS

To ensure that we can continue to attract the capital we need to fund the growth in our assets, we must provide an appropriate rate of return to our equity shareholders and debt funders, including depositors. This requires that we balance our ability to generate revenue, by continuously and sustainably meeting our customers' needs and strengthening our competitive position, with the costs incurred in doing so. Our largest operating expenses include:

- **Staff costs:** we invest to attract and retain experienced people and to equip them to consistently deliver exceptional customer experiences and deal with a challenging work environment.
- **Other operating costs:** we incur several other costs to enable our people, together with our frontline and supporting systems and processes, to deliver exceptional customer experiences in a responsible manner.

pg 43 – 46 Group financial review.

SEE IMPACT AREAS

In line with our purpose, we believe that financial services done well – with conscience and conscientiousness – can improve the lives of people by addressing the pertinent issues that face the communities in the environments in which we operate. Our future depends on aligning our profitability with the sustainability of the complex and dynamic economies and societies we serve.

WHAT SUCCESS LOOKS LIKE

- Generating economic value in a way that produces value for society.
- Understanding our direct and indirect impacts on the societies, economies and environments in which we operate, predominantly through what we finance, and make more informed, responsible decisions as aresult.

HOW WE MEASURE OUR PROGRESS

We are committed to contributing to the communities in which we operate. This is in line with our vision to empower communities and enhance shared value. Our Corporate Social Investment (CSI) is anchored on four areas:

- Education, learning and development
- Innovation, entrepreneurship and enterprise development in the Green Economy
- Wildife conservation
- National emergencies

Key community and civil society concerns

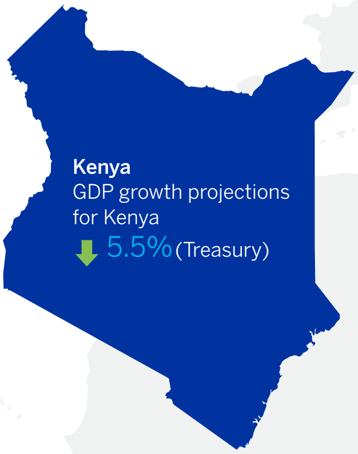
- Our contribution to economic transformation in the markets that we operate in.
- Investing in our people to ensure decent work and support transformation strategies.

Related material issues

- Continuous contribution to economic growth.
- Supporting innovation and investment that drives financial inclusion, education and a green economy.
- Harnessing the commercial opportunities of addressing societal challenges.

pg 65 – 69 SEE report.

MACROECONOMIC ENVIRONMENT



Kenya

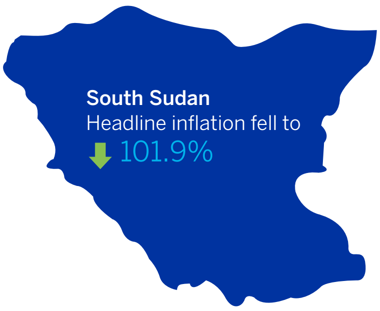
2017 was a challenging macroeconomic environment; one that would test the resilience of the Kenyan economy. In addition to the political impasse in the second half of the year that restrained investment spending, the drought earlier in 2017 weighed down agricultural output, which as a sub-sector is the largest contributor to overall economic growth. The Kenya National Treasury, World Bank and IMF revised their earlier 2017 GDP growth projections for Kenya to 5.5%, 4.9% and 5.0% from 6.0%, 6.0% and 5.7%, respectively.

Inflation rate posted a mixed set of numbers during the year due to the volatile global oil prices and domestic food prices. Inflation hit a 57 month high of 11.7% in May owing to high food prices occasioned by the prolonged drought and its impact on food production. However the country closed the year with a significantly lower rate of 4.5% in December.

The decline in private sector credit growth over the past two years has been worrying and of course was exacerbated by the interest rate capping law. The hardest hit sectors by the cap have been agriculture, trade, transport and the retail sectors. The banking amendment bill has proved to be counterproductive and led to an environment where commercial banks have been competing with each other for government debt rather than extending credit to small and medium enterprises. The latter are the lifeblood of the Kenyan economy and with commercial banks' inability to adequately price risk for SME's, their promise has inevitably subsided.

Commercial banks have endured daunting difficulties in the past couple of years in Kenya; however the sector has contributed a huge part in fostering financial inclusion and economic development in the country. Banks should strive to be the pillar and anchor that SME's are looking for to grow their businesses further. Whereas the interest rate capping regulation has been a bad solution to a noble intention, commercial banks should continue to work with authorities to find a common ground that will enable the banking sector to charge lower interest rates. The implementation of IFRS 9 will inevitably prompt banks to adopt a further cautious approach as provisioning guidelines have become a lot more stringent under the new accounting standard.

South Sudan



Headline inflation fell to 78.4% year on year in September 2017 from 480.19% in September 2016. Most of the pressure on inflation emanated from the services sector, volatility in the exchange rate, food prices and large import dependence of the economy.

Interestingly, despite the recent uptick in international oil prices, the SSP remained under some strain as the current account deficit rebalancing may take some time due to the persistent rise in domestic import demand.

On the political risk front, the second round of the South Sudan peace talks, which started on February 5 in Addis Ababa, hit a snag when the government delegation objected to a clause calling for punitive measures against saboteurs of the peace process. Previous agreements have been violated. The government side consequently refused to sign the Declaration of Principles, which will guide the Inter-Governmental Authority on Development (IGAD) mediated talks meant to revive the 2015 peace deal. Clashes between the government and rebel forces mainly near the oil-producing northeast may complicate the government's efforts to restore macroeconomic stability and revive GDP growth which has been contracting for the past three years.

OUR PERFORMANCE

We operate in an industry that is has been hugely impacted by a volatile operating environment and unprecedented levels of change that are emanating from disruptive technologies. In this day and age, competition is not the traditional financial services providers but rather, any organisation that can churn out or adopt technological advancements faster than you. In essence, only those organisations that remain focused on digital innovation, competitive use of data and excellence in customer service are likely to survive. The fast-changing pace of technology, which is in part driving different customer needs, has revolutionised the face of financial services. Digitisation is a key agenda for us and it is a crucial input in fulfilling customer experiences. It also opens up significant opportunities for operating efficiencies and cyber security enhancements in respect of our platforms. We are keen on developing our data and analytical capability so as to facilitate fast turnaround times to market impactful products and services for our customers and remain relevant in their day to day lives.

ADOPTING DIGITAL TECHNOLOGY

MESSAGE FROM THE CHAIRMAN

"In this volatile operating environment, the banking and broader financial services industry has undergone and continues to experience unprecedented levels of change. The competitive environment has shifted substantially and only those organisations that remain focused on digital innovation, competitive use of data and excellence in customer service are likely to survive."

Fred Ojiambo, MBS, S.C.

A rapidly dynamic world

We live in a rapidly changing environment and the developments in 2017 are testament of the changes. In 2017, the World Bank had projected the Kenyan economy to grow by 5.5%. However, the extended electioneering period coupled with a drought season had a negative impact on the economy. Political tensions in both Kenya and South Sudan further impacted the economic performance of the two countries and this trickled down to the business community, where many companies reported diminished returns.

In this volatile operating environment, the banking and broader financial services industry has undergone and continues to experience unprecedented levels of change. The competitive environment has shifted substantially and only those organisations that remain focused on digital innovation, competitive use of data and excellence in customer service are likely to survive. The fast-changing pace of technology, which is in part driving different customer needs, has revolutionised the face of banking. Digitisation is a key element in fulfilling customer experiences and presents significant opportunities for operating efficiencies and safety enhancements in respect of banking platforms. Data and analytical capability, together with fast turnaround times to market, will be required to remain relevant.

Low interest rates have put banks' net interest margins under pressure. To address this, containing costs and exploring other revenue opportunities remains a key focus for us.

In the recent past there has been an increase in regulation on reporting, interest rates, provisioning for bad loans, capital and liquidity which has resulted in an increase in the cost of compliance. We have embraced these regulations as they support sound business practices, promote confidence and enhance prudent financial management within the banking sector.

Despite all these challenges, it gives me great satisfaction to share the Stanbic story of value creation with all our stakeholders. I am tremendously proud that this report demonstrates the value that we create by generating sustainable financial returns while playing a meaningful role in society through active corporate citizenship. Value is created through sound strategy and execution, robust risk management and the work of both a skilled leadership team and the committed people who work for Stanbic.

We are also changing

Stanbic Group is very well positioned to weather the current economic challenges and help our customers, stakeholders and society do the same. We have interrogated our role as an organisation across every level as a result of the changing landscape. I am excited to highlight some of the changes we made in our strategic direction and the focus we have committed to pursue and ensure that we continue to be a sustainable and thriving business into the future.

Our corporate purpose, 'Kenya is our home we drive her growth', goes to the heart of the way we do business at the bank. We continue to work towards becoming a leading nationally relevant financial services organisation in Kenya by delivering exceptional customer experiences and superior value. Making a positive difference in the lives of our stakeholders is where we will be focusing much of our attention in the coming years.

Customers have always been at the center of our business and we continue to cement this commitment by being customer centric. We know that our customers and their needs and expectations of us are changing, and we are adapting our business model accordingly. This does require alignment with our values and the requisite behavioural shifts to ensure we are able to achieve the desired customer outcomes. In line with this, we continue to build the capabilities of our employees to effectively and efficiently service the needs of our customers. Cognisant of the need to be agile and innovative, we will continue to foster a culture of innovation across the organisation so as to deliver cutting edge products and services that match the needs and expectations of our customers.

We want to be more than just a bank. We want to be a universal financial service provider and the preferred partner for all the financial needs of our customers. We have a strong network within the Group and this will enable us to service each and every financial aspiration of our clientele.

I am proud to report that we are in the process of establishing a Foundation to solely focus on implementing Corporate Social Investments and will enable us to cement our legacy as truly African, truly Kenyan. The foundation will be a subsidiary company of the Bank. We shall leverage on our market presence to positively impact on the social, economic and environmental issues that are meaningful in our communities.

Governance

In 2017, the entire Board worked in unison and diligently to ensure that the group has the best in class risk and governance practices and ensure that the organisation is well-governed with a strong risk management culture. Both the Board and the executive management team, as the leaders of this great company, agree that building on this position is a great way to deliver on our promises to our existing and future customers.

The Board still has work ahead as we deliberate intensely on key issues such as ensuring that we remain well positioned in a tough macroeconomic environment. Our commitment to this region and our confidence in a positive future for our customers, our people and the society, go to the heart of our deliberations in making our strategic decisions. As a Board we are meaningfully engaged on the topic of executive remuneration, mindful of the public opinion on the matter, and remain focused on the principles in this regard.

Changes in leadership

It is my pleasure to welcome Rose Osoro who joined the Board during the year. We continue to bolster the diversity of skillsets and experience of the entire Board to ensure that it is capable to execute on its mandate and deliver sustainable returns to our shareholders. In the same breathe, I want to bid farewell to the outgoing Chief Executive, Phillip Odera, who has been with us for the past two years. He has steered the Bank through challenging times and enabled the Bank to be where it is today. He leaves a legacy of effective leadership and strong performance. I would also like to take this opportunity to welcome the new Chief Executive, Charles Mudiwa, who also has wealth of experience in the banking sector having been the CEO of Stanbic Zambia, Stanbic Malawi and held other leadership positions at Standard Bank Group.

In closing

We anticipate 2018 to be a better year with a more vibrant economic environment to boost growth. We are well positioned to tap into new opportunities as we continue to meet the needs and expectations of our customers and the society at large.

I would like to express my gratitude to our customers and shareholders, without whose confidence these achievements would not have been possible. I also take this opportunity to appreciate the executive team, my fellow Board members and staff members for their commitment to building a bank that is future-fit, competitive and one that is transforming the lives of our stakeholders.

MESSAGE FROM THE CHIEF EXECUTIVE, STANBIC HOLDINGS PLC

"We constantly interrogate our role as a financial services provider across every level to remain competitive in the changing landscape. Our corporate purpose, 'Kenya is our home we drive her growth' goes to the heart of the way we do business at Stanbic."

Greg Brackenridge

Economic activity was subdued as a result of prolonged electioneering, pockets of drought and slow growth in private sector credit extension as we experienced the first full year impact of the Interest Rate Capping law. Notwithstanding this, the Group continued to report growth in balance sheet driven by an increase in customer loans and customer deposits. Revenue was up by 3% to KShs 19.1b and pre-provision profit rose by 5% to KShs 8.2b. The challenging operating environment led to risk downgrades for some of our corporate customers resulting in increased provisions. We continue to ensure proper risk management with a long-term view of sustainable growth.

The South Sudan economy continued to suffer from the ongoing political instability and the effects of a hyperinflationary environment. Despite this, the South Sudan branch returned to profitability in 2017 from a loss in prior year mainly on account of a well-executed customer focus strategy, proactive risk management and cost discipline. We continue to monitor the situation in South Sudan and respond appropriately to mitigate any risks identified while providing appropriate solutions to our customers.

We witnessed an uptick in the Equities market with turnovers growing by 16% from the previous year. Our stock broking business exhibited strong gain in market share resulting in increase in revenues by 4% and a bounce back from a loss position in the previous year to a profit in the year under review. SBG Securities successfully launched M-Shares, Kenya's first ever USSD mobile trading platform that enables individuals to directly buy and sell shares at the Nairobi Securities Exchange on their phones and access real time market information.

During the year, the Group reorganized the Stanbic Insurance Agency from a fully owned subsidiary of the bank to a fully owned subsidiary of Stanbic Holdings Plc. The agency continues to show improvement in revenues from standalone insurance and from bank embedded products. We successfully launched the Wealth pillar which will consolidate our offering by leveraging off the capabilities we have in Standard Bank Group combining Heritage Insurance, Liberty Life, Stanlib and Stanbic Bank to offer a full suite of solutions. Stanbic Insurance Agency, would be key in delivering a universal financial services organisation through the Wealth value proposition.

As the world around us is changing, we too are changing. We constantly interrogate our role as a financial services provider across every level to remain competitive in the changing landscape. Our corporate purpose, 'Kenya is our home we drive her growth' goes to the heart of the way we do business at Stanbic. With a revamped strategy in place, we have redefined how we work; we are evolving our brand essence and business model with the intention of ensuring that we are well positioned for what is needed to remain relevant in a changing world.

Each of our markets presents us with unique opportunities to apply our strengths and expertise to advance and drive economic development. East Africa offers good growth prospects with macroeconomic stability and open markets for trade. The Kenyan government has reiterated its commitment to enhance the economy through increased investment in manufacturing, universal healthcare, affordable housing and food security. We are well positioned to support these initiatives.

As I look towards 2018, our people, our strong balance sheet, the progress we have made in 2017 and our strategic enablers will underpin our ability to deliver on our strategy and ensure we continue to generate sustainable returns for stakeholders.

MESSAGE FROM THE OUTGOING CHIEF EXECUTIVE, STANBIC BANK KENYA LTD

"In the year under review, we continued to review our business and operating models and this has enabled us to cushion ourselves against adverse operating conditions."

Philip Odera

Thanks to the efforts and great execution by management, we have continued to thrive as a bank. We continue to support our customers to start and grow their businesses, to realise their dreams of owning a home, and to build manufacturing plants, hospitals, roads and expand their horizons. Stanbic Bank customers employ millions of people and contribute to building thriving communities and a stronger economy. We remain committed to finding new ways of supporting our customers and their communities.

As we aim to be a universal financial services provider, we are deriving more synergy from our business units by focusing on the customer rather than business unit performance. We have clear customer focus strategies in place that have enabled us to understand all the linkages and relationships of our customers and the spaces they operate in. We have established great cross-functional teams that are able to adapt to the dynamic operating environment. We endeavour to develop the skills and capabilities of our people by exposing them to new markets, challenges and opportunities. I am happy to report that we have exported talent to other parts of Africa and the world. The expertise and experience we impart to our employees is valuable on a global scale. Those employees who do re-join the Kenyan operation bring back a wealth of knowledge that is cascaded to the local team and enables us to move the bank forward and into the future.

Cybersecurity was and remains a concern. Our customers remain largely unware of the threat posed by cyber-crime and the regulations around it are only now beginning to take shape within this region. As part of a larger regional group, we are at the forefront of ensuring that we inform and educate our customers about the inherent risks, and on the back end, ensure that our operations are fully secured and customer information is protected.

In the year under review, we continued to review our business and operating models and this has enabled us to cushion ourselves against adverse operating conditions, develop greater agility with a view to innovating quicker and responding to disruptive threats faster, optimally addressing new customer requirements and providing best-in-class customer experiences; all the while creating an enterprise capability with the customer at the centre of all we do. We were able to withstand the pressures of interest rate caps and a prolonged election period by diversifying revenue streams.

As a bank, we made significant progress in rolling out projects under our strategy. We officially opened the Wealth unit which redefines our role as a financial advisor and partner and not just a banking services provider. We launched a financial literacy programme for our SME customers, 'BizConnect', that is aimed at providing strategic solutions to SMEs in a bid to enhance their operational efficiency and thereby improve on their profitability. We are the first bank in Kenya to offer M-PESA float on our ATM which now enables M-PESA agents to get float for their business anytime, anywhere. We also introduced a digital payments and collections platform for remittances such as taxes to KRA, KPLC power bills and NHIF contributions.

As I leave and hand over the leadership of the bank to Charles, I am fully confident of his capability and the ability of the entire team to drive our vision of becoming a nationally relevant bank in Kenya. Advances in technology offer exciting opportunities and will require adeptness and agility to remain competitive and stay at the forefront of customer experiences. The winners of digitisation and mobile banking will be those that can integrate the new technologies and have the right people with the necessary knowledge and entrepreneurial skills. Our strategy will ensure that the bank remains at the forefront of innovation as we improve our existing businesses and disrupt them at the same time.

MESSAGE FROM THE INCOMING CHIEF EXECUTIVE, STANBIC BANK KENYA LTD

"Creating value and delightful experiences for our customers that exceed their expectations is encompassed in our value to be customer centric and this remains the primary enabler of our vision."

Charles Mudiwa

In order to achieve our future aspirations as a bank in a rapidly changing environment, we must transform our business and become more customer-centric, competitive, agile and digital.

Our 2017 strategic review produced exciting plans to accelerate our business transformation. Our strategy represents how we achieve our vision of becoming the leading nationally relevant financial services organisation in Kenya by delivering exceptional customer experiences and superior value.

To be truly successful we must understand our customers, respond to their needs and requirements, and ultimately create exceptional customer experiences in all that we do. We must do this better than any other financial services provider. Creating value and delightful experiences for our customers that exceed their expectations is encompassed in our value to be customer centric and this remains the primary enabler of our vision. Customers no longer simply compare our services to those offered by our peers, they compare us to all the other experiences they have every day. They are asking for world-class digital capabilities and services that are faster, simpler and more responsive. They are asking to connect with us at any time of the day, and anywhere, through their mobile and digital devices.

This presents an exciting opportunity for us. We see disruption of our industry not as a risk, but as an opportunity. We are already, through partnerships and innovation, finding new ways to deliver to our customers by looking at the journeys they take with us to deliver faster, and making key things like opening new accounts, business transactions and on boarding easier. In addition, we aim to organise ourselves, our data and data analytics and information technology to enable differentiation in our customers' universe, respond more effectively to change and improve our ability to execute more effectively. This will be a key enabler of our aspiration to be a universal financial services organisation.

As we change for our customers we will continue to upskill our employees to deal with the demands of the new digital world. Part of our culture, underpinned by a strong set of values, is to do the right thing. We will continue to demonstrate this in the way we develop and grow our people.

As I look towards 2018, our focus will be to deliver across all our business units so as to expand our profitability into the future.

- In CIB our aim is: to deliver the benefits of an integrated CIB model, grow non-funded income, sustain an efficient business model and a high-quality loan book.
- We aim to grow our PBB transactional banking, accelerate the digital journey to drive operational efficiencies and improve customer experiences while managing our costs and risks.
- Our Wealth franchise aims to deepen cross-selling in our customer base, leveraging banking solutions with asset management, investment products, wealth management and insurance solutions.

We also need to extract efficiencies across all our businesses to fund future investment and deliver improvements in efficiency ratios and ROEs so that we can guarantee value to shareholders and meet our medium-to-long-term ambitions.

GROUP FINANCIAL REVIEW

"Through our financial performance we demonstrated our commitment to delivering long-term value to our shareholders. We continue to strengthen our balance sheet to propel future growth in key areas that have been identified for execution in our strategy. "

Abraham Ongenge

Operating environment

2017 was marked by various developments in the international markets with GDP growing by 0.6% in the third quarter in the Eurozone. The US economy grew by 2.3% in 2017 and is expected to grow by 2.7% and 2.4% in 2018 and 2019, respectively.

China's GDP grew by 6.9% mainly due to increase in private consumption and investment in infrastructure. Global economic growth remains stable. U.S growth, E.U economic recovery and Chinese expansionary economic policies is expected to support global growth. Protectionist policies and the rise in nationalism are short term risks to global growth.

The Kenyan economy faced numerous headwinds in 2017. Uncertainty associated with a prolonged election period coupled with effects of adverse weather conditions and decline in private sector credit growth negatively affected economic activity. GDP growth in 2017 slowed down to 4.9% compared to 5.9% recorded in 2016.

Headline inflation gradually decreased during the year due to lower food and oil prices. Private sector credit growth continued to be impacted by the interest rate capping law evidenced by stunted growth of as low as 2.4% year on year in December 2017 from a high of 17.0% year on year in January 2016.

The Kenyan shilling remained stable despite a prolonged election period. The Monetary Policy Committee retained its benchmark rate at 10% noting that demand driven inflation has remained subdued.

The banking sector continued to be negatively impacted by interest rate capping law with majority of the banks recording a decline in profits.

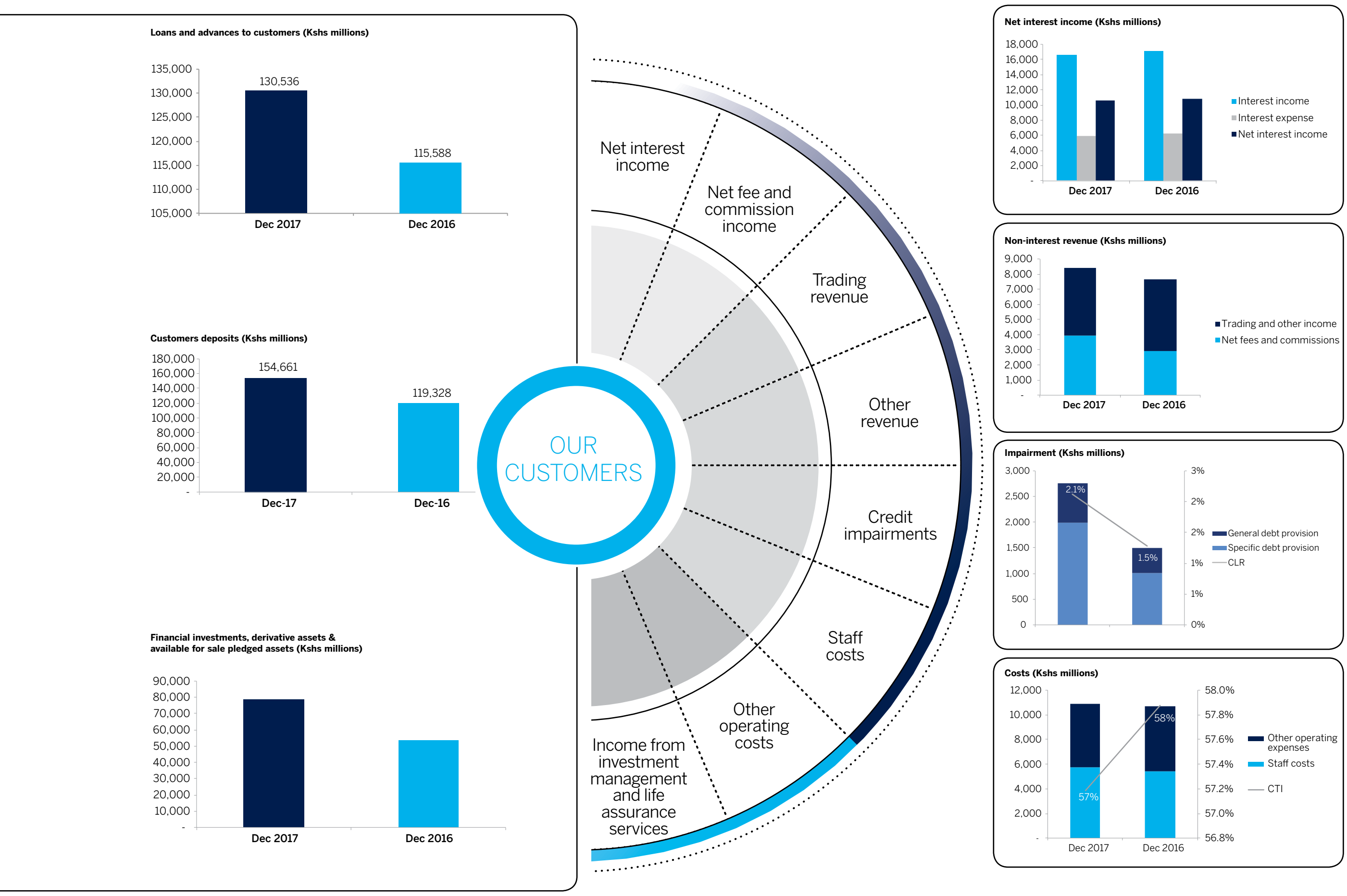
The South Sudan economy continues to suffer the effects of low oil prices and political instability. The peace deal signed in August 2015 remains fragile. Indications are that slow but steady progress is being made. Liquidity both in local and foreign currency remains scarce. We continue to monitor the situation in South Sudan and respond appropriately to mitigate any risks identified.

Financial outcome

Profitability

Profit after tax (PAT) is one of the components used in the determination of Stanbic Holdings ROE and represents the major lever in lifting the group's ROE to meet our medium-term target. PAT growth is used as a key reference point in decision-making.

Customer focus + Employee engagement + Risk and conduct = ROE 10.4% Our value drivers, which contribute to delivering ROE



The Group (Kenya Bank, South Sudan branch, SBG Securities and Stanbic Insurance Agency Limited) reported a profit after tax of KShs 4.3bn.

Net interest income declined to KShs 10.6bn compared to KShs 10.8bn over the same period in 2016 due to decrease in asset yields arising from implementation of interest rate cap law which was partly offset by a 13% growth in customer loans and advances. In addition, the growth in transactional accounts resulted in lower cost of funds.

Non-interest revenue reported strong performance as we leveraged on technology to improve our customers' banking experience, successful closure of key deals in Investment Banking and growth in fees from trade finance and brokerage commission. Non-interest income accounted for 44% of total operating income as compared to 41% in 2016.

Credit impairment charges of KShs 2.8bn were 58% higher than prior year reflecting challenging operating environment for some of our customers. Specific impairment provisions increased to account for stress mainly in the manufacturing and agricultural sectors. CIB's credit loss ratio rose by 1.6% due to downgrades for some customers.

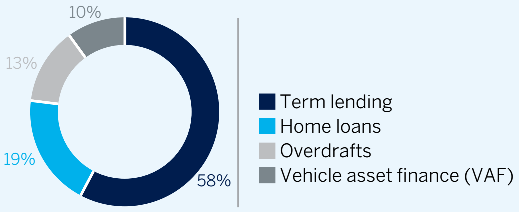
In PBB, impairment charges declined by 7% year-on-year. This was largely driven by a decline in the number of accounts in early arrears buckets as a result of continued improvements in early stage collections and payment methods.

Our Cost to income ratio (CTI) was relatively flat as we continue to focus on cost discipline. Looking forward, we expect continued investment in technology in order to remain relevant to our customers' needs. These investments will also ensure that the Group improves its operational efficiency resulting in a lower cost to income ratio.

Resilient balance sheet

We continued to strengthen our balance sheet to propel future growth in key areas that have been identified for execution in our strategy. During the year under review, the Bank's total assets grew by 17% to KShs 239bn as at close of 2017. The balance sheet growth was largely driven by growth in customer loans and advances and customer deposits.

Customer loans per product

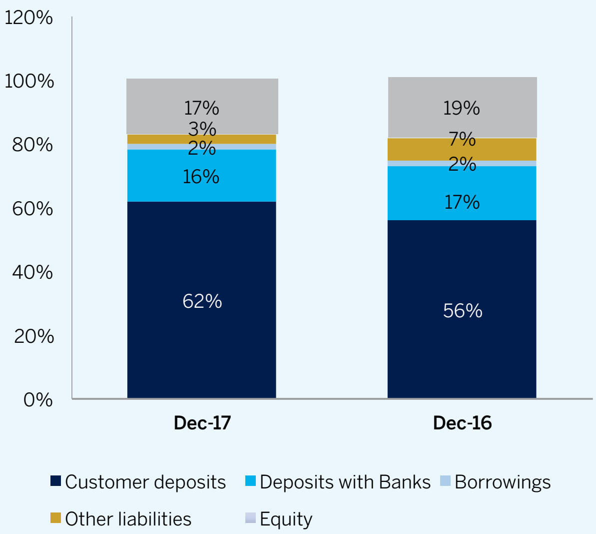


a) Funding and liquidity

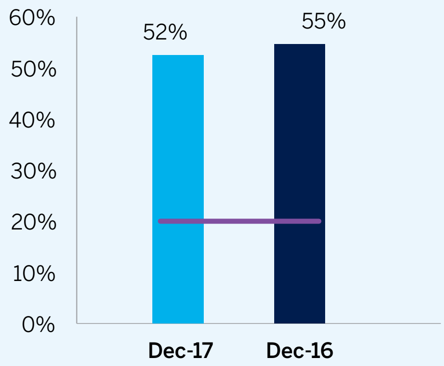
Liquidity position remained strong and within approved risk appetite and tolerance limits. The liquidity ratio at the end of the period was at 52%, exceeding the minimum regulatory requirement of 20%. The group also successfully achieved compliance with the minimum Basel III NSFR requirements with effect from 1 January 2018.

Assets are funded mainly from customer deposits with 45% being PBB and 55% being CIB. Deposits from customers grew by 30% year-on-year with core accounts accounting for 86%. CIB's customer deposits grew by 36% year on year mainly on current account balances which is in line with our strategy of growing the local currency customer balance sheet. PBB deposits achieved good growth of 23% driven by growth in current accounts & savings accounts.

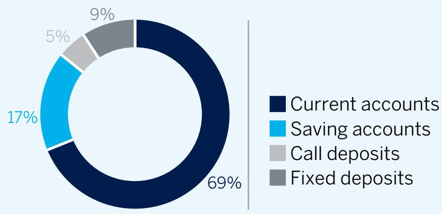
Funding



Liquidity Ratio (Bank only)



Customer deposits per product

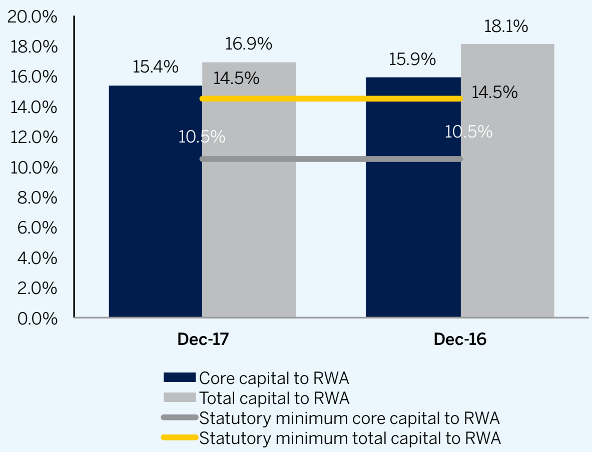


b) Capital adequacy

The Group continues to be adequately capitalised even after adoption of IFRS 9. The capital adequacy ratios remain above the stipulated regulatory minimum of 14.5% and 10.5% respectively. Part of the earnings for the year will be reinvested in the business to enable it to grow its assets.

IFRS 9 became effective on 1 January 2018. The day one impact of implementing IFRS 9's expected credit loss impairment requirements, is expected to reduce the capital ratio by approximately 50 bps. We expect an increase of approximately KShs 2.3b in balance sheet impairments; an increase of 71% on IAS 39's balance sheet impairments (including interest in suspense). Details on IFRS 9 impact can be found on pages 48-49 of this report.

Capital adequacy



Five-year view of our financial performance

	2017 KShs million	2016 KShs million	2015 KShs million	2014 KShs million	2013 KShs million	CAGR %
Income statement						
Profit before tax	5,401	6,049	7,359	7,700	7,224	-7%
Profit after tax	4,309	4,419	4,906	5,687	5,127	-4%
Statement of financial position						
Shareholders' equity	42,956	40,141	38,365	36,895	32,426	7%
Total assets	248,739	214,683	208,452	180,999	180,512	8%
Loans and advances to customers	130,536	115,588	115,588	88,347	69,133	17%
Property and equipment	2,256	2,208	2,245	2,348	2,175	
Customer deposits	154,661	119,328	119,328	95,839	94,728	13%
Returns and ratios						
Return on average equity	10.4%	11.3%	13.0%	16.4%	17.2%	
Return on total assets	1.9%	2.1%	2.5%	3.1%	3.2%	
Costs to income	57.2%	57.9%	51.2%	50.2%	50.7%	


This honour goes
to those who put
us at the top./Our Clients.
Best Trade Finance Bank - Kenya 2017
Best Foreign Exchange Bank - Kenya 2017
Best Treasury and Cash Management Bank - Kenya 2017
BAFT
Thank you for letting us create nothing less than innovative solutions that were responsive to your needs. Ours was a partnership that gave as much as it received.
To find out more about our award-winning solutions, visit www.stanbicbank.co.ke
Stanbic Bank Moving Forward™
A member of Standard Bank Group

KEY ACCOUNTING CONCEPT

IFRS 9 *FINANCIAL INSTRUMENTS*

The group has adopted IFRS 9 – *Financial Instruments* (IFRS 9), which came into effect from 1 January 2018. Since IFRS 9 changes the way that the Group classifies and measures financial assets and liabilities and, most notably, the manner in which the Group estimates its expected credit losses, we have provided a summary of how the adoption of IFRS 9 will affect the Group from 2018.

The key change

IFRS 9's expected credit loss (ECL) impairment requirements will have the most material impact on the Group. IFRS 9 requires credit impairments to be recognised on an expected loss basis which differs significantly from the incurred loss basis required previously by IAS 39 *Financial Instruments: Recognition and Measurement*. The expected loss basis requires us to consider past, current and future expected events in determining ECL requirements. This means that we will include forward-looking economic expectations in determining the expected changes in credit risk, as well as in determining the quantum of the ECL impairment.

It is important to note that the ultimate cash credit loss recognised on loans to our customers will not change because of IFRS 9. If a customer is going to default, the ultimate cash loss under both IAS 39 (the requirements applied in preparing the group's 2017 financial results) and IFRS 9 will be identical. The only difference between IAS 39 and IFRS 9 is the timing of how we recognise credit losses, with more losses required to be recognised earlier under IFRS 9.

How IFRS 9 will affect the group

Impact – qualitative assessment

The ECL impairment requirements, IFRS 9's most material impact for the Group, are expected to result in an increase of approximately KShs 2.2 billion in balance sheet impairments; an increase of 71% on the current IAS 39 balance sheet impairments. IFRS 9's net effect will be a reduction on the Group's reserve of KShs 1.6 billion on transition date of 1 January 2018.

The following table outlines the key drivers of the estimated impact:

IFRS 9 DRIVERS	REASON
12-month expected credit loss for performing exposures	The existing emergence period is between three to six months for PBB exposures and 12 months for CIB exposures. The IFRS 9 change to a 12-month expected loss requirement will result in an increase in impairments for PBB.
Lifetime credit losses for exposures that exhibit a significant increase in credit risk	IFRS 9 requires a lifetime loss to be recognised for exposures for which there has been a significant increase in credit risk. This will affect both PBB and CIB.
ECL held for unutilised customer exposures, guarantees and letters of credit	The requirement for impairments to be recognised for unutilised customer facilities, guarantees and letters of credit will result in additional balance sheet impairments for both PBB and CIB.
Lifetime model workout requirement	In terms of determining ECL the exposure's full lifetime is considered. This includes the probability of recovery or cure post default and/or subsequent future default.
Forward-looking economic expectations for ECL	The inclusion of forward-looking economic information is expected to increase the level of provisions held on our balance sheet due to the nature and timing of both current and forecasted economic assumptions.

Tax implications

IFRS 9 timing of ECL impairments will result in higher deferred tax assets. The Group's deferred tax asset is expected to increase by KShs 700 million on transition date. Higher deferred tax asset balance which will have a negative impact on the Group's capital ratios.

The determination of tax deductibility of impairments both under IFRS 9 and IAS 39 is guided by the provisions of the Income Tax Act which provides for specific requirements that must be met. These requirements provide that impairments are deductible to the extent that there is no security for the debt and a demonstration that all efforts have been made to collect the outstanding amount. The ECL impairments under IFRS 9 being significantly higher as compared to IAS 39 will invariably result in a higher deferred tax asset.

Capital implications

IFRS 9 (including the related tax consequences) will have consequential impacts on the Group's regulatory capital adequacy ratios. The expected increase in impairment provisions, together with the increase in the Group's deferred tax asset carrying value and changes in the level of existing threshold deductions for investments in financial entities and deferred tax assets, will reduce qualifying tier 1 capital. IFRS 9's ECL requirements are expected to reduce the Group's Tier 1 ratio by approximately 0.5%. The Group has sought a subordinated debt of USD 30 million to buffer the effect of IFRS 9 and ensure the capital ratios are within the required limits.

The Central Bank of Kenya provided guidelines which allow financial institutions a timeline of 5 years to phase the effect of IFRS 9 on their capital ratios. In addition, financial institutions can release their statutory credit reserves to buffer against the effect of IFRS 9.

CORPORATE AND INVESTMENT BANKING

WE MADE GOOD PROGRESS ON OUR TRANSACTIONAL BANKING AGENDA AS ONE OF THE KEY DRIVERS OF GROWING THE GROUP'S NON-FUNDED INCOME.

"By being customer centric, we are partnering with our customers to ensure that we understand them well enough to allow us to provide financial products and services that cater to their specific needs and are working towards gaining customers' trust by not only meeting their needs but also exceeding their expectations."

Anton Marais,
Head, CIB

HIGHLIGHTS

- **Corporate and Investment Banking revenue growth** of 5% driven by:
  - Increase in net interest income by 3% as a result of growth in the customer balance sheet
  - Increased trade, cash management and investor services fees due to higher volumes which led to an increase of fees and commissions revenue. However, trading revenue was below prior year due to reduced currency volatility
- **Credit loss ratio** was higher in 2017 due to change in risk grades of some of the customers
- Late in year **growth in customer loans and advances**
- **Increase in customer deposits** mainly on local currency current account balances which is in line with our strategy of growing the local currency customer balance sheet

2017 was tough due to several factors. The extended election period saw reduced business activity as many businesses chose to postpone investment and expansion plans. Other businesses made the decision to scale down on operations and reduce stocks held as a risk mitigating action in anticipation of any negative outcomes after the two elections. A long drought season in the beginning of the year also impacted the agriculture sector in Kenya. We also took on major provisions in the year to restructure our balance sheet as we took on a more prudent approach in managing our loan book. Total credit provisions in the year went up by over 100% for the CIB loan book as a result of review of some of the customers' risk grades.

As a result, CIB profit before tax was down 4% despite the fact that customer loans and advances went up by 5% and customer deposits increased by 36%. CIB remains the biggest contributor to revenues for the bank accounting for 63% of revenues. This is a strong indication that despite the challenges faced, the CIB business is solid, well-structured and there are great business prospects into the future.

On a positive note, the customer revenues grew by 33% in 2017 which was a reflection of the increased customer engagement and focus we had in the year. We also delivered USD 85m worth of deals closed in the year.

In driving the Group's strategy, we continued to focus on customer centricity by first defining, refining and documenting what it means for CIB and its customers. We then cascaded it to our teams and partners and thereby ensured that we received full support in its execution. We are now very clear on the customers we want to focus on. The focus customers have been split into three: the new target customers, those who we want to grow our interactions with and those who we intend to defend the market share we have with them. By being customer centric, we are partnering with our customers to ensure that we understand them well enough to allow us to provide financial products and services that cater to their specific needs and are working towards gaining those customers' trust by not only meeting their needs but also exceeding their expectations.

The Kenyan economy is very diverse and vibrant and as such, there exists huge opportunities to explore opportunities that present themselves in diverse sectors such as industrial, telecoms, technology, power, consumer, oil and gas, tea trading, Chinese banking. We have collected and analysed information on all the key sectors we want to play in and understood how they work. For each sector, we are going in with a unique and well defined strategy so that we remain customer centric and purposeful in our engagements and eventually generate the returns desired.

We made good progress on our transactional banking agenda as one of the key drivers of growing the Group's non-funded income. Furthermore we delivered on a key target to increase our local currency transactions vis a vis foreign currency on the liability side. On the asset side, we are still heavy on foreign currency contribution as many of our customers still hold foreign currency to mitigate foreign exchange (FX) risks and exposures. The challenge remains that we have surplus local currency but to meet the needs of our customers who want FX, we borrow from the international markets and lend to them thus increasing our exposure to FX swings. We are working to progressively reverse the current position by increasing our customer base that has a bigger demand for local currency.

South Sudan

We are proud of South Sudan performance despite the various risks we continue to face in that market. In 2017, our strategy remained focused on reducing our exposure to risks as much as possible and only take up those that we could effectively and efficiently manage. As such our risk profile in South Sudan has changed significantly.

South Sudan exceeded its revenue and bottom line targets after it posted a profit after tax of KShs 358m compared to prior year loss after tax of KShs 526m.

We continue to have on-board all the major corporate customers and international organisations and continuously seek to bank the ecosystem around these key customers. Just like in Kenya, we are very clear and purposeful on the customers that we want to work with and will expand our business with them by leveraging on our digital capability.

M-KOPA SOLAR GROUP

CASE STUDY

INFRASTRUCTURE FINANCING

M-KOPA SOLAR, HEADQUARTERED IN NAIROBI KENYA, IS THE GLOBAL LEADER IN “PAY-AS-YOU-GO” HOUSEHOLD SOLAR SYSTEMS, PROVIDING ENERGY AND A VARIETY OF CONSUMER PRODUCTS TO OFF-GRID CUSTOMERS ON AFFORDABLE PAYMENT PLANS.

Founded in 2010, M-KOPA combines mobile money payments with Global System for Mobile communication sensor technology to enable affordable consumer financing for solar powered systems.

To date M-KOPA has connected over 600,000 homes in East Africa to affordable, safe and clean energy. Its predominantly low-income customer base is accessing lighting, phone charging, radio and TV on daily mobile money payment plans that are less than the typical cost of kerosene.

M-KOPA’s equity investors include Gray Ghost Ventures (a U.S based venture capital fund), General Investment Management (an asset management company), CDC (a DFI owned by the U.K government), among others.

The Facility

Stanbic Bank Kenya Limited was appointed as Mandated Lead Arranger and Bookrunner to arrange the local currency equivalent of USD 55 million of receivables based financing for M-KOPA Kenya and M-KOPA Uganda. Our role in the transaction included structuring the financing and arranging the local currency equivalent of USD40 million of debt for M-KOPA Kenya and USD15million for M-KOPA Uganda from a consortium of lenders, including Stanbic Bank Uganda, CDC, FMO and Norfund.

We structured the deal as a 4 year receivables financing solution where this type of financing is typically for a maximum of 12 months. This extended tenor suited the customer’s growth phase. As the structure required us to understand and analyse the underlying 600,000 plus customers across Kenya and Uganda, we created a bespoke in-house system that performs this analysis efficiently and effectively, thereby affirming our capability as a solutions and customer-centric driven organisation. This funding will assist the M-KOPA Group to provide power and related appliances to a target 1 million customers in East Africa by 2020.

The milestone achievement

This facility is the largest commercial debt facility to date in Africa in the “pay-as-you-go” off-grid energy sector. Repayment under this facility is linked to collections made through mobile money technology from customers who are typically far from formal banking infrastructure. Through the facility, a significant number of consumers, who are largely outside of the formal economy, will create a credit history that should enable them to access further banking facilities in their personal capacity.

Impact

This funding will assist the M-KOPA Group to provide power to a target 1 million customers in East Africa by 2020. Stanbic Bank, through this deal, has effectively partnered with M-KOPA with respect to social and environmental impact. Through the provision of their products, kerosene use for lighting has dropped in East Africa. Furthermore the standards of living of M-KOPA’s customers has improved with small businesses generating more revenues by being able to stay open longer. More disposable income has improved the lives of the communities into which M-KOPA has ventured.

Access to electricity also enables children to improve their performance in school due to the ability to study at home after school; thereby securing a better future for them. By partnering with M-KOPA, Stanbic Bank is effectively part of changing lives for the better and in driving Kenya’s growth.

Stanbic Holdings value add to the transaction

Through this transaction, which is the largest commercial debt facility to date in the “pay-as-you-go” off-grid energy sector, we supported the global market leader in the sector. Not only did Stanbic Bank act as Mandated Lead Arranger, providing advice and liquidity, but we offered a holistic package by fulfilling the roles of Facility and Security Agent, Administration Agent, Payment Agent, Account Bank and Cash Collateral Account Bank. This demonstrates our ability to provide tailor made end-to-end solutions to support our customers’ growth ambitions.

PERSONAL AND BUSINESS BANKING

WE REMAINED FOCUSED ON EXECUTING OUR STRATEGY WHICH HAS YIELDED STRONG RESULTS. WE FOCUSED ON DIVERSIFYING OUR NON-INTEREST REVENUE STREAMS IN TRADE FINANCE AND GLOBAL MARKETS, REVAMPED OUR DIGITAL PLATFORM OFFERING AND AGGRESSIVELY GREW OUR CUSTOMER BASE IN CHOSEN SEGMENTS.

"Customer centricity remains fundamental to our strategy, we put customers at the centre of everything we do. We do not design any product without engaging the customer first and establishing what their needs and expectations are. "

Ben Wandawanda,
Acting Head, PBB

HIGHLIGHTS

- **Decline in Net Interest Income** due to lower margins post interest rate capping
- **Significant improvement in fee and commission income** on the back of strong performance in Trade Finance and Global Markets
- **Credit Loss Ratio below budget** reflecting the quality of the asset book and improved arrears management
- **Strong balance sheet growth** within Commercial Banking and Private Banking segments
- **Strong growth in customer deposits** driven by growth in local currency current accounts and savings accounts

In Personal and Business Banking, we focus on banking business customers (i.e. Small and Medium Sized businesses and Commercial businesses) and personal customers. We lead with Business Banking and leverage on ecosystems to grow the Personal Banking segment. We provide simple, affordable, convenient and accessible financial solutions that range from transactional products, lending products, bancassurance, digital banking solutions and trade finance.

In 2017, we remained focused on executing our strategy which has yielded acceptable results. We focused on diversifying our non-interest revenue streams in trade finance and global markets, revamped our digital platform offering and aggressively grew our customer base in chosen segments.

Despite significant balance sheet growth, Net Interest Income declined by 7% as a result of the full year impact of the interest rate capping. We however mitigated the impact by reducing our overall cost of funding. Our local currency current accounts growth was an impressive 21%. Additionally, we successfully renegotiated our interest earning local deposits from an average of 9.1% in 2016 to 7.3% in 2017 thereby reducing our overall cost of funding. Our share of current accounts and savings accounts grew from 79% of total customer deposits in 2016 to 83% in 2017 and this enabled us to deliver better margins for the business.

Reflecting on the asset performance, our Vehicle and Asset Finance business performed well in the first half of the year but took a hit in the second half due to the political tension that resulted in increased default rates. As a result, we reviewed and tightened our risk appetite in this business and this resulted in a dip in performance for the year. The mortgage business continued to grow and this was largelyon account of new customer acquisition. Our uptake from these banks was focused on customers with low risk profiles. Overall, in the prevailing interest rate capping regime we re-focused on secured lending with favourable results as seen in our Credit Loss Ratio reducing from 1.6% in 2016 to 1.2% in 2017. Our Agriculture portfolio also continued to expand as we entered new sectors such as tea, coffee and dairy thus diversifying our exposure in the industry which has tended to be heavy on horticulture and sugar.

Non Interest Revenue increased by 21% mainly driven by trade finance, forex income and other transactional fees from the digital platforms. We increased our efforts in trade finance by focusing on acquisitions of new names that utilised most of the trade finance solutions leading to the largest year on year growth in revenue of 61% .

Digital platforms remain a key differentiator in service delivery for the Personal and Business Banking business. In 2017, we became the first bank in Kenya to offer M-PESA float on our Bulk Note Acceptors (BNAs) which has now enabled M-PESA agents to get float for their business anytime (24/7). Equally we rolled out our digital payments and collections platform for remittances such as taxes to KRA, KPLC power bills and NHIF contributions. These platforms are available even to users who are not Stanbic Bank customers.

Our payments and collection strategy was successful within the year, we launched ***LIPA360***, a payment solution for schools with a payment trail that enables the school to easily reconcile fee remittances and generate proper records. We introduced real time settlement for our ***Till2Bank*** solution that enables immediate settlement of cash from a merchant's M-PESA till to their bank account.

In the Bancassurance space, we focused on ensuring that we had the right people, systems and channels in place and structuring the business optimally while closing on joint venture agreements and regulatory requirements in readiness for take-off in 2018. The focus will be on the business evolving into an advisory role capitalising on our large corporate and business banking base to advise on risk assessment, mitigation and management through suitable insurance products.

With the inclusion of Point of Sale solutions and e-commerce solutions to our card business, Stanbic bank card business registered good growth in 2017. There was increased acquisition of both face to face merchants and ecommerce merchants. The card business is a critical area for us as we execute on the Stanbic 2.0 digitisation agenda. E-commerce is the future for us and cards play a big role in ensuring we remain relevant to our customers. As such we continue to invest in this business, we will ensure our investments are customer centric since in the eyes of our customers, we want to be the bank that knows them, empowers them and delivers for them the solutions they need.

Customer centricity remains fundamental to our strategy, we put customers at the centre of everything we do. We do not design any product without engaging the customer first and establishing what their needs and expectations are. We also do not make any iterations on products without consulting the customers first. In addition, we do not release any products into the market until it meets the expectations of our customers. We continue to have deeper and more purposeful conversations with both existing and potential customers to understand their needs, pain points and aspirations in detail and identify a suite of products that can meet those needs. We continue to review our current product portfolio to establish if our customers are happy with our current offering and whether there is anything they would want us to change. For our business customers, we go even further to understand their entire business value chain and how we can partner with them to make it easier for them to trade.

China Business Centre recorded strong growth driven by expanding opportunities from Kenya-China trade relations. We also leveraged on ICBC as a strategic partner; ICBC the largest bank in the world is a 20% shareholder in Standard Bank.

We also introduced pre-scored lending where we prequalify our customers based on their transactional trends and are able to offer them short term lending to meet their working capital needs. The solution offered is fully automated therefore making processing of credit facilities easier and faster.

In 2018, we will focus on further enhancing our digital capabilities and offer digital lending solutions for the self-employed, women in business and the unbanked to help us better connect and support growth in SMEs. We will also concentrate on delivering supply chain finance solutions to distributors and suppliers and leverage on ecosystem approach to drive growth in both Business Banking and Personal Banking. In addition, we will be launching agency banking to support us in expanding our presence across the geographical footprint.

WEALTH

WEALTH CUTS ACROSS AND SUPPORTS ALL OUR BUSINESS UNITS AND IT FOCUSES ON DELIVERING BOTH BANKING AND NON-BANKING FINANCIAL SERVICES IN AN INTEGRATED MANNER ACROSS ALL SEGMENTS AND THROUGH ALL CHANNELS.

BUSINESS STRATEGY

The Wealth business strategy cuts across all business units and comprises of:

- Wealth and Investment (WI)
- Stanbic Insurance Agency Limited (SIAL)
- International Personal Banking (IPB)

Our Wealth business leverages off the unique partnerships across the Standard Bank Group that allows us to work with Stanbic, Liberty, Heritage and Stanlib

Wealth cuts across and supports all our business units and it focuses on delivering both banking and non-banking financial services in an integrated manner across all segments and through all channels. Wealth is not about offering banking and investment services for the wealthy and high net worth individuals or institutions. It is about deploying our wealth capability which offers advisory on insurance and investment products across our entire customer base regardless of their profile.

We have a unique relationship with Liberty Life, Heritage Insurance and Stanlib which allows us to provide a wide array of insurance and investment products for our customers. We recognize that all our 130,000 customers have a wealth aspiration and every day, people seek to achieve a particular wealth need for themselves. So, our value proposition is in our ability to deliver on this aspiration through our banking, insurance and investment products. Our high net worth customers are known for excelling in their wealth aspirations and they serve as role models rather than being an exclusive group. All our customers are intrinsically trying to move up that value (wealth) curve and therefore our wealth strategy seeks to try and enable our customers to understand what their current status is and what personal journey they would need to undertake to achieve their wealth aspirations.

To this end we have rolled out worksite academies with our corporate customers whereby we train their employees all the way from senior management to general staff. These trainings are conducted by a joint team from Stanbic, Liberty, Heritage and Stanlib. We have successfully held 9 staff worksites with 1044 staff members in attendance.

During this financial fitness days (worksite academies), we focus on:

1. Establishing and defining a professional relationship with our customers
2. Helping our customers identify their goals
3. Analysing and evaluating our customers financial status
4. Developing and presenting financial planning recommendations
5. Implementing the financial planning recommendations

The feedback so far has been very encouraging with most beneficiaries saying that this is the first time the bank has done something for them and not the norm where they are requested to do something for the bank. It has improved their understanding of what wealth is, what is important to them in their financial lives, their financial goals and what they need to do to actualise their financial dreams.

We currently have over 150 products on offer across this unique partnership between Stanbic, Liberty, Heritage and Stanlib. We are however looking at rolling out solutions that will address people's aspirations while taking into account that there will be different value propositions for different persons based on their needs and aspirations. In order to achieve this we have in place a 4 quadrant methodology:

- How do I create my wealth
- What do I do with the resources / how do I spend it / what do I need
- I need to save and invest for the future
- I need to have a legacy amount to cater for the future for myself and my descendants

Adam Jones,
Head, Wealth

CUSTOMER CENTRICITY

BY DOING WHAT IS VALUABLE TO OUR CUSTOMER, WE WILL BE ABLE TO GROW AND ENTRENCH OUR MARKET POSITION BY TARGETING THE RIGHT CUSTOMERS, PARTNERING WITH THEM FOR GROWTH IN THE KEY GROWTH SECTORS OF KENYA'S ECONOMY.

The relationships we have matter, and our people strive every day to deliver a great customer experience. It's an experience that starts with consistently getting the basics right to ensure banking with us is always simple, easy and personal. The way our customers bank with us is constantly evolving. Nowadays, they prefer to bank through multiple channels – online, in branches, through our mobile banking app or via ATMs and BNAs. In response to changing customer needs, we are putting our customers at the centre of our operations. Listening to them, and asking for feedback, means we can constantly find new ways to improve their experiences across all of our products, services and systems. We strive to make our customers the centre of everything that we do, by delivering excellent service, and making them feel recognised, respected and valued with each interaction.

NPS score of 28

In 2017, we conducted customer interviews in order to find out about their ideal banking experiences. We know that providing a great customer experience will turn more of our customers into advocates. Today, we use Net Promoter Score (NPS) to help our bankers take greater ownership of the customer experience. Our bankers access regular customer feedback, together with localised scores at each of our branches, contact centres and business banking centres in order to improve customer outcomes. Our aim is to have a positive NPS and rank #1 among our major bank peers for our priority customer segments. The Operations team has embarked on a journey to implement and acquire ISO 9001:2015 certification in 2018. ISO 9001 is a quality standard that places emphasis on processes, continuous improvement, adopts a risk based approach, calls for increased role of leadership, aligns Quality Management Systems to organisational strategy and focuses on customer satisfaction

1 Delivering exceptional service

Putting our customers first is our strategic priority, serving and satisfying them so that they continue to turn to us as their bank of choice. In order to achieve our strategic objectives, as well as fulfil and exceed customer expectations, we must continue to engage our customers. Every day, our dedicated relationship managers help guide our customers to make the right decisions to enhance their financial plans and projects. The investment we have made in training our staff is making each conversation more meaningful and personalised.

With the consistent application of simple and innovative technology and services, we are making banking fast, easy, and secure, no matter how customers choose to bank with us.

- Our mobile broking service, M- Shares has made it easier and more affordable to monitor and trade shares.
- Implemented a sales force service cloud query management system, and the envisaged benefits including: a single platform for single view of customer, improved analytics and reporting, enhanced customer centricity, greater collaboration between CIB/PBB and Operations are being realised.
- Continuous improvement to deliver process automation and improve service delivery remains a focus area for operations. This is supported by our deliberate drive to engage our customers to use online channels which will reduce our cost to serve and enhance our service delivery.
- Technology changes made to our inward telegraphic transfer process delivered process efficiency and an enhanced straight through performance with straight through processing (STP) rates improving from 74% in 2016 to 94% in 2017.

Another critical area in service delivery is adherence to the Service Level Agreement we have with both internal and external customers.

- In 2017, our stakeholders challenged us to spend more time with customers and engage stakeholders. The operations team together with PBB and CIB relationship managers visited 58 customers to understand their pain points and address issues of customer dissatisfaction. This was further reinforced through proactive engagements between the operations team, branches, credit, CIB and PBB resources etc. to discuss issues resulting in reworks or impacting SLA's. These engagements resulted in a collaborative effort to implement best practise solutions that delivered an improved performance in our SLA's and overall customer experience.
- Further to this, we review our SLA's cyclically ensuring that changes driven by new product/service or regulatory or compliance changes are incorporated and adhered to

2 Resolving customer complaints

We have processes and systems designed to address and improve customer experiences. Our customers concerns range from:

- Account opening and servicing including static data maintenance, personal and account detail change requests
- Payments which include; failed &/or delayed processing of transactions caused by human error or intermittent system downtime.
- Difficulties accessing product information and time consuming applications.
- Semi automated processes that cause unnecessary delays.

We are focussed on understanding and addressing these concerns and improving the processes and procedures that cause frustration. From an SLA breach management perspective, we continue to track incidents and complaints to ensure comprehensive root cause analysis is done and resolution provided to address the under lying issue and ensure non-recurrence. We analyse our incidences to assess accuracy of root cause and effectiveness of resolution measures.

3 Our Brand

Our brand aims to promote our aspiration to be a partner for growth. One of our key strategic pillars is customer centricity and this cements our initiatives in growing brand love through continuous efforts to provide the best experience for everyone who interacts with us across different touch points.

Our brand promise is that as an individual or business we partner with you so that we can all move forward. Every year we monitor brand performance against key metrics through a research known as Africa Brand Tracker and also Net Promoter Score (NPS). Overall in most measures there was good improvement. The comments from the respondents also showed that they found the campaigns we ran last year relevant and appealing to them. Some of the measures with good improvement was spontaneous awareness, consideration amongst others. Feedback from the research shows that our customers believe that we are the bank for businesses, we are the bank for people that want to progress. They believe that we have good products and that we provide solutions, good customer service, knowledgeable and friendly staff. In 2017, we ran several marketing campaigns including a brand campaign and a trade campaign across all channels both traditional and non-traditional. We organized several strategic events that were at different segments of business/different sectors like our powerful Economic Forums.

Our efforts to deliver exceptional customer service were consistently recognised over the financial year:

Banker Africa
- Best Corporate Bank in East Africa
- Best Investment Institution

Global Finance Magazine awards
- Safest Bank in Kenya
- Best Foreign Exchange Provider in Kenya
- Best Treasury and Cash Management Provider in Kenya
- Best Trade Finance Bank in Kenya

The Banker & Professional Wealth Management Magazine awards
- Best Private Bank in Kenya

Think Business Banking awards
- 1st runners up in Best Bank In Mobile Banking
- 2nd runners up in Best Bank In Internet Banking
- 2nd runners up in Best Bank In Mortgage Finance
- 2nd runners up in most Customer Centric Bank

Financial mail
- Best research house in Kenya

BAFT awards
- Best Trade Finance Bank in Kenya
- Global Investors Awards
- Best Investor Service Provider

4 Customer Lifecycle

In order to ensure we deliver the best customer experience possible, we are constantly looking at the journeys our customers take with us. It is important that we are always proactive so as to improve the customer experience for interactions like opening an account for their children, planning for business expansion, applying for a mortgage or wealth management. By understanding the customer lifecycle, we are also creating a more agile organisation. We are using human-centred design, multi-disciplinary teams and digital enablement that aims to deliver improved services at twice the speed.

5 Customer Value

Investment in innovation and digitisation helps us deliver great experiences for our customers. We continued to launch unique and customer-centric propositions in 2017. These include:

- Lipa 360
- Till2Bank
- BizConnect
- e-Biller

We are also exploring new strategic alliances and direct investments which will allow us to fast track customer experience improvements and leverage innovative new technology and business models.

6 Customer information protection

Our customers trust us to do the right thing and most importantly ensuring their money, personal information and privacy are protected. We are constantly upgrading our customer-facing and back-end technology platforms to ensure our customers' information remains safe. We continuously improve on our cyber defence capability, to defend the Group through the detection, prevention and management of sophisticated cyber threats.

STANBIC DIGITAL 2.0

DIGITISATION IS MORE THAN JUST TECHNOLOGY. IT IS ABOUT DELIVERING THE UNIVERSAL BANK THROUGH SECURE PERSONALISED, RELEVANT EXPERIENCES TO CUSTOMER AND STAFF REAL TIME, ALL THE TIME.

Stanbic maintains a consistent capital allocation strategy for its ICT investments, balancing the need to accelerate the Group's digital transformation with the need to fulfil an increasing number of legal and regulatory requirements. Our ICT investments are focused on further developing digital platforms in our markets, while modernizing core banking legacies to reduce IT costs and enable new business opportunities. Our approach to technology is focussed on three core areas: delivering reliable and stable experiences for our people and customers, continually improving our technology platforms and services to make them simple and agile, and getting products to our customers faster.

IT STRATEGIC PILLARS

Quality of service through brilliant basics	Achieving continuous improvements in the quality of service to customers in terms of availability, reliability and security.
Responsiveness to market	Leveraging innovative technology and new ways of working to achieve higher levels of agility, flexibility and responsiveness.
Affordability	Managing costs by driving a lean IT operation and by embedding commercial pragmatism.
Sustainability as the foundation of customer excellence	Making group IT an aspirational destination for IT professionals and embracing our diversity and social and ethical responsibility.

Technology refresh

In 2017, the Bank refreshed the core banking infrastructure platform from the traditionally purchased hardware stack to a more flexible lease arrangement under the Infrastructure as a Service (IaaS) program. The refresh also ushered in the introduction of Oracle Database Appliance (ODA), which will re-engineer our oracle database deployment in a more efficient and cost effective manner. One key benefit here is the achievement of a like-for-like state of primary and secondary infrastructure set-up for the core-banking set-up

Innovation

When change is constant, innovation is critical for businesses, especially in the banking sector. Throughout 2017, Stanbic developed a number of new ideas that focused on digitisation and high-tech solutions. In our Corporate and Investment Banking division we launch an innovative transactional payment system – Corporate Pay - for our customer – KPLC based on a need we identified. We introduced a new service called M-shares – the first in the market on trading shares on the mobile phone. We also launched a revolutionary product – Smart Banking that not only provided banking solutions but insurance including Retrenchment Cover which has turned out to be a key benefit that is getting target customers to pick up the solution.

ICT Security

Given the strategic importance of digitisation, it is essential for us to strengthen the ability to manage ICT risks and ensure an adequate level of protection. We continue to invest in technology, operations and people. This ensures customer data and information is protected and used appropriately. If a mistake happens, we take responsibility and act quickly. We take the security and protection of our customers' personal information extremely seriously. We regularly provide customer alerts about the latest security threats on our website and social media channels.

We proactively educate our customers about cyber-crime. We provide regular insights on the measures they can take to protect themselves online, and keep their information secure. We advise our business customers that covered the latest cyber security threats and trends targeting businesses – and how they can manage cyber security risk.

All our people, including contractors, are required to complete mandatory security training. This training is updated every year to reflect the changing threat landscape.

UNIVERSAL FINANCIAL SERVICES ORGANISATION

AT STANBIC, WE AIM AT DELIVERING FINANCIAL SERVICES SEAMLESSLY AND EFFICIENTLY SUCH THAT OUR CUSTOMERS HAVE ACCESS TO AND EXPERIENCES ALL OUR PROPOSITIONS RELEVANT TO THEIR NEEDS.

Under this strategic agenda, we have purposed ourselves to go beyond the normal banking services and become a one-stop-shop for all of our customer's financial needs. We will be looking at actualizing on our capability to deliver on these needs by:

1. Understanding the needs of our customers.
2. Providing our customers with a personalised and comprehensive financial services offering.
3. Empowering our people to better provide an excellent and consistent customer experience.
4. Making it easier, faster and safer to transact by Accelerating innovation and digitisation.

Universal Banking allows us to look at key customers and choose a strategy for meeting their financial needs such that we can offer custom made value propositions tailored for each of them. For example we can offer a corporate current accounts, credit facilities and money markets products while it staff get staff salary and savings accounts, debit cards, medical and car insurance; we can offer the executive other products like credit cards, life insurance and professional indemnity covers, mortgages; suppliers can access loans on approved orders all while providing customized digital banking systems that enable the corporate to manage its finances and simplify transactions.

As such universal banking is about how well we can meet with the broad financial needs of the customer by understanding the customer and then offering the full suite of financial services as a one stop shop. South Sudan is the economy where we have excelled in Universal Banking for the Group.

Ecosystem banking

We continue to execute well on our ecosystem approach to drive the business as a whole. There are many forms of ecosystems and each is uniquely dependent on the primary customer. Under this approach we look at the customer as a unique business and ask ourselves, who are the suppliers, who are the employees, who are the customers, who are the regulators, who are the partners? We do an in-depth analysis to gain full understanding how the company operates and what are the interdependencies in their operations. When we look at our customers through this lens, it is evident that all business units, from CIB to PBB to Wealth, will be required to work as a joint force in delivering the desired financial services suite to the customer. This automatically ensures that as a bank, we work with the customer as the focal point further cementing our customer centricity agenda.

There has been really good success in engaging the ecosystem in terms of our key customers like we have with Kenol Kobil – it has gained some great traction and it demonstrates that a small starting point can generate into a genuine ecosystem positioned within the corporate and yet extending outside the corporate to other related parties e.g. Kenol Kobil leading to a key relationship with Air Kenya and allowing us to provide specialized aviation insurance for Air Kenya and then onwards to twelve other leads, just from this single relationship. And three of four of these twelve leads, we have also done insurance for.

There is a difference between value chain optimisation which goes downstream and upstream and is linear looking for opportunities within the downstream and upstream relations of our customer, such as for Kenol Kobil we would look at the dealers, shops, etc which is linear to a true ecosystem which is organic and takes a course of its own and we have to be open to the opportunities as they present themselves, do the research and respond appropriately and it will take us wherever it goes, so with our example, now we are able to access the aviation sector. So with the ecosystem approach the opportunities never run out and so our work should never stop.

CASE STUDY

WORLD FOOD PROGRAMME (WFP)

UNIVERSAL FINANCIAL SERVICES ORGANISATION

THE WORLD FOOD PROGRAMME (WFP) IS THE FOOD-ASSISTANCE BRANCH OF THE UNITED NATIONS AND THE WORLD'S LARGEST HUMANITARIAN ORGANISATION ADDRESSING HUNGER AND PROMOTING FOOD SECURITY.

Under this strategic agenda, we have purposed ourselves to go beyond the normal banking services and become a one-stop-shop for all of our customer's financial needs. We will be looking at actualizing on our capability to deliver on these needs by:

1. Understanding the needs of our customers.
2. Providing our customers with a personalised and comprehensive financial services offering.
3. Empowering our people to better provide an excellent and consistent customer experience.
4. Making it easier, faster and safer to transact byAccelerating innovation and digitisation.

Universal Banking allows us to look at key customers and choose a strategy for meeting their financial needs such that we can offer custom made value propositions tailored for each of them. For example we can offer a corporate current accounts, credit facilities and money markets products while it staff get staff salary and savings accounts, debit cards, medical and car insurance; we can offer the executive other products like credit cards, life insurance and professional indemnity covers, mortgages; suppliers can access loans on approved orders all while providing customized digital banking systems that enable the corporate to manage its finances and simplify transactions.

As such universal banking is about how well we can meet with the broad financial needs of the customer by understanding the customer and then offering the full suite of financial services as a one stop shop. South Sudan is the economy where we have excelled in Universal Banking for the Group.

In South Sudan we have excelled at delivering a seamless and universal financial services offering to our customers. Our South Sudan business provides transactional banking products and foreign exchange products to our corporate customers while also providing banking solutions to the network of partners that supports our corporate customers.

The World Food Programme (WFP) is the food-assistance branch of the United Nations and the world's largest humanitarian organisation addressing hunger and promoting food security. Humanitarian efforts in South Sudan are expected to reach $1.7 billion in donor funding in 2018. Because WFP is the currently the largest recipient of donor funding in the humanitarian space in South Sudan and is also a key employer in the country, WFP is a key nationally contributor to the South Sudan economy.

As part of our commitment to being nationally relevant, we have partnered with WFP, by successfully delivering a universal banking solution that has catered for the various segments of their ecosystem.

The anchor relationship in this ecosystem is the corporate relationship with WFP, we offer them transactional accounts, foreign exchange products and are underway to partner on a mobile money solution for their beneficiaries.

Since their staff are a critical part of their organisation's effectiveness, we have offered payroll solutions to WFP that ensures their staff are paid in a timely manner and are able to access financial services solutions through us. The solutions range from salary accounts, access of funds through convenient channels like our VISA ATMs and most recently we have also introduced a pension solution that is under review.

Vendors, also called Partners, of WFP play a key role in success of their operation. We are working closely with the customer to onboard their vendors at Stanbic Bank where we offer them various solutions based on their banking needs that include transactional accounts, foreign exchange products and payroll solutions for their staff.

Additionally, we are continually engaging the other pillars within the UN System, these organisations are the likes of International Organisation for Migration (IOM), United Nations Children's Fund (UNICEF), United Nations Mission in South Sudan (UNIMISS).

The South Sudan banking industry is simple in product types but very complex and fluid on day to day management basis. Our ability to assure WFP of the safety of their funds kept with us and give them access of the same funds at their convenience has persuaded them to trust us as a partner to their business across their whole value chain.

We believe, in WFP's critical role in South Sudan and we are committed to providing them with solutions that enable them to succeed in this role.

AN ENGAGED TEAM

OUR PEOPLE ARE FUNDAMENTAL TO OUR GROWTH AND OUR ABILITY TO CREATE VALUE. THEIR SKILLS AND EXPERTISE ARE CRITICAL TO CREATING AND EXECUTING STRATEGIES, AND THEIR SERVICE ORIENTATION AND COMMITMENT TO EXCELLENCE HELPS TO DELIVER RESULTS, BUILD RELATIONSHIPS AND SECURE OUR REPUTATION.

We seek to offer a workplace where our people are inspired to take advantage of opportunities to learn, grow and take charge of their careers. In the year, we have implemented a range of policies and programs that have laid the foundations for becoming an employer of choice in the region.

OUR EMPLOYEE BASE

Total employee complement

1 113

(2016: 1 116)

Gender Parity

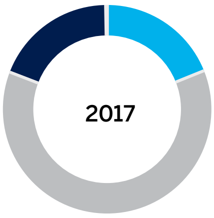
48% : 52%

GENDER PARITY IN SENIOR MANAGEMENT AND BOARD

Senior management
27 : 36

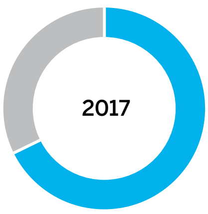
Board
4 : 6

AGE BREAKDOWN (%)



Below 30 years	19%
30 – 40 years	62%
More than 40 years	19%

MANAGEMENT/ NON-MANAGEMENT



Management	32%
Non-management	68%

NEW HIRES

99

EXITS

102

By hiring the right people and supporting them to grow, deliver on our strategy and go the extra mile, we are able to connect with communities, provide excellent customer service and bring smiles to the faces of customers. Our leadership plays an essential role in this, with every leader accountable for attracting, developing, retaining and engaging the right talent and then enabling them to execute our strategy. To ensure that we achieve our objectives, our people strategy emphasises workforce engagement and culture, and the development of the capabilities, leadership and talent that are necessary to pursue our strategic priorities.

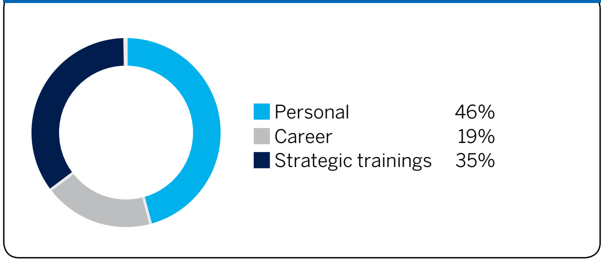
Attracting the best talent

We have a workforce of 1,113 permanent employees. In order to meet the needs of our customers and the requirements of our regulators, we are focussed on having the right people with the right skills, in the right roles. To ensure we hire highly competent, customer centric employees, we are also changing how we recruit with a focus on a more diverse set of skills in addition to specific role expertise. In our changing business environment characterized by technology-driven social interactions, we are increasingly aware of the importance of fielding a new generation of employees that is comfortable with the future. We will continue to look for people who have add-ons such as people management, digital literacy, creativity, innovation, critical thinking, negotiation and collaborative skills. We seek to grow talent through coaching and thought leadership to drive our future agenda. As technology evolves and our reliance on data grows, we will continue having an appetite for employees who have strong skill sets in digital literacy, data and analytics and system thinking.

Strengthening capabilities

We have identified and prioritised the organisational capabilities that are important across the Group and required to execute our strategy and drive growth in each of our markets. We provide our people with targeted, role-based learning and mandatory, role-specific training. This is complemented with formal training and on-the-job skills development driven by the needs of our strategy. We have redefined our learning architecture by adopting a 70:20:10 approach whereby 70% is on the job learning, 20% is through informal learning such as coaching and online trainings while the remaining 10% is class room learning including e-learning.

E Learning Training geared to improve Personal life/Career life



Increasingly our approach is more forward looking and online based which will enable us to make knowledge even more available to all our people, democratising learning, accelerate development and help them fulfil their potential. We introduced LinkedIn Learning in 2017 whereby employees learn business, creative, and technology skills to achieve their personal and professional goals. Some of the benefits of this approach include

- LinkedIn, which has over 7000 courses, mainly in video format.
- Just-in-time learning.
- One can download the App and learn from their phone.
- LinkedIn profile gets updated as one gets accredited.

We are focussed on identifying, assessing and developing leaders who translate our strategy into executable actions, and demonstrate the culture and behaviours that are key to helping us realise our vision. Part of this includes secondment of high performers to regional operations within the Standard Bank Group which allows for them to gain exposure in new markets and also impact these operations through their experience and expertise. We currently have 11 Kenyans on long term assignments across the continent. This exposure is critical in growing our talent pool with people who have a global outlook and create an opportunity for mentorship and thought leadership.

Performance culture

We closely monitor our progress in embedding and living our values. To further embed our values, which are an integral part of our corporate culture, we have defined important behaviours that our people are expected to demonstrate daily as they go about their work, such as treating others with respect. These behaviours represent the essential building blocks of our culture and high-performance approach. We have likewise identified behaviours we aim to eliminate.

Diversity and inclusion

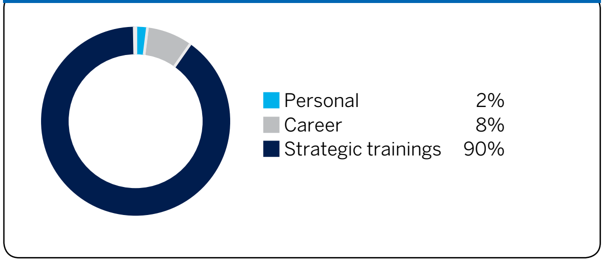
We believe that fostering a workforce that reflects the diversity of our markets is essential to remaining the strategic partner of choice for all of our customers. Our business benefits greatly from the diverse range of people who work for us, serving a broad geographic footprint and a wide spectrum of communities. This is why we actively seek to attract and retain employees from a range of backgrounds, skills and experiences. We know that to maximise everyone's contribution, we need to ensure that every employee feels respected and heard. This is why respect for individuals is at the core of our values, and why we foster behaviours that create an inclusive culture. These behaviours are enshrined in our formal Code of Business Conduct. At the end of 2016, 43% of senior management roles in our group were held by women. We continue to support the diversity of our talent pipeline with a policy that ensures the recruitment of a balanced number of male and female employees.

Performance management

Our performance review process has been enhanced to recognise our employees delivering on our vision.

We have incorporated an assessment of how we demonstrate our values, manage risk in our roles and measure achievement using a performance scorecard.

Classroom Training geared to improve Personal life/Career life



We provide our people with guidance and clear expectations on what living our values means, and encourage regular coaching conversations throughout the year to support their achievements, behaviours, development and career aspirations

Open communication

To ensure that our people are committed to common business goals, we continuously engage with them regularly about our strategy, performance and results, businesses, HR issues, welfare concerns, career opportunities and many other matters. We also do it in a way that goes straight to the point – delivering messages that are not only well-received but also inspire and motivate colleagues to make an extra effort in support of a challenging strategy.

We are open to receive complaints from our employees through various channels as well as resolve these in the best manner and also in the fastest time possible.

A great place to work

Health initiative: The Bank conducts provides wellness check-ups yearly for employees and their dependants.

Medical: The Bank meets the cost of medical expenses of staff and their nuclear family for the permanent staff while it only meets the expenses . The Bank pays the full premium of the medical cover. The cover is provided by a private company. Optical, Dental and the standards of the room were improved compared to the previous year.

Pension scheme: All permanent Staff are eligible to join the Bank's Pension Fund Scheme.

Nursing room is accessible to expectant and nursing mothers.

Break out rooms are in each department, whereby employees take a break when having lunch or tea breaks.

Counselling services: ICAS (Counselling & Advisory Services) can be accessed by all employees and their immediate family.

Group personal accident: Cover for non-occupational injuries or death within and outside workplace.

WIBA (Workers Injury & Benefits Act): Cover for occupational injuries or death within the workplace.

Sports; as members of Kenya Bankers association (KBA), 175 members of staff participate in the interbank sports competition for 2017.

End of year party and team building events were organized for staff in the year.

SEE REPORT

SEE MORE

SOCIAL • ECONOMIC • ENVIRONMENTAL

SOCIAL, ECONOMIC AND ENVIRONMENTAL

SEE Committee

In 2017, we established the SEE Committee as part of our commitment to deliberately manage our non-financial impacts. The purpose of the Bank's SEE Committee is to oversee and drive the implementation of the SEE value driver, in compliance with King IV. Given that the SEE value driver has been embedded as part of the Bank's strategy, it is imperative that the implementation of SEE in the Bank is driven from the Executive level and that it is included as a Key Result Area (KRA) in the performance of Executive Management.

The SEE Committee will have authority, responsibility and accountability for:

- The implementation of the SEE value driver within all functions of the Bank;
- The creation of bank-wide awareness on the SEE value driver and related implementation requirements;
- The identification of material issues which were meaningful to stakeholders for reporting in the Bank's Annual Integrated Report and Report to Society;
- Creating processes for the coordination of SEE management within the Bank;
- Assigning specific responsibilities relating to SEE to members of the Committee;
- Reporting monthly to Exco and quarterly to the Board; and
- For all issues specifically delegated to the Committee by Exco or the Board

WHAT IS SEE?

To SEE more means we can be more: a catalyst for change in East Africa. Our success comes from using financial services to make life better for the communities that we work in, adding social, economic and environmental (SEE) value.

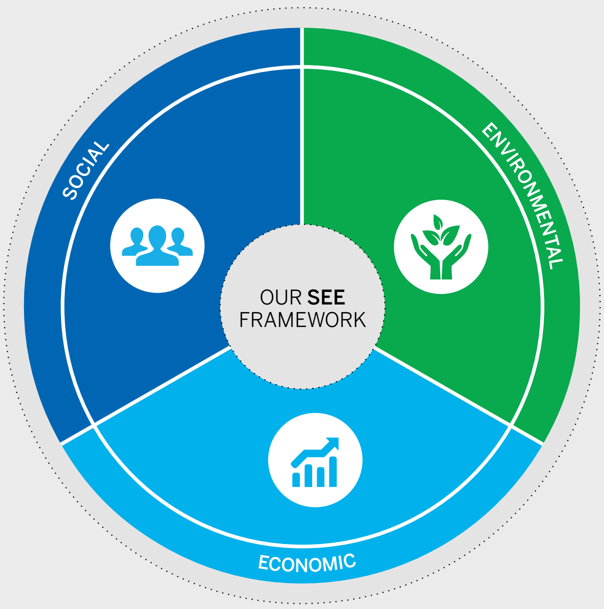
SEE SHARED VALUE

We understand shared value quite simply: In order for us to continue as a successful and sustainable business we must measure value beyond financial outcomes.

During 2017, we determined that our progress on our strategy is measured with strategic value drivers, as follows:

Social

This is the value Stanbic Holdings creates for society, both internally with our people and externally with other stakeholders, such as customers, governments to make life better.



Environmental

Stanbic Holdings success depends on creating value for the environment through conscious and responsible lending.

Economic

Stanbic Holdings drives economic growth through creating social and environmental value, which also leads to more innovative and profitable ways of doing business thereby being a catalyst for economic change.

DELIVERING SOCIAL, ECONOMIC AND ENVIRONMENTAL (SEE) VALUE

SHARED VALUE FOR OUR STAKEHOLDERS

VALUE DRIVERS

- Customer focus
- Employee engagement
- Risk and conduct
- Financial outcome
- Social, economic and environmental (SEE) outcome

STANBIC HOLDINGS PLC STRATEGY

To be a leading nationally relevant financial services organisation in Kenya, delivering exceptional customer experiences and superior value

In this report, we explain how we create shared value, how we are responding to social, economic and environmental issues, the changes we are making within our business to better meet the expectations and requirements of our stakeholders, and the steps we're taking to ensure the long-term sustainability of our business.

MATERIALITY

Understanding the needs of our customers.

Attracting and retaining deeply committed people with the right skills and capabilities.

Proactively responding to increased cybersecurity threats and protecting customer information.

Growing our customer base, retail franchise and revenues.

Investing in the region's infrastructure, notably that of green energy.

Implementation of IFRS 9.

SEE MORE

SOCIAL • ECONOMIC • ENVIRONMENTAL

What are the social, economic and environmental (SEE) needs in Africa?

What contribution can financial services make to meeting these needs?

SEE our impacts:
SOCIAL, ECONOMIC AND ENVIRONMENTAL

- Innovation, entrepreneurship and enterprise development in the Green Economy
- Education, learning and development
- Wildlife conservation
- National emergencies

SHARED VALUE

SUSTAINABLE DEVELOPMENT GOALS

A United Nations (UN) initiative with a set of 17 aspirational "Global Goals".

African Union

A strategic framework for the socioeconomic transformation of the African continent.

KENYA VISION 2030

National long-term development blue-print aiming to transform Kenya into an industrialising, middle-income country providing high quality of life to all its citizens by 2030

"We are more than a bank"

HOW IT ALL COMES TOGETHER

As part of our journey towards being more than a bank, we identified 4 areas in which we can make a significant positive impact, in line with our commitment to driving sustainable and inclusive economic growth in East Africa.

1

INNOVATION, ENTREPRENEURSHIP AND ENTERPRISE DEVELOPMENT IN THE GREEN ECONOMY

The green economy will be a priority sector for the Foundation, and encompasses SMEs operating in tourism, agriculture, wildlife and conservation but only where SME activities are indicated to improve environmental resilience.

- Mkopa partnerhip to provide "pay-as-you-go"household solar systems,
- SME accelerator programme that partners with SMEs whose focus is on green economy
- Enterprise Direct connects over 28,000 SMEs to us via digital platforms
- SME accelerator programme aimed at growing'finance ready' SMEs
- Biz Connect: KShs 9.7 million invested and 240 customers trained on entrepreneurial skill in partnership with Strathmore Business School

2

EDUCATION, LEARNING AND DEVELOPMENT

In addition to our priorities outlined under the employee engagement value driver, we create opportunities for learners and graduates to build careers with us. We are developing innovative solutions that address the challenge of affordable and accessible finance for students. Our corporate social investment programmes prioritise education.

- KShs 3 million invested in education in 2017
- 30 beneficiaries of secondary education under our partnership with Palmhouse Foundation
- 7 year running scholarship fund in partnership with USIU
- 4 year running scholarship fund with Strathmore University
- Sponsorship of 20 children in the SOS Children's Village

3

WILDLIFE CONSERVATION

Tourism remains a big economic driver and foreign exchange earner for Kenya. Through the grant making component of the Foundation we fund projects aimed at wildlife conservation with an aim of contributing to the economic stability of the country and the preservation of its natural assets.

- The grant making component of the Foundation funds projects aimed at wildlife conservation
- In supporting wildlife conservation, the Group participated by contributing KShs 500,000 to Rhino Charge. This is an annual off-road 4x4 competition which is organised to raise funds for the conservation and protection of Kenya's mountain range ecosystems.

4

NATIONAL EMERGENCIES

As a corporate citizen of the markets we operate in, our purpose is to address national issues including response to national emergencies as and when they occur. This is done through the grant component of the Foundation.

- Famine has been declared in parts of South Sudan, The Group contributed Ssp 550,000 towards famine relief.

Stanbic Bank Foundation

In line with the new strategic direction we have adopted we are in the process of establishing a structured Corporate Social Investment (CSI) programme which will enable us to cement our legacy as truly African, truly Kenyan. Stanbic Bank Kenya has commissioned consultants to assist in designing a CSI, which will take the form of a Foundation, to inform a more structured and impactful strategy for the deployment of Stanbic CSI funds. Through the Foundation, we will be able to consolidate and accelerate this spend, while taking advantage of our market presence in order to capitalise on the social, environmental and business benefits through more targeted CSI activities. The Foundation will have key features

SME Accelerator

This will be the core operational focus of the Foundation and it is designed to be an SME accelerator programme aimed at growing 'finance ready' SMEs. The SME support programme will support SMEs to enable them to access formal finance.

Grant making component

The Foundation will, in addition, have a grant-making component to enable the funding of alternative initiatives in line with the vision and mission of the Foundation. This includes legacy CSI initiatives, and responses to pressing ad hoc needs such as a national emergency. The grant-making component allows for funding wildlife conservation education projects which fit within the overall mission.

Environmental Impact

This will also be an SME accelerator programme but with a focus on SMEs that have a positive environmental impact, especially those in the green economy. This could include (but will not be restricted to) SME's operating in the wildlife conservation sector but will also include SMEs that aim to reduce the impact of climate change, support clean energy or climate-smart agriculture, amongst others.

Shared value

Shared value for Stanbic will be derived from three sources;

1) A focused learning agenda to improve Stanbic's ability to meet the needs of a currently unserved market;

2) Employee engagement initiatives to utilise employees as mentors; and,

3) Leverage of Stanbic's existing customer base to facilitate supply chain linkages for supported SMEs.

The key source of shared value for Stanbic will be through a focused learning agenda that gathers data on and monitors supported businesses. This data will then feed into a SME product development process, with the aim of better meeting the needs of this currently unserved market segment.

The overall impact of the Foundation will be to empower environmental impactful SMEs in Kenya to succeed.

Stanbic Kenya Enterprise Direct

Stanbic Kenya has over 28 000 SME customers who are supported by 15 Enterprise Direct bankers and 12 acquisition bankers across its 26 branches. Previously, our business bankers had to manage almost 1 000 active relationships, limiting their capacity to provide one-on-one service. Enterprise Direct addresses this challenge by enabling new customers to join the bank and access products and do their day-to-day banking without ever leaving their workplaces. Enterprise Direct has enabled us to serve our customers far more effectively, using digital banking, email and telephone communication.

Green economy

M-KOPA Solar, headquartered in Nairobi Kenya, is the global leader in "pay-as-you-go" household solar systems, providing energy and a variety of consumer products to off-grid customers on affordable payment plans.

Founded in 2010, M-KOPA combines mobile money payments with Global System for Mobile communication sensor technology to enable affordable consumer financing for solar powered systems.
To date M-KOPA has connected over 600,000 homes in East Africa to affordable, safe and clean energy. Its predominantly low-income customer base is accessing lighting, phone charging, radio and TV on daily mobile money payment plans that are less than the typical cost of kerosene.

SUSTAINABILITY ACTIVITIES IN 2017

The Group is a member of the Standard Bank Group which focusses on emerging markets and continues to support and help uplift the communities and economies of the environments in which it operates. Our CSI is more than an intervention in communities, it is an integral part of how we do business. We proactively identify opportunities arising from key social, developmental and business issues when formulating our CSI programmes, rather than just reacting to requests from charitable causes. It is the vision of Group to empower the communities in which we operate through socio-economic development of the underprivileged and to facilitate this empowerment, we have committed to various CSI activities across the country.

We have a CSR committee that oversees the activities and enjoys representation from all departments within the bank. All our CSI activities are engagements that extend throughout the bank and its branches. The strategic focus of our CSI programme is on;

- Education, learning and development
- Innovation, entrepreneurship and enterprise development in the Green Economy
- Wildlife conservation
- National emergencies

We support educational initiatives in Primary, Secondary and higher learning institutions (universities and colleges). The main focus within education especially in institutions of higher learning is to provide support to programmes addressing the science, mathematics and accounting deficiency in the Kenyan labour market. Our programs for the year included:

Education

Strathmore University Scholarship

We entered the fourth year of scholarship with Strathmore University in 2017. The fund offers bright needy students an opportunity to pursue careers in finance and banking.

The scholarship is offered on an annual basis and caters for both tuition fees and accommodation for seven students and is open to all undergraduate students who meet the admission criteria, are academically outstanding and financially in need.

United States International University Scholarship Fund (USIU)

The USIU scholarship fund entered its seventh and final year in 2017 with the last two students finishing their degrees in the area of finance and/or accounting. Apart from the tuition fees payments, the students are given opportunities to visit the bank's head office to get first-hand information and experience of the operations of a financial institution. One of our beneficiaries for the fund who was hired on contract to support the rebranding project was permanently employed in 2017 within the finance department.

Palmhouse Foundation Sponsorship and Mentorship Programme

It has been eight years since Stanbic Bank partnered with Palmhouse Foundation to sponsor bright and needy students through their four years of secondary school education.

Currently, 16 students are enrolled in various secondary schools across the country with 14 having successfully completed their secondary education since the inception of the programme. Four other students will be sitting for the Kenya Certificate of Secondary Education at the end of this year. Throughout the year, Stanbic Bank staff are constantly involved in the mentoring of these students during the school holidays.

SOS Children's Villages

The SOS Buruburu Village in Nairobi continued to benefit from the bank as it renewed its sponsorship of two houses for another year. The sponsorship caters for the education and upkeep of 20 children (10 in each house) of different ages throughout the year.

Other projects that benefitted from Stanbic bank Corporate Social Investments in 2017 were:

- New Life Home Trust (Kisumu)
- Young Jewels Foundation (Nairobi)
- Oyola Primary School (Kisumu)
- Open Arms International (Eldoret)

Investments in Community Health and Wellness are mainly directed towards HIV/AIDS, tuberculosis (TB) and malaria with particular emphasis on education and awareness around increased uptake of Voluntary Counselling and Testing (VCT), lifestyle management, improved home-based care and support for a community. Programmes that assist orphans and the elderly affected by HIV/AIDS can also be supported. To this end, we continued our partnership with ASN Upendo Village in Naivasha where we contributed towards the establishment of a bottles water production plant as an income generating project.

Entrepreneurship and Financial Literacy

We invest in entrepreneurial skills development and mentorship programmes, which are aimed at positioning Stanbic Bank as a leader in business development of communities, supporting economic development, and finding new ways of growing entrepreneurs' skills in the markets we operate. Financial literacy is the key to healthy finances and as a responsible financial partner we offer value added services to the business people and organisations we bank. We provide them with opportunities to up-skill their workforce through a series of scheduled financial training programs aimed at helping them grow their businesses.

Following the pilot in 2016, we rolled out our financial skills training programme for SMEs in partnership with Strathmore Business School dubbed BizConnect and trained over 240 customers across the country.

Sponsorships

Stanbic Bank renewed its shirt sponsor for Mwamba Rugby Football Club in 2017 for another year. This is a Kenyan rugby union club based in Nairobi. The club was founded in 1977 with the aim of promoting rugby among indigenous Kenyans. With the popularity of rugby sevens in Kenya and the fact that the club produces majority of the national sevens rugby team, this is a partnership that we hope will entrench the brand amongst ordinary Kenyans.

OUR ACCOUNTABILITY

CHANGING **THE WAY** WE DO BUSINESS

Technology is helping us revolutionize the way we do business. We are now able to do routine tasks faster and more efficiently than ever before. Technology has also removed the barriers of time and reach that once insulate our business

With the Bulk Note Acceptor (BNA), our customer are able to bank at any time by effectively removing the hindrance of normal banking hours. With mobile and internet banking, customers can transact anytime and anywhere. Digital platforms will be more relevant into the future and we are incorporating digitisation through our digital branches located in in Chiromo, Garden City, Two River and The Hub. At this outlets, our customers are enabled to bank at their convenience.

The Till2Bank solution allows for immediate cash settlement of funds from a merchant's M-PESA till to their bank account while our digital payments and collections platform for remittances such as taxes, statutory deductions and utility bills give back to our customers the control over their time and financial lives.

Through cutting-edge innovation, we are changing how we work, strengthening our relationships and making sure that we deliver what matters the most to our customers; enabling us to be the financial partner of choice

RISK MANAGEMENT

Risk Management Statement

Risk management remains a critical component in execution of our strategy in a dynamic environment that is impacted by local as well as global-economic, technological and regulatory changes. This necessitated a continuous process for identifying, analysing and mitigating against existing as well as emerging risks that are relevant to our business.

Risk Management Overview

2017 was a challenging year with regards to the management of risks as a consequence of many global and local developments and disruptions. This impact was evidenced across our credit and operational risk management, in particular. Despite this, the Bank continued to effectively manage these risks, whilst at the same time investing in resources for managing compliance risk, cyber and information risk as well as strategic risks. Through our robust risk management framework, we have ensured that we have operated well within regulatory thresholds.

The impact of our initiatives in the implementation of the risk management framework within the year has been:

1. Informing the Bank's adjustments to risk appetite and risk acceptance criteria in order to maintain acceptable returns on equity targets;
2. Development of tools to manage new risks such as, Cyber-crime leading to enhanced investment by the Bank in risk management resources and capabilities;
3. Maintaining an agile business structure that quickly adapts to the ever changing customer needs and business environment; and
4. Increased focus on managing the business across the risk classifications resulting in early identification of risks and implementation of corrective actions.
5. Adoption of regulations impacting the Financial Services Industry (IFRS-9);

We operate in a rapidly evolving global market, where we anticipate the following to be the key areas of focus in 2018:

1. Improvement in management of Cyber and Information risk and Conduct Risk;
2. IT systems stability that is associated with the growing reliance on digital channels for service provision;
3. Outsourcing risk given reliance on third parties for the provision of infrastructure to run digital platforms;
4. Managing systemic risks that arise from exposure to local and international banking systems;
5. Concentration risk and the need to ensure an optimally diversified asset portfolio; and
6. Leveraging information technology in areas of "big-data" and block-chain technologies to improve turn-around-time and automate risk management in areas such as, credit-application and behavioural risk scoring.

The section below sets out how the Bank (a significant subsidiary of the Group) manages risk.

Introduction

The Bank's governance structures are informed by Kenyan and South African regulatory requirements and the Standard Bank Group Risk framework and architecture, which support the management of risk across the enterprise. The Board of Directors is ultimately responsible for the level of risk taken by the Bank. The Bank's approach to risk management is based on set governance standards and processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting.

To support the governance structures and processes Stanbic Bank relies on:

1. Risk governance standards for the major risk types to ensure a standardised approach across business units for the management of risk across the risk life cycle from identification, monitoring, management and reporting.
2. Policies and procedures, implemented and independently monitored by the risk management team. This is to ensure that exposures are within agreed risk appetite parameters.
3. Regular and detailed risk reporting to enable the management and/or identification of emerging risks evident from visible trends.
4. Clear segregation of duties and responsibilities to avoid conflict of interest, ensure independence and objectivity and minimise operational risk.

Risk management framework

The Bank's approach to managing risk is set out in the risk governance framework that has two components:

1. Governance committees at a Board and management level.
2. Governance documents such as standards, frameworks and policies.

Roles in risk management

Board of Directors

Stanbic's Board of Directors has the ultimate responsibility for risk management. This mandate includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented. The Board has delegated its risk-related responsibilities primarily to these five committees: the Board Risk Committee (BRC), Board Audit Committee (BAC), Board Credit Committee (BCC), the Risk Management Committee (RMC) and Credit Risk Management Committee (CRMC), with each committee focusing on different aspects of risk management.

Board Risk Committee and Board Credit Committee

The two Board sub-committees responsible for risk are the Board Risk Committee (BRC) and the Board Credit Committee (BCC) which report to the Board of Directors through their committee chairmen. The Bank's Board risk management committees provide independent oversight of risk, compliance and capital management across the Bank:

1. Determining the bank's risk appetite as set out in the risk appetite framework and risk appetite statement (RAS).

2. Monitoring the current and future risk profile of the bank to confirm that it is managed within risk appetite.

3. Evaluating the results of stress tests and providing oversight of the adequacy and effectiveness of the bank's risk governance framework.

4. Approving governance standards, frameworks and policies in terms of the risk governance framework.

5. Reviewing reports on the implementation of the IT governance framework and updates on significant IT investments.

6. Evaluating and approving significant IT outsourcing arrangements.

7. Promoting a risk awareness culture within the bank.

8. Reporting to the Board any matters within its remit where action or improvement is needed and making recommendations as to the steps to be taken.

The Board Audit Committee (BAC)
The BAC reviews the Bank's financial position and makes recommendations to the Board on all financial matters, financial risks, internal financial controls, fraud and, to the extent they impact financial reporting, IT risks. In relation to risk and capital management, the BAC plays a role in assessing the adequacy and operating effectiveness of the Bank's internal financial controls.

Internal Audit
Internal Audit is mandated by the Board Audit Committee to provide independent and objective assurance and advisory services designed to add value and improve group operations. The role of the audit function is therefore to assist the Board to:

1. Discharge governance responsibilities.

2. Protect the assets, reputation and sustainability of the organisation; and

3. Establish and maintain robust governance and risk management processes and a sound internal control environment.

Internal Audit remains independent and has fully discharged its mandate and responsibilities. Issues raised in various audit reviews, are reported to both management for remediation and to the Board Audit Committee for oversight. A tracking system is in place to ensure remedial actions for all issues identified during the audit process are tracked to completion and completion can be independently validated.

Disclosure of the actual control breaks, remedial actions and timelines are confidential to the Standard Bank Group and therefore circulation is restricted.

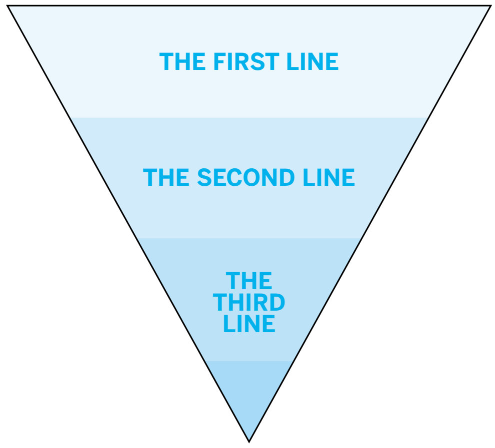
Management committees
Executive management has responsibility for all material risk types that have been delegated by either BRC or BCC to assist the Board subcommittees fulfilling their mandates.The Risk Management Committee (RMC) and Credit Risk Management Committee (CRMC) are management committees responsible for risk management within the Bank.

Risk appetite and stress testing committee: The primary governance committee overseeing risk appetite and stress testing is the stress testing and risk appetite committee chaired by Head of Risk and is a subcommittee of the Bank's Executive Committee (ExCO). This committee ensures there is a fit-for-purpose stress testing for both business and regulatory purposes at legal entity and business line levels.

Business units
Business units are the owners of the risk and manage the risks on a day to day basis.

Governance documents
These documents set out the requirements for identification, assessment, measurement, monitoring, management and reporting of risk; for effective oversight of compliance and effective management of capital. Governance policies are approved by the relevant Board sub-committee.

Risk management approach
The Bank uses the three lines of defence model which promotes transparency, accountability and consistency through the clear identification and segregation of roles.



First line of defence
This is made up of management of business lines and has responsibility for measuring, assessing and controlling risks through the day-to-day activities of the business within the governance framework.

Second line of defence
This provides an independent oversight and consists of the finance function, risk management function, legal function and governance and assurance functions excluding internal audit. These units implement governance standards, framework and policies for each material risk type to which the Bank is exposed and report to management and Board governance committees. Compliance with the standards and frameworks is ensured through annual self-assessments by the second line of defence and reviews by Internal Audit.

Third line of defence
Internal Audit (IA) is the third line of defence and operates under a mandate from Board Audit Committee. The mandate is to provide independent and objective assurance of first and second lines of defence; IA has authority to independently determine the scope and extent of work to be performed and reports to Board Audit Committee.

Approach to risk appetite and stress testing

Risk appetite and stress testing comprise of the following key components:

I. Risk appetite

Risk appetite is an expression of the amount or type of risk that the Bank is generally willing to take in pursuit of its financial and strategic objectives, reflecting its capacity to sustain losses and continue to meet its obligations as they fall due, under both normal and a range of stress conditions. The metric is referred to as the risk appetite trigger. Risk appetite could be exceeded either as a result of an adverse economic event more severe than that envisaged under the range of stress conditions (passive), or as a result of a decision to increase the risk appetite to accommodate market, customer or portfolio requirements.

II. Risk tolerance

Risk tolerance is the maximum amount or type of risk the Bank is prepared to tolerate above risk appetite for short periods of time on the understanding that management action is taken to get back within risk appetite. The metric is referred to as the risk tolerance limit.

III. Risk capacity

Risk capacity is the maximum amount of risk the Bank is able to support within its available financial resources.

Risk profile

Risk profile is the amount or type of risk the Bank is currently exposed to (current risk profile) or will be exposed to under both expected and stressed economic conditions (forward risk profile).

Risk appetite setting and management framework

Stanbic's risk appetite governance framework provides guidance on the following:

1. The approach to setting risk appetite triggers and risk tolerance limits
2. Responsibilities for monitoring risk profile
3. The escalation and resolution process where breaches occur

Executive management is responsible for recommending the Risk Appetite Statement (RAS), which is ultimately approved by the Board.

Process

The Bank's risk appetite governance framework provides guidance on the following:

1. The approach to setting risk appetite triggers and risk tolerance limits
2. Responsibilities for monitoring risk profile
3. The escalation and resolution process where breaches occur

Executive management is responsible for recommending the Risk Appetite Statement (RAS), which is approved by the Board.

Risk Appetite Statement (RAS) and dimensions

The Qualitative Risk Appetite Statement serves as a guide for embedding the risk appetite policy across the entity and to support strategic and operational decision-making. Our business model is based on trust and integrity as perceived by our stakeholders, specifically our customers.

The qualitative dimension consists of a series of tolerance statements that are not standardised but indicate the intention of the business in achieving its objective. The following are the considerations covered in this year's policy:

- **Capital position:** We aim to have a strong capital adequacy position measured by regulatory and economic capital adequacy ratios. Capital levels are managed to support business growth, maintain depositor and creditor confidence, create value for shareholders and ensure regulatory compliance.
- **Liquidity and funding management:** Our approach to liquidity risk management is governed by prudence and is in accordance with the applicable laws, regulations and takes into account the competitive environment in which each the bank operates. Stanbic Bank Kenya Limited manages liquidity risk on a self-sufficient basis.
- **Earnings volatility:** We aim to have sustainable and well diversified earning streams in order to minimise earnings volatility through business cycles.
- **Reputation:** We have no appetite for compromising our legitimacy or for knowingly engaging in any business, activity or relationship which, in the absence of taking mitigating actions, could result in foreseeable reputational risk or damage to the Stanbic Bank Kenya and Standard Bank Group.
- **Conduct:** We have no appetite for wilful conduct failures, inappropriate market conduct or knowingly causing a breach of regulatory requirements. We strive to meet customers' expectations for efficient and fair engagements by doing the right business the right way, thereby upholding the trust of our customers.

Stress testing

Stanbic bank carries out regular stress tests to facilitate a forward-looking view in the management of risk and business performance, this process involves identification of possible events and scenarios or changes in economic conditions that could have an adverse impact on the bank's risk profile. Executive management considers the outcomes of stress testing on earnings and capital adequacy in determining an appropriate risk appetite, to ensure that these remain above the group's minimum capital requirements. Management reviews the outcomes of stress tests and, where necessary, determines appropriate mitigating actions to minimise and manage the risks induced by potential stresses. Examples of potential mitigating actions include reviewing and tightening risk limits, limiting exposures as well as hedging exposure to some risk.

Classification of risk

Stanbic's classification of risks ensures at a minimum to meet the provisions of the Central Bank Risk Management Guidelines among other Kenyan Laws and Regulations: currently Stanbic Bank categorises it's risk as follows:

Credit Risk	Country Risk	Sovereign Risk
Operational Risk	Information and Technology Risk	Financial Crime and Control
Market Risk	Liquidity Risk	Strategic Risk
Legal Risk	Compliance Risk	Reputational Risk

1 CREDIT RISK

Credit risk is the risk of loss arising from failure by counterparties to meet their financial or contractual obligations when due. The Bank's credit risk arises mainly from corporate and retail loans and advances as well as counterparty credit risk inherent in derivatives and securities financing contracts entered into with our customers and market counterparties.

Classifications of credit risk

- **Counterparty risk:** The risk of credit loss to the Bank as a result of failure by a counterparty to meet its financial and/or contractual obligations to the Bank as and when they fall due. Counterparty risk includes primary, pre-settlement, issuer and settlement risk; and

- **Concentration risk:** The risk of loss to the Bank resulting from the adverse effect of changes in market conditions on built-up exposures to a specific counterparty or counterparty-group, an industry, market, product, financial instrument, type of security, geography or maturity/tenor.

Credit Risk Management

Stanbic Bank manages credit risk in accordance with its credit risk standard and model risk governance standard, which provides for:

1. Maintaining a strong culture of responsible lending as articulated in the Credit Risk Policies;

2. Identification, assessment and measurement of credit risk clearly and accurately from the level of individual facility up to the total portfolio;

3. Accepting and managing the Bank's credit risk in line with the Board approved credit risk appetite framework;

4. Defining, implementing and continually re-evaluating our risk appetite under actual and stressed conditions to effectively align to changes in the market environment;

5. Ensuring that there is expert scrutiny and independent approval of the credit risk assessment models; and

6. Ensuring there is independent review of credit risks and the mitigations put in place to minimise the credit risk. Supported by a robust credit risk reporting and portfolio management function.

Stanbic Bank has an independent credit risk management function embedded within the Corporate and Investment Banking (CIB) and Personal and Business Banking (PBB) Units.

Focus areas in 2018

Stanbic Bank is focused on adoption of IFRS-9, management of credit risk that arise from changing regulations (for example interest rate controls and new collateral guidelines).

2 OPERATIONAL RISK

Operational Risk is the risk of loss arising from the inadequacy of, or failure in, internal processes, people and/or systems or from external events. This includes but is not limited to Information Technology and Information Technology Change risk, Legal risk, Financial crime risk, Compliance risk, Tax risk and Environmental risk. In addition, Physical Assets Risk, Human Capital Risk, Accounting and Financial Risk also form the extended operational risk taxonomy. This definition excludes business risk, strategic risk and reputational risk; the reputational effects of operational risk events are however considered for management information.

Categories of Operational Risk

- **Process risk;** the risk of loss suffered as a result of failed or inadequate processes. This includes the design and operation of the control framework.

- **People risk**; the risk of loss arising from issues related to the personnel within the bank.

- **Systems risk;** the risk of loss suffered as a result of failed or inadequate systems, security breaches, inadequate systems investment, development, implementation, support and capacity.

- **External event risk;** the risk of loss suffered as a result of external events. This is generally limited to events that impact the operating capability of the group (i.e. it does not include events that impact the areas of market risk, credit risk, or country risk etc.). It also includes risks arising from suppliers, outsourcing, and external system failures.

Operational Risk Framework

The Bank has developed, implemented and maintained an enterprise-wide operational risk management framework that is fully integrated into the Bank's overall risk management processes. This is underpinned by the Bank's operational risk governance standard which sets out the governing principles for operational risk management and sets out the basic components for the identification, assessment, and management, monitoring and reporting of operational risk in a consistent manner across the Bank. The operational risk framework is further supported by a set of comprehensive operational risk management policies.

The practice of operational risk in the bank is overseen by an independent operational risk function. Importantly, the operational risk function is charged with the responsibility of ensuring that the process for identifying, measuring, controlling and reporting of operational risk is in line with the risk management and business strategies of the Bank. To ensure that the Operational Risk function executes on its oversight function, it has as part of its framework incorporated risk assurance in its core deliverables. Independent assurance on the management of operational risk is further provided by Internal Audit.

The Bank recognises the evolving nature of operational risks and continues to aim at improving the identification and oversight of operational risk. Both qualitative and quantitative measures are employed in operational risk identification and measurement and include:

Risk and control self-assessments: Analyse business activities and critical processes to identify the key operational risks to which the business is exposed to and assess the adequacy and effectiveness of their controls. For any area where management conclude that the level of residual risk is beyond an acceptable level, action plans are defined to reduce the level of risk. The Risk and control self-assessments (RCSAs) embed a process that identifies and rates risks, causes and controls in a consistent and structured manner.

Key Risk Indicators: These are quantitative measures based on the key risks and controls. Relevant indicators are used to monitor key business environment and internal control factors that may influence the Bank's operational risk profile. Each indicator has trigger thresholds to provide early warning signals of potential risk exposures and/or a potential breakdown of controls. When a breach is observed action is promptly taken to control the potential risk.

Operational risk incidents: All areas are required to report operational risk incidents to the operational risk function. The definition of operational risk incidents includes not only events resulting in actual loss, but also those resulting in non-financial impact and near misses. This process is intended to help management identify those processes and controls that need improvement.

External data: The Bank analyses external industry incidents and loss data through a combination of publicly available data and the confidential loss data. This information which is shared across the Standard Bank Group enhances the identification and assessment of new and emerging risks and provides additional information for RCSAs, scenarios, indicators and for benchmarking purposes.

Governance and controls

Operational risk arises in all parts of the bank; all senior management are thus responsible for consistently implementing and maintaining policies, processes and systems for managing operational risk in all of material products, services, activities, processes and systems. The ultimate responsibility for establishing, approving and periodically reviewing the operational risk framework however lies with the Board. The Board oversees senior management to ensure that the framework is implemented effectively at all decision levels.

Operational risk is managed to acceptable levels by continuously monitoring and enforcing compliance with relevant policies and control procedures. The Board has approved an operational risk escalation and materiality matrix. The matrix provides guidance on acceptable levels of risk and summary reporting and escalation requirements in the event that risk tolerances are breached.

Risk tolerance

The Bank has adopted fit-for-purpose operational risk practices that assist business line management in understanding their inherent risks and reducing their risk profile in line with the Bank's risk tolerance while maximising operational performance and efficiency. Management uses the output of risk identification and assessment as an input into the decision making process. Management action on operational risk will normally include one or more of the following treatments:

- **Risk avoidance:** The risk is avoided by deciding not to start or continue with the activity giving rise to the risk.

- **Risk mitigation:** Risk is lowered by increasing controls.

- **Risk transfer:** Another party agrees to carry or share part of the risk (for example Insurance). In addition, the Bank continues to maintain a comprehensive insurance programme to cover losses from fraud, theft, professional liability claims and damage to physical assets.

- **Risk acceptance:** Accepting those risks that cannot be avoided.

Stanbic is willing to tolerate operational risk inherent in executing its business strategy provided that these risks are managed. The bank's overall appetite for operational risk is set at an overall level by the Board of directors. Senior management ensures that this appetite is translated into sufficiently meaningful and detailed expressions.

The Bank monitors a number of operational risk metrics which are measured and reported to the appropriate governance committees. These include operational losses (as an amount and as a percentage of gross income), the profile of internal controls based on audit performance, and the effectiveness of the closure of actions required to mitigate residual risk arising out of risk and control self-assessments (RCSAs).

Specialist Operational Risk Types

Given the broad and diverse nature of operational risk, the bank recognises specialist operational risks that call for enhanced and direct oversight. In this regard the bank recognises outsourcing risk, business resilience, financial crime risk and information technology and security (including cyber risk) as operational risk types calling for special attention. For these specialised areas, the Bank has developed specific governance standards (or equivalent documents) that specify an extra set of minimum standards aimed at that specific risk type.

3 OUTSOURCING RISK

Outsourcing risk is the risk that the use of a service provider, whether it is an affiliate within the group or a third party carrying out on behalf of the bank an ongoing business activity, service, function, or process which the bank could do itself adversely impacts the Bank's performance and risk management.

Whereas the Bank recognises that outsourcing arrangements are an accepted practice, the bank acknowledges that the consequence of an outsourced arrangement is that whilst the associated activities may be outsourced, the management of the risks related to these activities remains the accountability of the Bank. In addition to the original risks associated with the activities, the Bank also addresses the risks posed by the contractual relationship with the third party service provider.

Given this background, the Bank has in place a framework and policy on managing outsourcing risk which serve to ensure that there is alignment of the outsourcing arrangements with the bank's business objectives, potential risks addressed, costs and benefits evaluated, responsibilities clearly understood, and regulatory requirements complied with.

The bank also uses the new and amended business, products or services process in order to address the identification and assessment of risks associated with new and/or amended products, services and outsourcing arrangements.

Business continuity management (BCM)

The ability of the bank to ensure the resilience and continuity of its critical business functions despite serious disruptive incidents or disasters and to ensure the recovery of such critical functions to an operational state within acceptable timeframes is key to its financial success.

Business Resilience is a specialist operational risk discipline enabled by three capabilities, which are integrated in a single framework to provide an agile, cohesive and coordinated suite of point-in-time response and recovery interventions to counter the financial and reputational impacts of worst case operational disruptions. The three Business Resilience capabilities are:

- **Emergency Management** - concerned with effective response to incidents impacting life safety of employees, contractors, customers and visitors. Typically such incidents often have facilities or security implications;

- **Crisis Management** – concerned with effective crisis leadership and communications to stakeholders to manage the financial and reputational impacts ensuing from an operational disruption;

- **Business Continuity** which includes IT service continuity – concerned with the recovery and continuation of business services, functions and processes in the aftermath of a disruption.

The bank has implemented business resilience and continuity plans to ensure its ability to operate on an on-going basis and limit losses in the event of severe business disruptions and has in place a holistic management process that identifies potential impacts that threaten an organisation, provides a framework for building resilience and the effective response that safeguards the interests of its key stakeholders, reputation, brand and value creating activities.

The bank continues to regularly perform business continuity capability tests and conducts crisis simulations to ensure business continuity strategies and plans remain relevant.

4 IT AND CYBER RISKS

Information Technology (IT) and Cyber Risk is the risk of accidental or intentional unauthorized use, access, modification, disclosure or destruction of information resources, which would compromise the Confidentiality, Integrity and Availability of information assets. Management of Information Risk involves definition, design and implementation of processes and methodologies to protect print, electronic, or any other form of confidential and sensitive information or data belonging to the bank or our customers.

In this regard, the bank has adopted a formal Information Risk Governance Standard (IRGS) which outlines high level policy objectives and commitment to implement good Information Risk Management and Information Security practices.

The bank has also formally adopted and rolled out specific Information Security policies and technical standards to ensure a robust control environment. The policies and standards further ensure adequate and consistent governance for the identification, assessment, monitoring, managing and reporting of the continually evolving risk landscape covering technology, cyber, business continuity and data privacy risks.

IT and Cyber Risks Management

The rapid advancement of Information Technology and digitisation has brought about drastic changes in the way banks operate and serve the customers. With Information Technology growing in scope and complexity, there come additional risks that the bank must continuously monitor, understand and respond to.

As part of the broader initiatives, the bank's risk management approach as relates to Information and Technology risk includes:

- An effective and robust Governance Framework
- End-to-End scope/view of bank network and assets
- Thorough risk assessment, threat modelling and scenario analysis
- Proactive Cyber and Technology Incidents Response Planning
- Dedicated Information Security and Cyber Security Resources

Cyber risk has become a real risk within the financial industry with more sophisticated attacks being meted on banks by exploiting vulnerabilities within the banks network and core banking systems to facilitate fraud or disrupt business operations. The bank is proactively managing this risk through a Cyber Resilience framework – a multi-layered strategy that encompasses people, process and technology to allow the bank prepare, protect, detect, respond and recover from any cyber security incident in a prioritized and cost-effective way.

5 FINANCIAL CRIME RISK

Financial Crime Risk is the risk of economic loss, reputational risk and regulatory sanction arising from an act or attempt to steal from or defraud the Group or its stakeholder and/or to manipulate or circumvent the established rules of the Group or legislative requirements applicable to the Group.

FCC Management

The Bank's Financial Crime Control (FCC) unit is mandated by the BAC to support the Bank by providing financial crime control capability & thought leadership across the Bank, enabling the mitigation of financial crime risk, enabling the Bank to maintain the impact of financial crime within acceptable risk parameters, whilst adhering to financial, compliance and regulatory requirements, to foster the confidence and trust of our customers and stakeholders and to keep our Bank and our customers money and assets safe.

The Bank maintains a zero tolerance approach towards fraud and dishonesty. The Financial Crime Control team, with the other functions within operational risk maintains close working ties with other risk functions, specifically compliance, legal risk and credit risk, as well as other functions such as information technology, human capital and finance.

6 MARKET RISK

Market risk is the risk of loss from changes in market prices and rates (including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations among them, and their levels of volatility.

Risk examples

Risk examples include change in market value, actual or effective earnings or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse 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 variables.

Mitigation

Market risk exposures as a result of trading activities are contained within the Bank's Corporate and Investment Banking (CIB) trading operations. The Board grants general authority to take on market risk exposure to the Bank's Assets and Liabilities Committee (ALCO). Market risk management process is required to measure, monitor and control market risk exposures. The Bank manages market risk through the following four principles.

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 employees 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 financial operational risk, price testing reports and profit and loss decomposition reports. For the purpose of identification, market risk has been categorised as follows:

1. **Market risks** in the Trading Book: These risks result from the trading activities where the primary focus is customer facilitation. All trading activities are carried out within the Bank's CIB division with respect to banking operations.

2. **Interest Rate risk** in the Banking Book: This risk results from the different repricing characteristics of banking assets and liabilities. It includes endowment risk, repricing risk, basis risk, optionality risk and yield curve risk.

3. **Foreign currency risk:** The Bank's primary exposure to foreign currency risk arises as a result of the translation effect on the Bank's net assets in foreign operations, intra-group foreign-denominated debt and foreign-denominated cash exposures and accruals.

Measurement of market risk

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.). The Bank uses a variety of metrics and models to measure and control market risk exposures. These measurements are selected based on an assessment of the nature of risks in a particular activity. The principal measurement techniques are Present Value at one basis point change (PV01), Value at Risk (VaR), stress testing, sensitivity analysis, simulation modelling, and gap analysis. Models are independently validated prior to implementation and are subject to formal periodic review.

General Measurement Definitions:

1. Value at Risk ("VaR") is the loss with a given probability defined as the confidence level, over a given period of time.

2. Historical VaR ("HVaR") is the calculation of the VaR using historically observed rate changes with a defined holding period (typically 1day or 10day) and for a specific date range (typically 1 year and 5 years).

3. Expected Tail Loss ("ETL") is the average of returns that exceed VaR (also known as expected shortfall).

Market Risk Management

The Bank manages market risk through a specification of risk appetite in form of market risk limits. It uses a suite of risk measurement methodologies and tools to establish limits, including Value at Risk (VaR), Expected Tail Loss (ETL), Securities revaluation models (Present Value One Basis Point - PV01), stress testing, scenario analysis, stop loss triggers, back-testing, model validation, price verification, business units sign off of positions and P&L's on a regular intervals and other basic risk management measures.

Market risk exposure on trading activities: The Bank's policies, processes and controls for trading activities are designed to achieve a balance between pursuing profitable trading opportunities and managing earnings volatility within a framework of sound and prudent practices. Trading activities are primarily customer focused, but also include a proprietary component. Market risk arising from the Bank's trading activities is managed in accordance with Board- approved policies, and aggregate VaR and stress testing limits. The quality of the Bank's VaR is validated by regular back-testing analysis, in which the VaR is compared to theoretical and actual profit and loss results. A VaR at the 95% confidence interval is an indication of the probability that losses will exceed the VaR if positions remain unchanged during the next business day.

The Bank also calculates a Stressed VaR which uses the same basic methodology as the Normal VaR. However, Stressed VaR is calculated using 10 day holding period for the last 1,250 business days.

Calculation of market risk capital for trading: The assessment of market risk capital for trading activities can be aggregated using general market risk VaR and specific risk. The Bank applies the Standardised Approach for calculating market risk capital. The standardised method uses a "building block" approach, with the capital charge for each risk category calculated separately. Market risk Qualifying Assets includes interest rate risk assets in the trading book and foreign currency assets throughout the bank. Specific Risk refers to potentially adverse movement in the price of an individual loan/debt owing to factors related to the individual issuers. Specific risk does not affect foreign exchange. This is because changes in FX rates are completely dependent on general market movements.

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. This structural interest rate risk is caused by the differing re-pricing characteristics of banking assets and liabilities. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk. The governance framework adopted for the management of structural interest rate risk mirrors that of liquidity risk management in terms of committee structures and the setting of standards, policies and limits. This is also true for the monitoring process and internal controls. 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.

Derivative instruments and structured transactions

- **Derivatives:** The Bank uses derivatives to meet customer needs, generate revenues from trading activities, manage market and credit risks arising from its lending, funding and investment activities, and to lower its cost of capital. The Bank uses several types of derivative products, including interest rate swaps and options, to hedge interest rate risk exposure. Forward contracts, swaps and options are used to manage foreign currency risk exposures. Market risk arising from derivatives transactions is subject to the control, reporting and analytical techniques noted above in the Trading activities section. Additional controls and analytical techniques are applied to address certain market related risks that are unique to derivative products.
- **Structured Transactions:** Structured transactions are specialised transactions that may involve combinations of cash, other financial assets and derivatives designed to meet the specific risk management or financial requirements of customers. These transactions are carefully evaluated by the Bank to identify and address the credit, market, legal, tax, reputational and other risks, through a new product process (NPC process). These transactions are also subject to a cross-functional review and sign-off by expertise from the Bank and Standard Bank Group.

Reporting on 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 stakeholders, Shareholders (Annual financial statements); Rating agencies; Central Bank of Kenya and other regulators.

7 LIQUIDITY RISK

Liquidity risk is defined as the risk that the bank, although balance-sheet solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so on materially disadvantageous terms.

At an operating level, a distinction is made between funding liquidity risk and market liquidity risk:

- **Funding liquidity risk** is the risk that the bank will not be able to effectively meet both expected and unexpected current and future cash flow and collateral requirements without negatively affecting the daily operations or financial condition of the bank. The risk that the counterparties who provide the bank with short-term funding, will withdraw or not roll-over that funding. It aims at a well-diversified, reliable, cost efficient funding structure supporting the bank's business mix and strategy.

- **Market risk liquidity** is the risk that the bank cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption, and incurring losses as a result. The risk of a generalised disruption in asset markets that make normally-liquid assets illiquid and the potential loss through the forced-sale of assets resulting in proceeds being below their fair market value.

Liquidity risk is difficult to predict and can rapidly escalate. A liquidity crisis could have negative effects, the most severe being the failure of a bank. These could include sharp falls in profits, asset sales at forced-sale prices that disrupt financial markets and sudden changes in the volume and terms of bank loans, which might reduce activity in the wider economy. The bank's liquidity policies provide for very conservative liquidity management parameters to ensure that the bank has adequate liquidity for normal and stress situations.

Governance

It is the responsibility of the Board and EXCO to maintain adequate levels of liquidity in accordance with regulatory requirements, international best practice and internally set risk appetite. The ALCO is responsible for ensuring compliance with liquidity risk policies.

As part of a comprehensive liquidity management process, the bank distinguishes between tactical, strategic and contingent liquidity risk. These three risk management categories are governed by a comprehensive internal governance framework to identify measure and manage exposure to liquidity risk. Combining each of these risk management categories allows for effective liquidity risk monitoring.

These principles are aligned with international best practice and are designed to support the business strategies by ensuring liquidity at all times, across market cycles, and through periods of financial stress. These principles are monitored on a daily basis; a liquidity dashboard has also been developed and is monitored on an ongoing basis to identify early warning signs of a liquidity crisis. The detailed principles are contained in the Liquidity Risk Standard and related policies.

Management, monitoring, and risk appetite

As part of a comprehensive liquidity management process, the group distinguishes between tactical, structural and contingent liquidity risk. A comprehensive internal governance framework to identify, measure and manage exposure to liquidity risk governs these three risk management categories. These risk management categories allow for effective liquidity risk monitoring.

These principles are aligned with international best practice standards and are designed to support the business strategies by ensuring liquidity at all times, across market cycles, and through periods of financial stress. These principles are monitored on a daily basis; a liquidity dashboard has also been developed and is monitored on an ongoing basis to identify early warning signs of a liquidity crisis. The detailed principles are contained in the Liquidity Risk Standard and related policies.

Risk management categories

Tactical (shorter-term) liquidity risk management	Structural (long-term) liquidity risk management	Contingency liquidity risk management
• Manage intra-day liquidity positions • Monitor interbank and repo shortage levels • Monitor daily cash flow requirements • Manage short-term cash flows • Manage daily foreign currency liquidity • Set deposit rates in accordance with structural and contingent liquidity requirements as informed by ALCO	• Ensure a structurally sound balance sheet • Identify and manage structural liquidity mismatches • Determine and apply behavioral profiling • Manage long-term cash flows • Preserve a diversified funding base • Inform term funding requirements • Assess foreign currency liquidity exposures • Establish liquidity risk appetite • Ensure appropriate transfer pricing of liquidity costs • NSFR readiness by January 2018	• Monitor and manage early warning liquidity indicators • Establish and maintain contingency funding plans • Undertake regular liquidity stress testing and scenario analysis • Convene liquidity crisis management committees, if needed • Set liquidity buffer levels in accordance with anticipated stress events • Advise on the diversification of liquidity buffer portfolios • Ensure compliance with internal stress metrics

Tactical Liquidity Management

Liquidity Stress Testing

In order to maintain resilience over short term time horizons, the bank holds sufficient unencumbered, high-quality liquid assets. These assets must be readily available to be converted into cash at any time so as to absorb the anticipated net cash outflows of a modelled systemic or bank-specific liquidity stress scenario, whilst remaining compliant with specific prudential and/or regulatory liquidity requirements.

Stress testing and scenario analyses are based on hypothetical as well as historical events. These are conducted on the group's funding profiles and liquidity positions. The crisis impact is typically measured over a 1 month period as this is considered the most crucial time horizon for a liquidity event. This measurement period is adapted to meet different regulatory requirements. Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the group's ability to maintain sufficient liquidity under adverse conditions. In addition, to take account of potential disruptions in the foreign currency swap markets, liquidity buffers need to be held for each material currency, as defined by the Group Liquidity Risk Standard.

Portfolios of highly marketable liquid securities over and above prudential, regulatory and internal stress testing requirements across the bank as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO-defined limits on the basis of diversification and liquidity. The bank runs the two prescribed stress scenarios per the liquidity risk appetite statement where the combination stress is the Basel III Liquidity Coverage Ratio (LCR) calculation.

The impact of the bank specific stress event is considered over a 1-month time horizon. The crisis is formulated around a loss of confidence in the bank, resulting in a panic driven withdrawal of deposits. Roll-over of liabilities are partially impaired, assuming an increase in the attrition rate of the liability base. Reasonable assumptions are made in terms of roll-over of maturing loans and advances. Liquidity requirements for off-balance sheet items are incorporated before steps intended to counterbalance any funding shortfall are modelled. The stress test assumes no assistance from regulators and no assistance from the parent group other than contractually committed lines.

The systemic stress scenario is formulated around unforeseen short term market wide disruption that gradually evolves into a long term systemic market wide stress. All banks in the market are affected by the crisis. The stress period is also measured over a 1-month time horizon. Roll-over liabilities are partially impaired, assuming an increase in the attrition rate of the liability base. Reasonable assumptions are made in terms of roll-over of maturing loans and advances.

Liquidity requirements for off-balance sheet items are incorporated before steps intended to counterbalance any funding shortfall are modelled. The stress test assumes no assistance from regulators and no assistance from the group other than contractually committed lines.

The following assumptions will apply under the systemic stress scenario:

- Ambiguous retail deposit stability decreases, resulting in run-off in retail deposit base.
- Banks with market share greater than 20% (or if ALCO deems the bank to be systemically important or a 'flight to quality' bank with condonation by Africa Regions (AR) ALCO - the stress outflows on deposits are to be in line with the Business as Usual (BAU) mismatch run-off.
- Banks with market share less than 20% - run-off assumptions should be based on the stress run-off confidence level per the Profiling Methods Policy.

The bank measures the short term liquidity management through an Internal Liquidity Coverage Ratio which is obtained by dividing the available amount of contingency liquidity by the stressed net cash outflows as determined for the bank-specific, systemic and combination liquidity stress scenarios run by the bank.

- **Tolerance limit:** for a rolling average 5 business day period, the internal stress measure must be ≥100% over a 5 day stress while maintaining compliance with prudential cash reserve requirement.
- **Appetite trigger:** for a rolling average 5 business day period, the internal stress measure must be ≥105% over a 5 day stress while maintaining compliance with prudential cash reserve requirements.

In addition to liquidity stress testing, the bank monitors single and top 10 depositor concentration limits, funding diversification, interbank reliance and maintains minimum levels of liquid assets in excess of prudential requirements which must at all times exceed 5% of the funding related liabilities of the bank. Details of the above principles are contained in the Liquidity Risk Policy. In line with internal stress testing policy, the bank manages stress to the worst of bank specific or systemic stress. Given that Stanbic is considered a systemically important bank, the bank specific stress is the worst

Strategic Liquidity Management

Internal Net Stable Funding Ratio (NSFR)

In order to maintain structural resilience over longer-term time horizons, SBS calculates, tracks and reports an internal Net Stable Funding Ratio (NSFR). The ratio is obtained by dividing the available amount of stable funding by the required amount of stable funding.

Available stable funding (ASF) is defined as total liabilities and equity contractually and behaviourally profiled in the >6 months' time band obtained from the structural liquidity mismatch, including off balance sheet items

Required stable funding (RSF) is defined as assets (including off-balance sheet positions) contractually and behaviourally profiled in the >6 months' time band obtained from the structural liquidity mismatch.

Tolerance limit: The bank must have sufficient ASF to meet the minimum RSF. Therefore, expressed as a ratio, the term liquidity risk tolerance limit is set as ASF / RSF = 100%.

Appetite trigger: The bank must have at least 2.5% surplus capacity of ASF to meet the minimum RSF. Therefore, expressed as a ratio, the term liquidity risk appetite trigger is set as AFS / RSF = 102.5%.

Structural maturity mismatch risk appetite triggers

The mismatch approach measures a bank's liquidity by assessing the mismatch between its inflow and outflow of funds within different time bands on a maturity ladder. The structural liquidity mismatch is based on behaviourally-adjusted cash flows which factors a probability of maturity into the various time bands. Detailed assumptions and reasoning applied in compiling the structural liquidity mismatch are provided in the profiling methods for liquidity risk document. Because expected cash flows vary significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet items with an indeterminable maturity or drawdown period, as well as certain liquid assets. This process 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 that although repayable on demand or at short notice, exhibit stable behaviour.

A net mismatch figure is obtained by subtracting liabilities and net off-balance sheet positions from assets in each time band. The bank's liquidity position is assessed by means of the net cumulative mismatch position (aggregation of net position in each successive time band), expressed as a percentage of total funding related liabilities to the public. The structural mismatch is measured on monthly basis.

The structural mismatch is currently appetite trigger in the respective maturity buckets and with TCM/ALM ensuring that, for each material currency, the aggregate cumulative expected cash outflows less expected cash inflows will not exceed, at a minimum, 20% of the bank's funding liabilities in the sight to one-year time band (measured as a percentage of the bank's funding liabilities).

In addition to structural mismatch compliance, the bank monitors Loan to Deposit (LTD) ratios on local currency (LCY) and foreign currency (FCY) balance sheets and long term funding ratio (LTFR). The LTFR is defined as the total funding related liabilities with a remaining term to maturity exceeding six months as a percentage of the total funding related liabilities to the public.

Contingent Liquidity Management

Contingency plans are designed to protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. Contingency plans include early warning indicators based on the Early Warning Indicator Framework (EWIS). Using EWIS, there are numerous indicators continuously observed across business units and risk monitoring areas in the bank. These indicators incorporate qualitative and quantitative measures, both bank specific and market related, that could lead to a severe financial stress which stems from risks such as:

- Capital or liquidity stress
- Poor financial performance
- IT or operational incidents
- Market conduct incidents
- Breach of regulatory requirements
- Country financial stability
- Poor market confidence
- Weak economic environment

Early warning indicators and triggers

In 2017 the bank adopted the Early Warning Indicator System (EWIS), an extension of the internally developed liquidity early warning indicator system (LEWIS). This system enables the monitoring of the evolution/ trends of several indicators that tend to exhibit unusual behaviour in periods preceding a severe financial stress event. When an indicator exceeds a certain threshold, this is interpreted as a warning "signal" that a severe financial stress event may occur within a certain timeframe.

The aim of monitoring early warning indicators is to enable adequate actions to be taken preceding a severe financial stress to restore business as usual (BAU) as soon as possible and allowing the Bank to steer away from severe stress at an early stage. These actions range from BAU risk management mitigating actions, central financial resource management actions, pro-active business model/subsidiary support reviews and active management of threat to the SBK reputation. The early warning indicators have been calibrated to ensure that responses are appropriate to the level of stress, thus avoiding unnecessary overreaction or negative publicity that could aggravate the problem. On-going reporting, as well as communication to key stakeholders such as regulators and Board members is also included.

The EWIS Framework its related trigger and escalation process forms part of the banks contingent funding plan.

Mitigating actions

Potential management actions in advance to adverse stresses are characterised as short-term, or medium or longer term in nature. Short term actions considered by the bank's management are summarised in the contingency plan and include:

- aggressive deposit marketing and pricing;
- realisable by forced sale – surplus liquid assets;
- utilisation of available interbank funding;
- secured funding (committed facilities); and
- recalling/maturing call loans and deposits

BOARD OF DIRECTORS

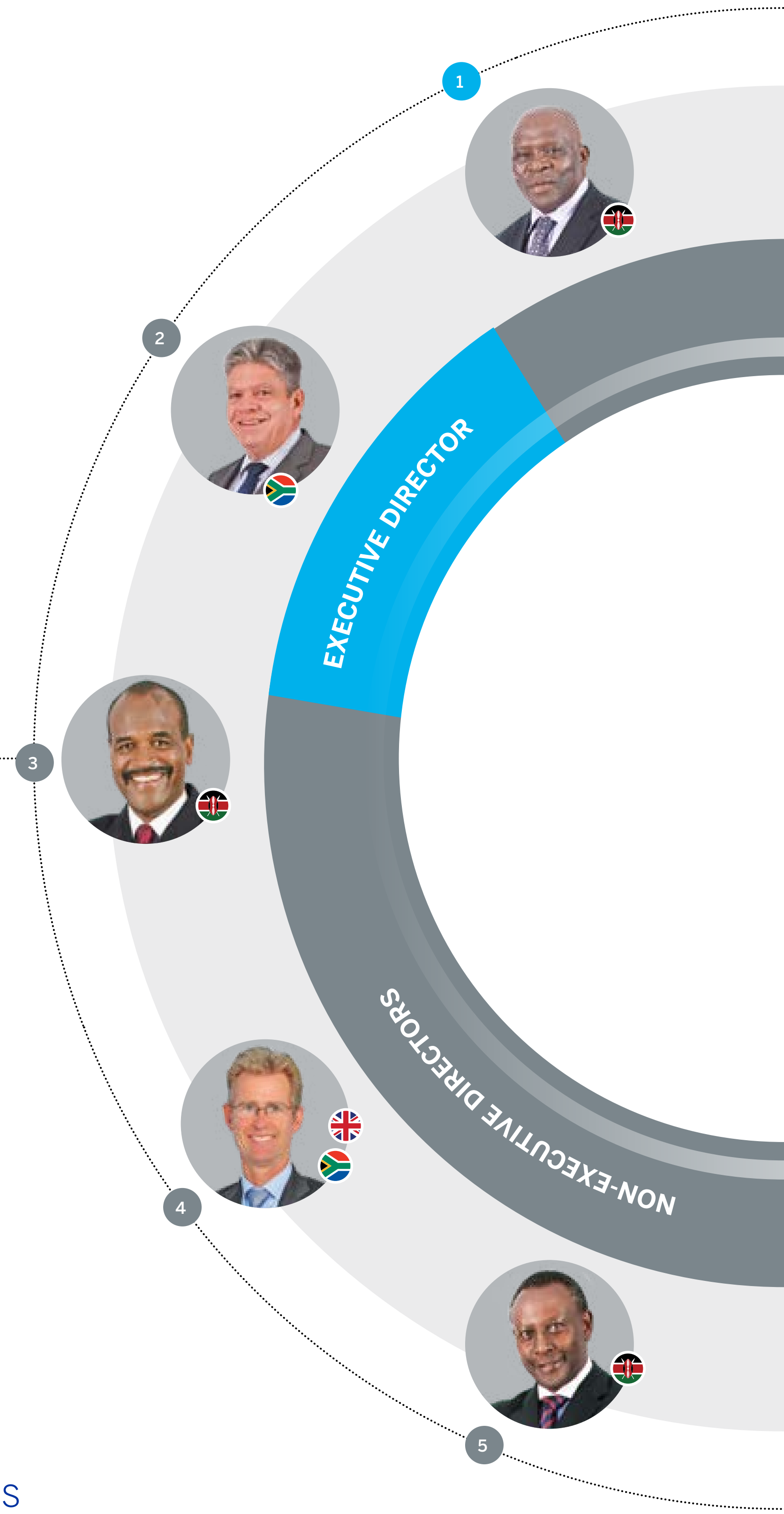
1. MR FRED N OJIAMBO, MBS, SC 68
Chairman
Appointed: 2010

2. MR GREG BRACKENRIDGE 60
Chief Executive
Appointed: 2010

3. KITILI MBATHI 59
Non-Executive Director
Appointed: 2008

4. CHRISTOPHER J. BLANDFORD – NEWSON 53
Non-Executive Director
Appointed: 2014

5. EDWARD W NJOROGE 65
Non-Executive Director
Appointed: 2010



NATIONALITIES

8
1
1

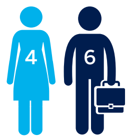
AGE

1 Between 40 – 50 years
5 Between 50 – 60 years
4 Older than 60 years

TENURE OF NON-EXECUTIVE DIRECTORS

2 <3 years
2 3 – 6 years
4 6 – 9 years
2 >9 years

GENDER



6. ROSE W KIMOTHO 62
Non-Executive Director
Appointed: 2008

7. RUTH T NGOBI 57
Non-Executive Director
Appointed: 2011

8. PETER NDERITU GETHI 52
Non-Executive Director
Appointed: 2013

9. ROSE BOSIBORI OSORO 46
Non-Executive Director
Appointed: 2017

10. DORCAS FLORENCE KOMBO 64
Non-Executive Director
Appointed: 2018

LILLIAN MBINDYO
Company Secretary

88 For more information on the Directors profiles

Mr Fred N Ojiambo, MBS, SC, 68
Chairman
Appointed 2010

Mr Fred N Ojiambo was appointed as a Non-Executive Director of Stanbic Holdings Plc on 9 April 2010 and as Chairman of the Board on 28 May 2010. Mr Ojiambo is also the Chairman of the Board of Stanbic Bank Kenya Limited. Mr Ojiambo is a lawyer and holds a Bachelor of Laws, (LLB) (Hons) Degree from the University of Nairobi, as well as a post-graduate diploma in Advocacy (Council of Legal Education), from the Kenya School of Law. He has had a long career in private practice and his experience was recognised with an award of Senior Counsel in 2007. Mr. Ojiambo sits on various Boards of companies and corporations, including Bata Shoe Company Limited, The International Leadership University, The Council of Legal Education, Windle Charitable Trust and Rafiki Orthopaedic Limited, among others. He is also a member and former Chairman of the Law Society of Kenya, a member of the International Bar Association and the Commonwealth Law Association, and is a Senior Partner in the legal firm of Messrs. Kaplan & Stratton Advocates.

Mr Gregroy R. Brackenridge, 60
Chief Executive
Appointed 2010

Mr Greg Brackenridge was appointed as a Non-Executive Director of the Company on 9 April 2010 and thereafter as the Chief Executive on 28 July, 2016. Mr Brackenridge previously served as the Chief Executive of Stanbic Bank Kenya Limited (the Bank) from 29 March 2010 until 2 March 2015. He has remained on the Board of the Bank as a Non-Executive Director.
In addition, Mr Brackenridge is the Regional Chief Executive, East Africa, for the Standard Bank Group, responsible for operations in Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda and Zambia. He has extensive banking experience having first joined the group in 1992 since which date then he has held various senior executive positions in West Africa, South Africa and Zimbabwe. Mr Brackenridge is an Associate of the Institute of Bankers.

Kitili Mbathi, 59
Non-Executive Director
Appointed 2008

Mr Kitili Mbathi has served as a Director of Stanbic Holdings Plc since 2008 and was Chief Executive of the Company until January 29, 2016. He was the Regional Chief Executive of Stanbic Bank Kenya Limited until May, 2015, at which time he took up the role of Regional Director, East Africa, until January, 2016, when he resigned as an employee of Standard Bank Group. Mr Mbathi is also a Non-Executive Director of Stanbic Bank Kenya Ltd, SBG Securities Ltd and Stanbic Insurance Agency Ltd. In addition, he is a member of the University of Nairobi Council. In February, 2016, Mr Mbathi was appointed Director-General of the Kenya Wildlife Service. He holds a Bachelor of Arts Degree (Economics and Political Science) from the University of Michigan, Ann Arbor, Michigan, USA, and a Masters of Banking and Finance for Development from Instituto Finafrica in Milan, Italy. He has vast experience in banking which was acquired when serving in various banking institutions. He has also served as Investment Secretary in the Ministry of Finance & Planning – Government of Kenya.

Christopher J. Blandford –Newson, 53
Non-Executive Director
Appointed 2014

Mr Christopher Newson was appointed to the Board of Stanbic Holdings Plc on 26 June 2014 as a Non-Executive Director. He is also a Director on the Board of Stanbic Bank Kenya Ltd. Mr Newson is a Chartered Accountant and was the Chief Executive of Standard Bank Africa until September, 2015. He has over 23 years of experience in Investment and Commercial Banking, and has particular expertise gained in relation to Sub-Saharan Africa, with the last nine years being at the chief executive level. Mr Newson also joined Investec Asset Management as their Director Private Markets in 2016.

Edward W Njoroge, CBS, 65
Non-Executive Director
Appointed 2010

Mr Edward W Njoroge was appointed as a Non-Executive Director of Stanbic Holdings Ltd on 9 April, 2010. He graduated with a Bachelor of Science Degree from Makerere University. He was appointed on 26 March 2003 as Director (Executive) and the Managing Director of Kenya Electricity Generating Company Limited (now retired). He started his career with Twiga Chemical Industries in 1975. He then held a senior position with Akile Associates Limited before moving to Affiliated Business Contacts (ABCON) Group in 1977. His other directorships include Stanbic Bank Kenya Ltd, REAL Insurance Company Limited, Aquatech Industries Limited, Nerifa Holdings Limited, and ABCON. He is also the Chairman of Telkom Kenya and Aureos East Africa Fund, and was the former Chairman of the Nairobi Securities Exchange Ltd.

Rose W Kimotho, 62
Non-Executive Director
Appointed 2008

Ms Rose W Kimotho was appointed as a Non-Executive Director of Stanbic Holdings Plc on 31 May, 2008. Ms Kimotho is the Managing Director of Three Stones Limited, a Company that operates a digital television channel. Prior to launching Three Stones, Ms Kimotho was founder and Managing Director of Regional Reach Limited, which company launched the first local language FM station in Kenya as well as Kenya's first 24-hour news and information television channel. Until she ventured into entrepreneurship in 1994, Rose was General Manager and member of the Board of Directors of McCann-Erickson (K) Ltd. She is the former chairman of The Marketing Society of Kenya and The Media Owners Association as well as the former Chief Trade Judge at the Nairobi International Show. In addition to being a Non-Executive Director of Stanbic Holdings Plc, she serves on the Boards Stanbic Bank Kenya Limited, Population Services International (PSI) Kenya, PS Kenya, Y&R Brands, a Trustee of Rhino Ark, and a member of the Task Force on Press Law appointed by the Attorney General to make recommendations on laws governing the media. She also joined the Board of Cytonn Investments Management Ltd in 2016. Ms Kimotho holds a diploma in journalism from University of Nairobi, a Management Diploma from Columbia University Graduate School and a Marketing Certificate from the Marketing Society of Kenya.

Ruth T Ngobi, 57
Non-Executive Director
Appointed 2011

Ms Ruth T Ngobi has been a Non-Executive Director of the Board of Stanbic Holdings Plc since 1 February, 2011. She is a lawyer of over twenty-nine years standing, having been admitted as an advocate of the High Court of Kenya in 1985. She holds a Bachelor of Laws Degree from University of Kent in Canterbury and a Master of Laws Degree from University of Cambridge, both in the United Kingdom. Ms Ngobi worked with Unilever Kenya Limited for 15 years as Legal Counsel and Company Secretary, before joining British American Tobacco Kenya Limited in 2002 as Area Legal Counsel. She is the founder of Cosec Solutions Limited, a company that provides company secretarial services and corporate governance solutions. Ms Ngobi is also a Non-Executive Director on the Board of Stanbic Bank Kenya Limited.

Peter Nderitu Gethi 52
Non-Executive Director
Appointed 2013

Mr Peter Gethi was appointed to the Board of Stanbic Holdings Plc on 18 January, 2013 as a Non-Executive Director. He is a qualified Consultant Agronomist and brings to the Board a wealth of agribusiness and management experience, expected to help the bank subsidiary of the Company achieve its strategic goals. He holds a Bachelor of Science degree in Agricultural Economics from the University of London. Mr Gethi has served as a Board member of Liberty Life Assurance Limited and Heritage Insurance (K) Limited since 2009 and is currently serving as the Chairman of both companies since 2011. He is also a Director at Stanbic Bank Kenya Limited and Nebange Ltd.

Rose Bosibori Osoro, 46
Non-Executive Director
Appointed 2017

CPA Rose Bosibori Osoro was appointed to the Board of Stanbic Holdings Plc as a Non-Executive Director on 25 September,2017. CPA Osoro is a Certified Public Accountant and holds a Masters of Business Administration from the University of Nairobi. She has a long career in public service and has worked as a Commissioner with the Commission in Revenue Allocation. CPA Osoro has served in various Boards in public sector and academia, including as the Vice Chairperson for the Kenyan Institute of Management Council. She is a member of the Institute of Certified Accountants of Kenya, Association of Women Accountants of Kenya and Kenya Institute of Management. She also serves as a Non-Executive Director of Stanbic Bank Kenya Limited.

Dorcas Florence Kombo, 64
Non-Executive Director
Appointed 2017

CPA Dorcas F. Kombo was appointed as a Non-Executive Director of Stanbic Holdings Plc on 12 January,2018. CPA Kombo is currently a Management Consultant and has extensive experience in restructuring both public and private organisations across Africa. She is a Fellow, Chartered Association of Certified Accountants, an Associate for the Institute of Certified Public Accountants of Kenya and a Member of the Institute of Certified Public Secretaries of Kenya. She currently serves on the Boards of Stanbic Bank Kenya Limited and Telkom Kenya Limited as a Non-Executive Director and previously served in a similar capacity on the Board of Kenya Electricity Generating Company Limited (KENGEN). CPA Kombo was one of the first African Women to qualify as a Chartered Accountant in Kenya and has since had an illustrious professional career in both audit and management consultancy.

CORPORATE GOVERNANCE OVERVIEW

The group's corporate governance approach promotes strategic decision making that combines long- and short-term outcomes to reconcile the interests of the group, our stakeholders and society to create sustainable shared value.

Stanbic Holdings Plc

An Overview

Stanbic Holdings Plc (the Company) is a non-operating holding company which is listed on the Nairobi Securities Exchange. The Company and its subsidiaries (together referred as "the Group") are committed to complying with legislation, regulations and codes of best practice as pertain to them, while seeking to maintain the highest standards of governance, including transparency and accountability.

Corporate governance is integrated across the group's operations. Through the group's governance framework, the Board fulfils an oversight role and deliberates with executive management over strategic direction, financial goals, resource allocation and risk appetite. Management applies the tone set by the Board and the governance philosophy, based on the group's values, as a set of principles and structures that enable the group to create shared value for all our stakeholders.

Whilst the Group continues to nurture a strong culture of governance and responsible risk management in line with its risk appetite and governance framework, the Group is constantly monitoring its practices to ensure that they are the best fit for the Group and serve to enhance business and community objectives.

In line with this ambition, the King Report on Corporate Governance (King Code IV); the Prudential Guidelines and Non-Operating Holding Company Guidelines as prescribed by the Central Bank of Kenya; the Companies Act 2015; the Corporate Governance Code for Issuers of Securities to the Public; and the Capital Markets Listing Regulations, have formed the cornerstone of our approach to governance. We support the overarching goals of these guidelines being the creation of:

- ETHICAL CULTURE
- GOOD PERFORMANCE
- EFFECTIVE CONTROL
- LEGITIMACY

For an update on our compliance with the CMA Corporate Governance Code see pages 208 - 215

Laws and Regulations

The Group complies with all applicable legislation, regulations, standards and codes, with the Board continually monitoring compliance. Our approach to corporate governance extends beyond compliance. We see governance as an enabler that creates competitive advantage through enhanced accountability, effective risk management, clear performance management, greater transparency and effective leadership.

Shareholders' Responsibilities

The shareholders' is mandated to appoint the Company's Board of Directors as well as the external auditor. This encompasses holding the Board accountable and responsible for efficient and effective corporate governance.

Board of Directors

The Company is led by a highly competent and diverse Board, with the majority consisting of independent non-executive directors (NEDs), who by their skills and diversity contribute to the efficient running of the Company. The Board is responsible for the overall corporate governance of the Company, ensuring that appropriate controls, systems and practices are in place.

Board Composition and Evaluation

There are currently ten directors on the Board, consisting of nine Non-Executive Directors and one position of Executive Director.

The Company's Board of Directors remains steadfast in implementing governance practices where substance prevails over form. This provides direction for subsidiary entities, which structure their respective governance frameworks according to Group standards.

The governance framework allows the Board of Directors to consider conformance and performance, enabling them to balance their responsibility for oversight with their role as strategic counsel.

The Board understands that sound governance practices are fundamental to earning the trust of stakeholders, which is critical to sustaining performance and preserving shareholder value. The Board members' collective experience and expertise provide a balanced mix of attributes for it to fulfil its duties and responsibilities.

All the entities in the Group have Boards of directors. The directors of these Boards monitor the affairs of the entities. A number of committees have been established that assist the various Boards in fulfilling stated objectives. All the committees have their terms, roles and responsibilities set out in their individual agreed and approved mandates, which are reviewed annually to ensure they remain relevant. We recognise that a balanced Board is vital for sustainable value creation. The group has a unitary Board, which is considered effective and appropriate for the size of the group. We believe that the Board composition is both qualitatively and quantitatively balanced in terms of skills, demographics, gender, nationalities, experience, tenure and independence.

The skills matrix

No	Competencies	Chairman	Gregroy Brackenridge	Eddy Njoroge	Ruth Ngobi	Rose Kimotho	Peter Gethi	Chris Newson	Kitili Mbathi	Rose Osoro	Dorcas Kombo
1	Financial Services/Insurance/Asset Management		P				S	P	P		
2	Customer/Marketing		P			P					
3	Sub-Saharan Africa Experience	P	P	P	P	P	P	P	P		
4	People/Organisational Development	P	P	P	P	P	P	P	P	P	P
5	Capital/Risk Management		P					S			
6	Accounting/Auditing		S					P	P	P	P
7	IT/IT Governance		S					S	S		
8	Governance Leadership	P	P	P	P	P	P	P	P	P	P
9	Large Corporate/Industrial		P	P			P	P	P		P
10	Regulation/Public Policy		P	S				P	P	P	
11	Legal	P	S		P			S	S		
12	Remuneration		P	S			S				P
13	Global Capital Markets		P	S				P	S		

Primary Skill
Secondary Skill

Strategy

The Boards of the Company's subsidiaries consider, review and approve the strategies for their individual entities at annual meetings with Executive Management. The Boards ensure that strategy is aligned with the Group's values and monitors strategy implementation and performance targets in accordance with the Group's risk profile. The Boards are collectively responsible for the long-term success of the Group and are accountable to shareholders for financial and operational performance. The key focus areas that supported the group's value creation are listed below.

Focus areas for 2017

Strategy

- Group strategy execution progress.
- The five strategic value drivers.
- Global trends shaping the banking industry.
- Future of financial services and work in the digital world.
- Political economy in the markets we operate in.

Financial performance

- 2018 budget.
- The group's solvency, liquidity and going concern status and proposed dividend payments.
- Financial impact of the changing regulatory landscape on capital ratios and operational costs.

Risk, conduct and oversight

- Impact of cybersecurity.
- Board effectiveness.
- Oversight and monitoring of risk profile against risk appetite.
- Processes to mitigate and control significant risks.
- Legislation and regulation updates.

Stakeholder engagement

- Ethics management.
- Feedback from stakeholder engagements, including shareholders and investors.
- Contribution to the economy.

Governance

- Corporate governance, risk and capital management process and objectives.
- Board composition.
- Auditors' remuneration

Directors' Appointment

The Company's Directors are nominated by the Nominations Committee, which is chaired by the Chairman of the Board. Apart from a candidate's experience, availability and fit, the Committee also considers other directorships and commitments of the individual to ensure that they will have sufficient capacity to discharge their roles properly. Candidates must also satisfactorily meet the fit and proper test criteria, as required by the Central Bank of Kenya Prudential Guidelines and by the South Africa Reserve Bank regulations. The Committee also considers appropriate demographic and gender diversity in its assessment.

Suitable candidates are submitted to the Board for consideration and appointment. Pursuant to the Company's Articles of Association, a director appointed by the Board holds office until the next Annual General Meeting (AGM) at which time the director will retire and will be eligible for election as a director by the shareholders. The appointments comply with the requirements of the Companies Act, the Non-Operating Holding Company Guidelines of the Central Bank of Kenya (CBK) and the Capital Markets Act of the Republic of Kenya; and the regulations of the South Africa Reserve Bank.

Since the last Annual General Meeting, the Board has appointed two directors to the Board of the Company with both having received regulatory approval from the CBK, CMA and SARB.

Induction and Ongoing Education

Induction of new directors and ongoing education of directors is the responsibility of the Company Secretary. The Group's Code of Ethics is provided to new directors on their appointment and an induction programme is provided and implemented prior to the director's inaugural Board meeting.

To ensure maximum participation in ongoing director training, themes for training are scheduled in advance and form part of the Board approved annual calendar.

Directors are advised of new laws and regulations and changing risks to the Organisation on an ongoing basis. During the year the Board undertook the following trainings

a) King IV corporate governance

b) Sustainability – Triple Bottom line as a core strategic value driver

c) Protection of Intellectual Property Rights, as prescribed by the CBK Risk Management Guidelines.

Board Evaluation

The Chairman is responsible for ensuring that the Group has an effective Board. Supported by the Company Secretary, he ensures that the Board's effectiveness is reviewed annually, through a detailed assessment of the effectiveness of the Board collectively, and assessment of the contribution of each member through peer evaluations. The results of the assessments are then discussed by the Board in a scheduled Board evaluation session. The Chairman may provide further constructive feedback separately to each director , derived from the results of the peer evaluations, regarding their contribution to the Board. Areas for improvement on Board effectiveness is recorded and an implementation tracker is provided by the Company Secretary for monitoring and discussion by the Board at subsequent meetings.

The evaluation covers the following areas

- Group strategy and execution.
- Board composition.
- Ethics management and conduct.
- Executive management and succession.
- Risk, IT, data and compliance.
- Assurance functions.
- Oversight over subsidiaries.
- Stakeholder engagement.

Going concern

The Board has reviewed the facts and assumptions on which it has relied upon and based on this information, continues to view the Company as a going concern for the foreseeable future.

Director independence

Independence is determined against the criteria set out in the Central Bank Prudential Guidelines and Capital Market's code of corporate governance guidelines. In addition, the Board evaluates each director to determine whether each director is independent in judgement and in character .

Conflicts of interests and other commitments

The directors are required to disclose their outside business interests and any potential conflict upon induction, annually and as it arises. Directors do not participate in, and recuse themselves from, the meeting when the Board considers any matters in which they may be conflicted. The group secretary maintains a register of directors' interests, which is tabled at the Board annually and any changes are submitted to the Board as they occur. All directors allocate sufficient time to enable them to discharge their responsibilities effectively.

Social Responsibility

Being based in Kenya, the Group understands the challenges and benefits of doing business in the country, and owes its existence to the people and societies within which it operates. The Group is committed therefore not only to the promotion of the economic development but also to the strengthening of social and environmental well-being.

The Group concentrates its social investment expenditure in defined focus areas in order to make the greatest impact. The areas of focus are based on an approved Corporate Social Investment (CSI) design, which is subject to revision after three years.

Shareholder Relations

The Board of Directors recognises the importance of continued interaction and provision of information to shareholders and endeavours to do so through a detailed annual report, as well as through public notices and circulars to shareholders. The Annual General Meeting is also considered a crucial time for interaction with the Company's shareholders and the Board encourages all the shareholders to attend and participate in this meeting.

Board committees

The Board has established the Board Audit committee and Board Nominations Committee to assist in discharging its responsibilities

Board meetings

The Company is headed by a Board of Directors, which has ultimate accountability for the management and strategic guidance of the Company and assumes the primary responsibility of fostering the sustainability of the Group's businesses. The Board has the overall responsibility for the establishment and oversight of the Group's risk management framework.

Performance against financial and corporate governance objectives is monitored by the Board through Management's quarterly reporting. The implementation of the Group's strategic objectives is done by the individual subsidiary companies, through various established Board and Management committees. The Board meets at least once every quarter. Additional meetings are held whenever deemed necessary. Directors are provided with comprehensive Board documentation at least seven days prior to each of the scheduled meetings.

STANBIC HOLDINGS PLC BOARD ATTENDANCE FOR 2017

	DIRECTOR'S NAME	Q1, FEBRUARY 23, 2017	Q2, MAY 4, 2017	Q3, AUGUST 11, 2017	Q4, NOVEMBER 23, 2017
1	Fred Ojiambo	P	P	P	P
2	Greg Brackenridge	P	P	P	P
3	Mike Blades	P	N/A	N/A	N/A
4	Christopher Newson	P	AP*	P	AP*
5	Kitili Mbathi	P	P	P	P
6	Rose Kimotho	P	P	P	P
7	Edward Njoroge	P	P	P	P
8	Ruth T. Ngobi	P	P	P	P
9	Peter Gethi	P	P	P	P
10	Rose Osoro	N/A	N/A	N/A	P

P = Present; N/A = was not a Member; AP* = Absent with apology, having attended the Bank Board meetings on the same day where 97% of the matters in the agenda for Holdings had been discussed.

REPORT BY THE BOARD AUDIT COMMITTEE

This report is provided by the Board Audit Committee (the Committee/BAC), in respect of the 2017 financial year of the Company. The BAC meets at least twice a year in accordance with the half-yearly financial reporting period adopted by the Company. The members attended the meetings in 2017 as shown herein below:

BAC Members attendance in 2017

	NAME	Q1, FEBRUARY 22, 2017	Q3, AUGUST 10, 2017
1	Chris Newson (Chairman)	P	P
2	Kitili Mbathi	P	P
3	Ruth Ngobi	P	P

P = Present

Execution of Functions

During the year, the Committee reviewed all the matters delegated to it by the Board under the BAC mandate and as required by the law. The matters considered by the Committee included the following:

a) External and Internal Audit matters:

- Recommendation of PricewaterhouseCoopers (PwC) as the external auditor for the Company in the financial year ended 31 December 2017;
- Approval of the terms of engagement, the audit plan and budgeted audit fees payable for the external auditor;
- The audit process and the effectiveness of the audit;
- The independence of the external auditor;
- The post-audit report by the external auditors;
- Assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof;
- Approval of the Internal Audit plan;
- Review of Internal Audit quarterly reports and internal controls of the Group; and
- The materiality threshold of the banking subsidiary.

b) The consolidated financial statements:

- Confirmation of the Company as a going concern;
- Review and endorsement of the interim and audited financial statements for submission to the Board for approval;
- Consideration of the accounting treatments and accounting judgements;
- Consideration of the adequacy and effectiveness of the accounting policies adopted by the Company;
- Review on the effectiveness of financial management and the quality of internal accounting control systems and reports by Management; and
- Consideration and endorsement of payment of interim and final dividend to shareholders of the Company.

c) Internal controls and financial crime control:

- Discussion on financial crime matters and control weaknesses identified; and
- Meeting with the Internal Auditors and the External Auditors in two formal exclusive meetings.

Based on the above, the Committee confirmed that, as at 31 December 2017, there was no material breakdown in internal control resulting in any material loss to the Group.

Independence of the External Auditors

The Committee was satisfied in the independence of PricewaterhouseCoopers as external auditors of the Company. This conclusion was arrived at after taking into account the following factors:

- the representations made by PricewaterhouseCoopers to the Committee;
- the Auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the Company; and
- the Auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the Auditors.

REPORT BY THE BOARD NOMINATIONS COMMITTEE

The role of the Board Nominations Committee is to assist the Board in discharging their obligations by being responsible for the nominations for appointment, succession planning and development of the Company's Directors.

The matters considered by the Committee included the following:

- Considered and recommended the appointment of additional directors to the Board of the Company;
- Review of the Board evaluation questions for 2017;
- Review of the Board composition of independent non-executive directors, non-executive directors and executive directors for the next three years;
- Review of the Board skills matrix;
- Review and recommendation of amendment of the Committee mandate for submission to the Board for approval;
- Review and endorsement of the Board Remuneration Policy for submission to the Board for approval; and
- Review and endorsement of the Board succession plan for submission to the Board for approval.

The Committee composition in 2017 consisted of three members, namely: two Independent Non-executive Directors and the Chief Executive of Stanbic Holdings Plc.

During the year, the Committee carried out its duties as stipulated under its Mandate. The Committee held two meetings during the year, with attendance as follows:

	NAME	Q2, APRIL 5, 2017	Q4 NOVEMBER 1, 2017
1	Fred N. Ojiambo (Chairman)	P	P
2	Greg Brackenridge	P	P
3	Ruth Ngobi	P	P

P = Present

REMUNERATION OVERVIEW

Fees for Non- executive directors

In determining the fees for non-executive directors, all of whom are also members of Board committees. The Board also considers market conditions and reviews comparative remuneration offered by other peer Banks. Non-executive directors receive fixed fees for service on Boards and Board committees. There are no contractual arrangements for compensation for loss of office for either executives or non-executive directors. Non-executive directors do not receive annual incentive awards, nor do they participate in any of the group's long-term incentive schemes. The Nominations Committee reviews the fees paid to non-executive directors annually and makes recommendations to the Board for endorsement and submission to shareholders for approval.

Additional information is provided on pages 102-103 of the financial statements.

Remuneration for Executive directors

Strategy

The Board considers the execution of the group strategy and the ability to show demonstrable progress against key milestones to be an integral part of the performance measurement and reward for executive directors. The chief executive officer's (CEO) articulated three strategic focus areas for the group as part of the evolving strategy. These were:

- **Customer:** to cultivate a customer-centric culture within the group
- **Digital:** to transition the group to a fully digital platform creating significant competitor advantage
- **Universal financial services organisation:** to deliver seamless, consistent products and services to our customer across our franchise. The success of these strategic focus areas is measured by customer experience scores, employee engagement metrics, risk and conduct measures, financial outcomes and social, environmental and economic impact on the communities in which we do business. Each of the strategic value drivers has a quantitative metric against which success can be measured. Again, excellent progress has been made.

Remuneration methodology

In assessing the performance of the executive directors, The Board has been mindful of its responsibilities to all our stakeholders, especially our shareholders as articulated in the remuneration philosophy.

The methodology used to size incentive pools is a combination of a top-down approach that provides overall guidance to business units and countries; a bottom-up approach based on executives assessments of the performance of their teams; and careful consideration of shareholder interests and stakeholder concerns.

Our policy avoids a short-term bonus-centric culture but rewards sustainable performance on a through-the-cycle basis. Critically, this includes a three- to five-year growth analysis to ensure shareholder returns are appropriately aligned with executive and employee reward. The committee reviews performance to ensure that earnings are not the result of one year's work but rather the planned outcome of work done in the past years.

Additional information is provided on pages 102-103 of the financial statements.

ANNUAL FINANCIAL STATEMENTS

CORPORATE INFORMATION

Chairman:	Fred N. Ojiambo, MBS, SC
Chief Executive:	Greg Brackenridge*
Chief Executive of Stanbic Bank Kenya Limited:	Philip Odera (Outgoing: 31 December 2017) Charles Mudiwa*** (Incoming: 1 January 2018)
Non-Executive Directors:	Kitili Mbathi Edward W. Njoroge Rose W. Kimotho Ruth T. Ngobi Peter N. Gethi Christopher J. Blandford – Newson** Rose Osoro (Appointed: 25 September 2017) Dorcas Kombo (Appointed: 12 January 2018) Michael Blades** (Resigned: 23 February 2017)
	* South African ** South African and British *** Zimbabwean
Company secretary:	Lillian N. Mbindyo P.O. Box 72833 00200 Nairobi
Auditor:	PricewaterhouseCoopers PwC Tower Waiyaki Way/Chiromo Road P.O. Box 43963 00100 Nairobi
Registered office:	Stanbic Bank Centre Chiromo Road P.O. Box 72833 00200 Nairobi
Principal bankers:	Stanbic Bank Kenya Limited Chiromo Road P.O. Box 30550 00100 Nairobi GPO

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2017, 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

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 5 of the financial statements

The major result highlights were:

The Group net profit of KShs 4,309,494,000 (2016: KShs 4,418,589,000) has been added to retained earnings.

Net interest income declined to KShs 10.6 billion compared to KShs 10.9 billion in 2016 due to decrease in asset yields which was partly offset by a 13% growth in customer loans and advances. In addition, the growth in transactional accounts resulted in lower cost of funds.

Non-interest revenue reported strong performance as the Group leveraged on technology to improve our customers' banking experience and successful closure of key deals in Investment Banking.

Loan loss provisions increased in the year compared to 2016 on account of a challenging operating environment for some of our customers.

Dividends

During the year, an interim dividend of KShs 1.25 (2016: KShs 1.77) per ordinary share amounting to KShs 494 million (2016: KShs 700 million) was paid.

Subject to the approval of the shareholders at the Annual General Meeting, the Directors recommend payment of a final dividend of KShs 4.00 (2016: KShs 3.48) per ordinary share equivalent to a total sum of KShs 1,581 million (2016: KShs 1,375 million). The total dividend for the year, therefore, will be KShs 5.25 (2016: KShs 5.25) for every one ordinary share amounting to KShs 2,075 million (2016: KShs 2,075 million).

Share capital

The total number of authorised shares as at 31 December 2017 was 473,684,211 (2016: 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 98.

Events subsequent to the end of the reporting period

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

Disclosures to auditors

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.

REPORT OF THE DIRECTORS (CONTINUED)

Terms of appointment of auditors

PricewaterhouseCoopers 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 2 March 2018.

BY ORDER OF THE BOARD

Lillian N. Mbindyo
Company Secretary
2 March 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

(i) Designing, implementing and maintaining internal controls as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

(ii) Selecting suitable accounting policies and then apply them consistently; and

(iii) Making judgements and accounting estimates that are reasonable in the circumstances

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

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

Approved by the Board of Directors on 2 March 2018 and signed on its behalf by:

....
Fred Ojiambo, MBS, Sc
Chairman

....
Greg Brackenridge
Chief Executive

....
Peter N. Gethi
Director

DIRECTORS' REMUNERATION REPORT

Information Not Subject to Audit

The Company's Board Remuneration Policy

The Company's Board remuneration policy is designed to create value for shareholders, customers, 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 on a pro-rata basis 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 on the Board is paid a taxable retainer of KShs 400,000 per annum and a sitting allowance of KShs 180,000 for every meeting attended. 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 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 5 May 2017, the shareholders approved the payments of Directors Fees for the year ended 31 December 2016.

At the Annual General Meeting to be held on 12 June 2018, approval will be sought from shareholders to pay Director Fees for the financial year ending 31 December 2017.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Information Subject to Audit

Year ended 31 December 2017

Name	Category	Retainer	Sitting allowance	Total Company	Total Group subsidiaries	Total Group
Fred Ojiambo	Chairman Non - Executive	400,000	900,000	**1,300,000**	4,666,000	**5,966,000**
Greg Brackenridge*	Chief Executive	-	-	**-**	-	**-**
Michael Blades	Non - Executive	-	-	**-**	5,932,500	**5,932,500**
Kitili Mbathi	Non - Executive	300,000	840,000	**1,140,000**	4,651,420	**5,791,420**
Christopher Newson	Non - Executive	150,000	540,000	**690,000**	4,415,420	**5,105,420**
Edward W. Njoroge	Non - Executive	300,000	600,000	**900,000**	2,615,420	**3,515,420**
Rose Kimotho	Non - Executive	300,000	600,000	**900,000**	3,279,420	**4,179,420**
Ruth T. Ngobi	Non - Executive	300,000	840,000	**1,140,000**	4,179,420	**5,319,420**
Peter Nderitu Gethi	Non - Executive	300,000	600,000	**900,000**	3,740,420	**4,640,420**
Rose Osoro	Non - Executive	75,000	120,000	**195,000**	594,855	**789,855**
Total		**2,125,000**	**5,040,000**	**7,165,000**	**34,074,875**	**41,239,875**

Year ended 31 December 2016

Name	Category	Retainer	Sitting allowance	Total Company	Total Group subsidiaries	Total Group
Fred Ojiambo	Chairman Non - Executive	400,000	1,260,000	**1,660,000**	3,932,000	**5,592,000**
Greg Brackenridge*	Chief Executive	-	-	**-**	-	**-**
Michael Blades	Non - Executive	-	-	**-**	55,453,198	**55,453,198**
Charles Muchene	Non - Executive	300,000	480,000	**780,000**	2,615,000	**3,395,000**
Kitili Mbathi	Non - Executive	300,000	840,000	**1,140,000**	3,690,000	**4,830,000**
Christopher Newson	Non - Executive	300,000	480,000	**780,000**	3,380,000	**4,160,000**
Edward W. Njoroge	Non - Executive	300,000	840,000	**1,140,000**	2,860,000	**4,000,000**
Rose Kimotho	Non - Executive	300,000	840,000	**1,140,000**	3,480,000	**4,620,000**
Ruth T. Ngobi	Non - Executive	300,000	840,000	**1,140,000**	3,900,000	**5,040,000**
Peter Nderitu Gethi	Non - Executive	300,000	720,000	**1,020,000**	3,280,000	**4,300,000**
Total		**2,500,000**	**6,300,000**	**8,800,000**	**82,590,198**	**91,390,198**

*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 separate financial statements of Stanbic Holdings Plc (the Company) and the consolidated financial statements of the Company and its subsidiaries (together, the Group) set out on pages 108 to 205, which each comprise a statement of financial position at 31 December 2017 and statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company at 31 December 2017 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.

Key audit matter	How our audit addressed the Key audit matter
Credit risk and provision for impairment loss on loans and advances to customers Impairment of loans and advances is a key audit matter due to the significant judgment applied in estimating the loan loss provisions. As explained in Note 3(a) of the financial statements, the directors make complex and subjective judgments when estimating these provisions. Credit risk arises from lending to customers and other banks. Loans and advances accounted for 52% of the Group's total assets as at 31 December 2017. The carrying value of these balances may be materially misstated if impairment loss thereon is not appropriately identified and estimated. The business is structured into two segments, Corporate and Investment Banking (CIB) and Personal and Business Banking (PBB). Impairment calculation on loans and advances follows this categorisation.	We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the identification of loans and advances that were impaired and the calculation of the impairment provisions. In addition, we examined a sample of loans and advances which had not been identified by management as potentially impaired and formed our own judgment as to whether that was appropriate by using external evidence in respect of the relevant counterparties. Where impairment was individually calculated, we tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner including, where relevant, how forbearance had been considered. Further, where specific impairment was calculated, we examined the reasonableness of the expected future recoverable amounts as assessed by management to support the calculation of the impairment. We assessed the assumptions and compared estimates to external evidence where available.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Stanbic Holdings Plc (continued)

Key audit matter	How our audit addressed the Key audit matter
Credit risk and provision for impairment loss on loans and advances to customers (continued)	
For CIB accounts, a significant portion of the impairment provisions on non-performing loans and advances, and this is calculated individually for each loan as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the loan. Where no evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment using an unidentified corporate impairment model. For PBB customers, the impairment is calculated using models. The key inputs to the model are the roll-rates and probability of default (PD) based on the facility category. Each type of facility also carries a varied loss given default factor.	Where impairment was calculated using a model, we tested the basis and operation of those models and the data and assumptions used. Our audit procedures included: • Comparison of the principal assumptions made with our own knowledge of other practices and actual experience. • Testing the operation of the models used to calculate the impairment including, in some cases, developing independent expectations and comparing results. • Considering the potential effect of events which were not captured by management's models and evaluating how management has responded to these events by making further adjustments to the models where appropriate.
Goodwill impairment assessment	
As shown in Note 29 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. Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the 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. 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 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 assessed the reasonableness of the forecast 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 parameters in the calculations and determined that the calculations were most sensitive to assumptions for gross margin and the pre-tax discount rates as disclosed in Note 29 of the financial statements.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Stanbic Holdings Plc (continued)

Other information

The directors are responsible for the other information. The other information comprises the Corporate information, Report of the Directors, Statement of Directors responsibilities and the Board Remuneration report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Group overview, Business review including Chairman's and Chief Executive's statements, Sustainability report, Transparency and accountability reports and Shareholders' information, which are expected to be made available to us after the audit report date.

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

When we read the other information not yet received as described above, if 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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 the directors on pages 99 to 100 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 102 to 103 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Kang'e Saiti – Practising Certificate No. 1652.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

2 March 2018

CONSOLIDATED AND COMPANY STATEMENT OF PROFIT OR LOSS

		Group		Company	
		For the year ended 31 December		For the year ended 31 December	
	Note	**2017 KShs'000**	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Interest income	6	**16,608,234**	17,127,042	**4,901**	22,451
Interest expense	7	**(5,963,953)**	(6,266,995)	**-**	-
Net interest income		**10,644,281**	10,860,047	**4,901**	22,451
Credit impairment charges on loans and advances	22(d)	**(2,761,325)**	(1,751,812)	**-**	-
Net interest income after credit impairment charges		**7,882,956**	9,108,235	**4,901**	22,451
Fees and commission revenue	8	**4,348,008**	3,242,504	**-**	-
Fees and commission expense	9	**(401,215)**	(337,539)	**-**	-
Net fee and commission revenue		**3,946,793**	2,904,965	**-**	-
Trading revenue	10	**4,403,510**	4,723,253	**-**	-
Other income	11	**69,805**	29,093	**1,900,274**	2,846,066
Other operating income		**4,473,315**	4,752,346	**1,900,274**	2,846,066
Total income		**16,303,064**	16,765,546	**1,905,175**	2,868,517
Employee benefits expense	12	**(5,735,195)**	(5,440,584)	**-**	-
Other expenses		**(4,268,006)**	(3,543,883)	**(26,422)**	(28,838)
Depreciation and amortisation expense	13	**(612,933)**	(517,500)	**-**	-
Finance costs	14	**(285,682)**	(1,214,493)	**(524)**	(456)
Total operating, administration and general expenses		**(10,901,816)**	(10,716,460)	**(26,946)**	(29,294)
Profit before income tax		**5,401,248**	6,049,086	**1,878,229**	2,839,223
Income tax expense	15	**(1,091,754)**	(1,630,497)	**(1,339)**	(6,664)
Profit for the year		**4,309,494**	4,418,589	**1,876,890**	2,832,559
Earnings per share (basic and diluted)	16	**10.90**	11.18	**4.75**	7.17

The notes set out on pages 114 to 205 form an integral part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

		Group		Company	
		For the year ended 31 December		For the year ended 31 December	
	Note	**2017 KShs'000**	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Profit for the year		**4,309,494**	4,418,589	**1,876,890**	2,832,559
Other comprehensive income for the year, net of income tax					
Items that may be subsequently reclassified to profit or loss					
Currency translation differences for foreign operations		**74,400**	220,306	**-**	-
Fair value changes on available-for-sale financial assets, net of income tax	20(b)	**298,645**	(29,490)	**-**	-
Total other comprehensive income for the year, net of income tax		**373,045**	190,816	**-**	-
Total comprehensive income for the year		**4,682,539**	4,609,405	**1,876,890**	2,832,559

The notes set out on pages 114 to 205 form an integral part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

		Group		Company	
		For the year ended 31 December		For the year ended 31 December	
	Note	**2017 KShs'000**	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Assets					
Cash and balances with Central Bank of Kenya	18	**8,044,783**	8,621,228	**-**	-
Financial investments	20	**71,329,763**	50,032,732	**-**	-
Available-for-sale pledged assets	19	**4,915,107**	2,894,456	**-**	-
Derivative assets	31	**2,391,101**	2,472,191	**-**	-
Loans and advances to banks	22 (a)	**12,743,630**	16,988,881	**111,803**	100,662
Loans and advances to customers	22 (b)	**130,535,814**	115,587,723	**-**	-
Other assets and prepayments	23	**3,220,570**	3,817,487	**-**	-
Other investments	25	**17,500**	-	**18,217,512**	18,175,338
Property and equipment	26	**2,256,275**	2,207,965	**-**	-
Prepaid operating lease	27	**50,947**	53,901	**-**	-
Other intangible assets	28	**1,356,050**	1,135,496	**-**	-
Intangible assets - goodwill	29	**9,349,759**	9,349,759	**-**	-
Current income tax	35 (b)	**83,026**	113,547	**18,054**	18,872
Deferred income tax	35 (c)	**2,444,394**	1,407,363	**203**	-
Total assets		**248,738,719**	214,682,729	**18,347,572**	18,294,872
Liabilities and equity					
Liabilities					
Derivative liabilities	31	**2,427,563**	3,061,063	**-**	-
Financial liabilities at fair value through profit or loss	21	**362,630**	3,867,718	**-**	-
Deposits from banks	32 (a)	**38,707,135**	36,506,824	**-**	-
Deposits from customers	32 (b)	**154,660,772**	119,328,219	**-**	-
Other liabilities and accrued expenses	34	**5,596,830**	6,389,083	**105,801**	60,110
Borrowings	33	**3,989,243**	3,986,138	**-**	-
Current income tax	35 (a)	**-**	1,402,810	**-**	-
Deferred income tax	35 (d)	**38,859**	-	**-**	11
Total liabilities		**205,783,032**	174,541,855	**105,801**	60,121
Equity					
Ordinary share capital	30 (b)	**1,976,608**	1,976,608	**1,976,608**	1,976,608
Ordinary share premium	30 (c)	**16,897,389**	16,897,389	**16,897,389**	16,897,389
Other reserves	40	**(448,316)**	(758,058)	**-**	-
Retained earnings		**22,948,720**	20,649,216	**(2,213,513)**	(2,014,965)
Proposed dividend	17	**1,581,286**	1,375,719	**1,581,287**	1,375,719
Total equity		**42,955,687**	40,140,874	**18,241,771**	18,234,751
Total equity and liabilities		**248,738,719**	214,682,729	**18,347,572**	18,294,872

The notes set out on pages 114 to 205 form an integral part of these financial statements.

The financial statements on pages 108 to 205 were approved for issue by the Board of Directors on 2 March 2018 and signed on its behalf by:

....
Fred N. Ojiambo, MBS, Sc
Chairman

....
Greg Brackenridge
Chief Executive

....
Peter N. Gethi
Director

....
Lillian N. Mbindyo
Company Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

		Attributable to equity holders					
	Note	Share Capital KShs'000	Share Premium KShs'000	Other Reserves KShs'000	Retained Earnings KShs'000	Proposed Dividends KShs'000	Total Equity KShs'000
At 1 January 2017		1,976,608	16,897,389	(758,058)	20,649,216	1,375,719	40,140,874
Profit for the year		-	-	-	4,309,494	-	4,309,494
Other comprehensive income, net of tax		-	-	373,045	-	-	373,045
Transfer from statutory credit risk reserve		-	-	(65,449)	65,449	-	-
Transactions with owners, recorded directly in equity Contributions by and distributions to owners of the Group							
Dividends to equity holders - dividend paid	17	-	-	-	(494,153)	(1,375,719)	(1,869,872)
Proposed dividend	17	-	-	-	(1,581,286)	1,581,286	-
Share based payment reserve	41	-	-	2,146	-	-	2,146
Total transactions with owners of the Group		-	-	2,146	(2,075,439)	(205,567)	(1,867,726)
At 31 December 2017		1,976,608	16,897,389	(448,316)	22,948,720	1,581,286	42,955,687

For the year ended 31 December 2016

		Attributable to equity holders					
	Note	Share Capital KShs'000	Share Premium KShs'000	Other Reserves KShs'000	Retained Earnings KShs'000	Proposed Dividends KShs'000	Total Equity KShs'000
At 1 January 2016		1,976,608	16,897,389	(790,252)	18,146,346	2,134,738	38,364,829
Profit for the year		-	-	-	4,418,589	-	4,418,589
Other comprehensive income, net of tax		-	-	190,816	-	-	190,816
Transfer from statutory credit risk reserve		-	-	(130,100)	130,100	-	-
Transactions with owners, recorded directly in equity Contributions by and distributions to owners of the Group							
Dividends to equity holders - dividend paid	17	-	-	-	(699,720)	(2,134,738)	(2,834,458)
Proposed dividend	17	-	-	-	(1,375,719)	1,375,719	-
Transfer of vested share option from share based reserve	41(a)	-	-	(29,620)	29,620	-	-
Share based payment reserve	41(a)	-	-	1,098	-	-	1,098
Total transactions with owners of the Group		-	-	(28,522)	(2,045,819)	(759,019)	(2,833,360)
At 31 December 2016		1,976,608	16,897,389	(758,058)	20,649,216	1,375,719	40,140,874

The notes set out on pages 114 to 205 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Note	Share Capital KShs'000	Share Premium KShs'000	Retained Earnings KShs'000	Proposed Dividends KShs'000	Total Equity KShs'000
		Attributable to equity holders				
At 1 January 2017		**1,976,608**	**16,897,389**	**(2,014,965)**	**1,375,719**	**18,234,751**
Profit for the year				**1,876,890**	**-**	**1,876,890**
Other Comprehensive income, net of tax		**-**	**-**	**-**	**-**	**-**
Contribution and distributions to owners of the company						
Dividends to equity holders - dividend paid	17	**-**	**-**	**(494,152)**	**(1,375,719)**	**(1,869,871)**
Dividends to equity holders - proposed dividend	17	**-**	**-**	**(1,581,287)**	**1,581,287**	**-**
Total contributions by and distributions to owners		**-**	**-**	**(2,075,439)**	**205,568**	**(1,869,871)**
At 31 December 2017		**1,976,608**	**16,897,389**	**(2,213,514)**	**1,581,287**	**18,241,770**

For the year ended 31 December 2016

	Note	Share Capital KShs'000	Share Premium KShs'000	Retained Earnings KShs'000	Proposed Dividends KShs'000	Total Equity KShs'000
		Attributable to equity holders				
At 1 January 2016		1,976,608	16,897,389	(2,772,085)	2,134,738	18,236,650
Profit for the year		-	-	2,832,559	-	2,832,559
Other Comprehensive income, net of tax		-	-	-	-	-
Contribution and distributions to owners						
Dividends to equity holders - dividend paid	17	-	-	(699,720)	(2,134,738)	(2,834,458)
Dividends to equity holders - proposed dividend	17	-	-	(1,375,719)	1,375,719	-
Total contributions by and distributions to owners		-	-	(2,075,439)	(759,019)	(2,834,458)
At 31 December 2016		1,976,608	16,897,389	(2,014,965)	1,375,719	18,234,751

The notes set out on pages 114 to 205 form an integral part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

		Group		Company	
		For the year ended 31 December		For the year ended 31 December	
	Note	**2017 KShs'000**	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Cash flows from operating activities		**5,461,758**	8,256,564	**1,878,230**	2,839,223
Income tax paid		**(3,483,127)**	(990,384)	**(736)**	(31,437)
Cash flows from operating activities before changes in operating assets and liabilities		**1,978,631**	7,266,180	**1,877,494**	2,807,786
Changes in operating assets and liabilities:					
Loans and advances to customers		**(14,948,087)**	(10,606,157)	**-**	-
Financial investments		**(17,099,802)**	(8,137,509)	**-**	-
Deposits held for regulatory purposes (Restricted cash)		**1,718,913**	(455,888)	**-**	-
Other assets and prepayments		**596,916**	(1,108,187)	**-**	1,651
Deposits with banks		**255,634**	(12,300,360)	**-**	-
Other liabilities and accrued expenses		**(792,253)**	427,820	**45,691**	16,843
Customer deposits		**35,332,553**	13,081,984	**-**	-
Trading liabilities		**(3,505,088)**	3,345,745	**-**	-
Net cash generated from operating activities		**3,537,417**	(8,486,372)	**1,923,185**	2,826,280
Cash flows from investing activities:					
Additions to property and equipment		**(457,254)**	(373,581)	**-**	-
Additions to intangible assets		**(453,913)**	(558,470)	**-**	-
Proceeds from sale of property and equipment		**2,560**	14,612	**-**	-
Net cash used in investing activities		**(908,607)**	(917,439)	**-**	-
Cash flows from financing activities:					
Other investments	25	**(17,500)**	-	**-**	-
Investment in subsidiary	24	**-**	-	**(42,174)**	-
Dividends paid		**(1,869,872)**	(2,834,458)	**(1,869,871)**	(2,834,457)
Decrease of borrowings		**3,105**	(2,495,924)	**-**	-
Net cash used in financing activities		**(1,884,267)**	(5,330,382)	**(1,912,045)**	(2,834,457)
Net (decrease)/increase in cash and cash equivalents		**744,543**	(14,734,193)	**11,140**	(8,177)
Foreign currency translation differences		**125,906**	131,276	**-**	-
Cash and cash equivalents at start of year		**24,986,005**	39,588,922	**100,662**	108,839
Cash and cash equivalents at end of year	36(b)	**25,856,454**	24,986,005	**111,802**	100,662

The notes set out on pages 114 to 205 form an integral part of these financial statements.

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
P O Box 72833
00200 Nairobi

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

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

2. 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

Stanbic Holdings Plc ("the Company") and its subsidiaries ("the Group"), annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) standards applicable to companies reporting under IFRS.

Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Changes in accounting policies and disclosures

(i) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments (IFRS 9) replaces the existing standard dealing with the accounting treatment for financial instruments IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) from 1 January 2018.

IFRS 9 consists of the following key areas which represent changes from that of IAS 39:

- Revised requirements for the classification and measurement of financial assets and consequential changes in the classification and measurement of financial liabilities, mainly relating to the recognition of changes in fair value due to changes in own credit risk on fair value designated financial liabilities in OCI as opposed to the income statement.
- An expected credit loss (ECL) impairment model.
- Revised requirements and simplifications for hedge accounting.

IFRS 9 is required to be adopted retrospectively from 1 January 2018, with the exception of IFRS 9's hedge accounting requirements where the standard permits an entity to choose as its accounting policy to continue to apply with IAS 39 hedge accounting requirements instead of the requirements in Chapter 6 of IFRS 9.

The Group has elected to not restate its comparative financial statements. Accordingly, the difference between the previous (IAS 39) and new (IFRS 9) carrying values will be recognised in the group's opening retained earnings as at 1 January 2018.

2. Significant accounting policies (continued)

a) Basis of preparation (continued)

(i) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

IFRS 9 Financial Instruments (continued)

The following is a summary of IFRS 9's key requirements and the estimated impact on the group (it should be noted that the group's final transition impact was, at the time of the preparation of these financial statements, being determined. Accordingly, the estimated impact set out below, which were determined using the September 2017 hard close results, may change as a result of changes in the group's size and nature of its assets and liabilities as well as changes in the risk rating and expected loss input variables (including forward looking macroeconomic factors) of its assets):

Classification of financial assets and liabilities

IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and its contractual cash flow characteristics.

The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives and the recognition of fair value adjustments in OCI.

All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk will be required to be recognised in OCI with no subsequent recognition in the income statement.

Expected credit loss (ECL) impairment model

IFRS 9's ECL impairment model's requirements will represent the most material IFRS 9 impact.

The IASB developed the IFRS 9 ECL impairment model with the objective of transitioning from an incurred loss approach to an expected loss model which will require entities to recognise impairment losses in advance of an exposure having objective evidence of impairment. The ECL model will apply to financial assets measured at either amortised cost or at fair value through OCI, as well as loan commitments when there is present commitment to extend credit (unless these are measured at fair value through profit or loss).

With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either 12-month expected credit losses or full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is recognised for a financial asset where the credit risk of that financial asset increased significantly since initial recognition (unless the financial asset is exposed to a low level of credit risk) as well as for certain contract assets and trade receivables or where the exposure is classified as in default. For all other financial instruments, expected credit losses are measured at an amount equal to 12-month expected credit losses.

Significant increase in credit risk or low credit risk

The assessment of significant increase in credit risk for the group's PBB exposures will be based on changes in a customer's credit score and for the group's CIB exposures on changes in internal credit ratings, together with the expected outlook for the specific sector and industry and other relevant available information. For both the group's PBB and CIB exposures, the determination will be set to identify significant deterioration in credit risk before the exposure reaches a past due status of 30 days. Exposures for which there is a significant increase in credit risk but for which the credit risk is low remain in stage one. 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 are unlikely to reduce the exposure's ability to fulfil its contractual obligations.

Forward-looking information

In determining whether there has been a significant increase in credit risk and in determining the expected credit loss calculation, IFRS 9 requires the consideration of forward-looking information. The determination of significant increase in credit risk is required to include consideration of all reasonable and supportable information available without undue cost or effort. This information will typically include forward-looking information based on expected macro-economic conditions and specific factors that are expected to impact individual portfolios.

The incorporation of forward-looking information represents a significant change from existing accounting requirements which are based on observable events. The use of such forward-looking information will increase the use of management judgement and is expected to increase the volatility of impairment provisions as a result of continuous changes in future expectations.

NOTES (CONTINUED)

2. Significant accounting policies (continued)

a) Basis of preparation (continued)

(i) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

IFRS 9 Financial Instruments (continued)

Default

While default is not specifically defined by IFRS 9, the group has aligned the determination of default with its existing internal credit risk management definitions and approaches. Default is determined as occurring at the earlier of:

- when either, based on objective evidence, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as 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).

In some cases, additional specific criteria are set according to the nature of the lending product.

The forward-looking framework will be based on the group's economic expectations, industry and sub-sector-specific expectations, as well as expert management judgement.

Impact on reserves

As at 1 January 2018, The IFRS 9's requirements noted above, subject to ongoing refinements and reviews by the Group's governance frameworks, is an overall reduction in retained earnings within the range of 5% and 10%.

The following table details the key drivers of this estimated range:

IFRS 9 ECL Driver	Reason
Stage one (12-month expected loss)	PBB's existing emergence period is between three to six months and for CIB exposure is 12 months. The change to a 12-month expected loss requirement for exposures will hence result in an increase in impairments for PBB.
Stage two (lifetime expected loss for items for which there is a significant increase in credit risk)	IFRS 9 will require a lifetime loss to be recognised for items for which there has been a significant increase in credit risk. This requirement will affect both PBB and CIB's credit impairments.
Stage three (lifetime expected loss for credit impaired exposures)	Whilst IFRS 9 contains similar requirements to that of existing accounting requirements, an increase in impairment provisions will be recognised as a result of the requirement to include the probability of multiple lifetime defaults.
Off-balance sheet exposures	The IFRS 9 requirement for impairments for off-balance sheet facilities results in the requirement for additional credit impairments for both PBB and CIB.
Forward-looking information	The inclusion of forward-looking economic information could increase the level of provisions as a result of the possible consequence of deteriorating economic conditions.

Hedge accounting

The revised general hedge accounting requirements are better aligned with an entity's risk management activities and provide both additional opportunities to apply hedge accounting and various simplifications in achieving hedge accounting. The group's date of adoption of the IFRS 9 revised hedge accounting requirements will be based on further IFRS developments with respect to the IASB's macro hedge accounting project or on the group deeming it opportune to adopt the revised requirements. The group has elected to continue with IAS 39's hedge accounting requirements, but will implement IFRS 9's revised hedge accounting disclosures.

IFRS 9 Financial Instruments amendment

On 12 October 2017, IASB issued an amendment to IFRS 9 (the amendment). This allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The amendment is required to be applied retrospectively. The amendment is not expected to have a material impact on the group. Effective date 1 January 2019 but earlier application permitted.

NOTES (CONTINUED)

2. Significant accounting policies (continued)

a) Basis of preparation (continued)

(i) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

IFRS 16 Leases

This standard will replace the existing standard IAS 17 *Leases* as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier).

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on the statement of financial position.

The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 has not changed substantially in terms of this standard. As a result a lessor continues to classify its leases as operating leases or finance leases and accounts for these as it currently does in terms of IAS 17. In addition, the standard requires the lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.

The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined. However, the Standard Bank Group (SBG), which the Group is a member of, has formed an IFRS 16 working group and detailed project plan, identifying key responsibilities and milestones of the project. The SBG is in the process of determining the estimated impact as well as discussing the system requirements to accommodate IFRS 16's principles. The new standard is effective on 1 January 2019 and earlier application permitted.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The IFRIC provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The IFRIC will be applied retrospectively or prospectively. The group has identified and reviewed the contracts and transactions that are within the scope of this interpretation which indicate that this IFRIC will not materially impact the annual financial statements. The new standard is effective on 1 January 2019 and earlier application permitted.

IFRS 15 Revenue from Contracts with Customers

This standard will replace the existing revenue standards and their related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments).

The core principle of the standard is that revenue recognized reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer.

The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

The effective date is 1 January 2018. The Group assessed and concluded that the impact on the annual financial statements is not significant.

IFRIC 23 Uncertainty over Income Tax Treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This Interpretation addresses: 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; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined. The new interpretation is effective on 1 January 2019 and earlier application permitted.

NOTES (CONTINUED)

2. Significant accounting policies (continued)

a) Basis of preparation (continued)

IFRS 2 (amendment) Share-based Payment

The amendments are intended to eliminate diversity in practice in three main areas of the classification and measurement of share-based payment transactions are:

- the effects of vesting conditions on the measurement of a cash-settled share based payment transaction
- the classification of a share-based payment transaction with net settlement features for withholding tax obligations the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments will be applied prospectively. The effective date is I January 2018. Management performed an assessment of IFRS 2 and concluded that the impact is not significant.

Annual improvements 2015-2017 cycle

The IASB has issued various amendments and clarifications to existing IFRS, none of which is expected to have a significant impact on the group's annual financial statements.

b) Consolidation

The consolidated financial statements incorporate the financial statements of Stanbic Holdings Plc and its subsidiaries; Stanbic Bank Kenya Limited, Stanbic Nominees Limited, Stanbic Insurance Agency Limited, SBG Securities Limited and SBG Securities Nominees Limited. The financial statements have been made up to 31 December 2017.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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. Significant accounting policies (continued)

b) Consolidation (continued)

(ii) 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.

(iii) 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.

c) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

The consolidated financial statements are presented in Kenyan Shillings (KShs), which is the Stanbic Holdings Plc's presentation currency rounded to the nearest thousand.

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 (the Functional Currency) which is South Sudan Pound (SSP) and Kenya Shillings (KShs).

(ii) Transactions and balances

Foreign Currency transactions are translated into the Functional Currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses are presented in statement of profit or loss within trading revenue.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in OCI.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in OCI.

(iii) Group companies

The results and financial position of all the Group entities that have a Functional Currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each statement of profit or loss amount are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

NOTES (CONTINUED)

2. Significant accounting policies (continued)

d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Chief Executive (CE) with the assistance of the Group's Executive Committee (EXCO) and the Asset and Liability Committee (ALCO).

Transactions between segments are priced at market-related rates, with intra-segment revenue and costs being eliminated in Group. Income and expenses directly associated with each segment are included in determining business segment performance

e) Revenue and expenditure

Banking activities

Revenue is derived substantially from the business of banking and related activities and comprises interest income, fee and commission revenue and other non-interest revenue.

Net interest income

Interest income and expense (except for those borrowing costs that are capitalised), are recognised in the statement of 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. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

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

Where the estimates or receipts on financial assets (except those that have been reclassified) or financial liabilities are subsequently revised, the carrying amount of the financial asset or liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset's original effective interest rate. Any adjustment to the carrying value is recognised in interest income.

Interest is recognised on the gross loan balance before taking portfolio impairment into account.
Where financial assets have been specifically impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate.

Gains and losses on the disposal of dated financial instruments, including amounts removed from other comprehensive income in respect of available-for-sale financial assets, and excluding those classified as held for trading, are included in net interest income.

Non-interest revenue

Net fee and commission revenue

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commission, placement fees and syndication 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.

Trading revenue

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

NOTES (CONTINUED)

2. Significant accounting policies (continued)

e) Revenue and expenditure (continued)

Other revenue

Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, gains and losses on realised undated available-for-sale financial assets and, dividends relating to those financial instruments.

Net income from financial instruments designated at fair value includes all gains and losses from changes in the fair value of undated financial assets and liabilities designated at fair value through profit or loss, including dividend income arising on these financial instruments.

Gains and losses on undated available-for-sale financial assets are transferred from other comprehensive income to profit or loss on realisation of the investments. Dividends on these instruments are recognised in profit or loss.

Gains and losses on all other undated financial instruments that are not held for trading are recognised in other revenue.

Dividend income

Dividends are recognised in profit or loss when the right to receipt is established.

f) Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cash flows consist of cash and balances with Central Banks and other short term highly liquid investments with original maturities of three months or less including investment securities with original maturities of 90 days or less and balances with other Groups. Cash and cash equivalents exclude the cash reserve held with Central Bank of Kenya. Cash and balances with Central Banks comprise coins and bank notes and balances with central banks.

g) Financial instruments

(i) Initial recognition and measurement

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

(ii) Subsequent measurement

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity. Where the Group is to sell more than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in OCI.

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

a) Held-to-maturity

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

b) Held-for-trading assets and liabilities

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

Subsequent to initial recognition, the financial instruments' fair values are re-measured at each reporting date. All gains and losses, including interest and dividends arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue except for derivatives that are designated and effective as hedging instruments (refer to 'Derivative financial instruments and hedge accounting' within this accounting policy for further details).

NOTES (CONTINUED)

2. Significant accounting policies (continued)

g) Financial instruments

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

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

- this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. Under this criterion, the main classes of financial instruments designated by the Group are loans and advances to banks and customers and financial investments. The designation significantly reduces measurement inconsistencies that would have otherwise arisen. For example, where the related derivatives were treated as held-for-trading and the underlying financial instruments were carried at amortised cost. This category also includes financial assets used to match investment contracts,
- groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the Group's key management personnel on a fair-value basis. Under this criterion, certain private equity, and other investment portfolios have been designated at fair value through profit or loss; or
- financial instruments containing one or more embedded derivatives that significantly modify the instruments' cash flows.

The fair value designation is made on initial recognition and is irrevocable. Subsequent to initial recognition, the fair values are re-measured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (interest expense) for all debt financial assets (financial liabilities) and in other revenue within non-interest revenue for all equity instruments.

d) Available-for-sale

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

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

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

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

e) Loans and advances

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

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

f) Financial liabilities at amortised cost

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

(iii) Reclassification of financial assets

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

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

NOTES (CONTINUED)

2. Significant accounting policies (continued)

g) Financial instruments (continued)

(iii) Reclassification of financial assets (continued)

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

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

(iv) Impairment of financial assets

(a) Assets carried at amortised cost

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

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

- known cash flow difficulties experienced by the borrower
- a breach of contract, such as default or delinquency in interest and/or principal payments
- breaches of loan covenants or conditions
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation, and
- 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.

The Group first assesses whether there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant

Non-performing financial assets include those financial assets for which the Group has identified objective evidence of default, such as a breach of a material financial asset covenant or condition as well as those financial assets for which instalments are due and unpaid for 90 days or more. The impairment of non-performing financial assets takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

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

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

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

Impairment of groups of financial assets that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of financial assets but before the reporting date. In order to provide for latent losses in a group of financial assets that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss trigger events and the date on which the Group identifies the losses).

Groups of financial assets are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of financial assets is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

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

NOTES (CONTINUED)

2. Significant accounting policies (continued)

g) Financial instruments (continued)

(iv) Impairment of financial assets (continued)

(b) Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to on-going review to determine whether they are considered to be impaired or past due.

The effective interest rate of renegotiated loans that have not been derecognised (described under the heading Derecognition of financial instruments), is predetermined based on the loan's renegotiated terms.

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have a negative impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is considered to be impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred.

In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss.

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

(v) Offsetting financial instruments

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

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

(vi) Derivative financial instruments and hedge accounting

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

Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value.

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

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

The method of recognising fair value gains and losses depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the hedge relationship, or if they are classified as held-for-trading.

(vii) Borrowings

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

(viii) 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. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

2. Significant accounting policies (continued)

g) Financial instruments (continued)

(ix) Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the 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 transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires. Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss.

In all other instances, the renegotiated asset or liability's effective interest rate is predetermined taking into account the renegotiated terms.

(x) Sale and repurchase agreements and lending of securities

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

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

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

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

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

h) Fair value measurement

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.

NOTES (CONTINUED)

2. Significant accounting policies (continued)

h) Fair value measurement (continued)

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

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

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

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

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

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

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

i) 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 maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

2. Significant accounting policies (continued)

i) Intangible assets (continued)

Directly-attributable-costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives (2 to 10 years).

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

Other intangible assets

The Group recognises the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in profit or loss as incurred.

The Group capitalises brands, customer lists, customer contracts and similar rights acquired in business combinations.

Capitalised intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets (2 to 10 years) from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

j) Property and equipment

Equipment and owner-occupied properties

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses other than the revaluation of buildings that arose from the merger between CfC Bank and Stanbic Bank in 2008 (accounting policy 2.7 and 2.8). Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

Subsequent costs are included in the asset's 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. Maintenance and repairs, which do not meet these criteria, are recognised in profit or loss as incurred.

Depreciation, impairment losses and gains or losses on disposal of assets are included in profit or loss.

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 period of the lease or over a lesser period, as is considered appropriate.

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

The estimated useful lives of tangible assets for the current financial year are as follows:

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

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

NOTES (CONTINUED)

2. Significant accounting policies (continued)

k) Impairment of non-financial assets

Intangible assets that have an indefinite useful life and goodwill are tested annually for impairment. Intangible assets that are subject to amortisation and other non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs 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 (cash-generating units).

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

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.

l) Leases

Group as lessee

Leases, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance 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 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.

Leases of assets are classified as operating leases if the lessor retains a significant portion of the risks and rewards of ownership. 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. 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.

Group as lessor

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances in the statement of financial position.

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return.

The benefits arising from investment allowances on assets leased to customers are accounted for in tax.

Leases of assets under which the Group retains a significant portion of the risks and rewards of ownership are classified as operating leases. Operating lease income from properties held as investment properties, net of any incentives given to lessees, is recognised on the straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of a penalty is recognised as income in the period in which termination takes place.

m) Provisions 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.

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

2. Significant accounting policies (continued)

m) Provisions and contingent liabilities (continued)

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 liabilities include certain guarantees, other than financial guarantees, and letters of credit pledged as collateral security. Contingent liabilities are not recognised on the statement of financial position but are disclosed in the notes to the financial statements unless they are remote.

n) Employee benefits

(i) Defined contribution plan

The majority of the Group's employees are eligible for retirement benefits under a defined contribution plan. The Group and its employees also contribute to the National Social Security Fund as applicable in its jurisdictions of operations. This is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Group pays fixed contributions into a separate entity.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Group and employees. The Group's contributions to the defined contribution schemes are charged to the statement of profit or loss in the year in which they fall due.

(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.

Employee entitlements to annual leave are recognised when they accrue to employees.

A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the reporting date.

(iii) 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.

o) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

NOTES (CONTINUED)

2. Significant accounting policies (continued)

o) Current and deferred income tax (continued)

(i) Current income tax

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

p) Share capital

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.

q) Dividends on ordinary shares

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

r) 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.

s) 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.

t) Hyperinflation

The South Sudan economy has been classified as hyperinflationary from 1 January 2016. Accordingly, the results, cash flows and financial position of Stanbic South Sudan Branch have been expressed in terms of the measuring unit prevailing 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.

In 2016, the components of owners' equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose to the date of initial application. Non-monetary assets and liabilities are also restated at the date of initial application by applying to their cost and accumulated depreciation a general price index from the date the items were acquired to the date of initial application. The resulting adjustments determined at the beginning of the period are recognised directly in equity as an adjustment to opening retained earnings.

From the date of initial application and in subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. Items in the statement of financial position not already expressed in terms of the measuring unit current at the reporting period, such as non-monetary items carried at cost or cost less depreciation, are restated by applying a general price index. The restated cost, or cost less depreciation, of each item is determined by

2. Significant accounting policies (continued)

t) Hyperinflation (continued)

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.

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

u) Letters of Credit Acceptances

Letters of credit acceptances arise in two ways: -

i) Issuing bank:

At initial recognition where the Group is the LC issuer, 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 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 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 confirming the LC, 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 the statement of financial position as part of deposits for the contractual obligation to deliver cash to the beneficiary.

v) Comparative figures

Where necessary, comparative figures within notes have been adjusted to conform to changes in presentation in the current year.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least monthly. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. 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.

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. Were the net present value of estimated cash flows from non-performing loans at year end to differ by +/-1%, the impairment loss would have been KShs 63,127,000 higher or KShs 63,127,000 lower (2016: KShs 31,994,000 higher or KShs 31,994,000 lower).

NOTES (CONTINUED)

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

b) Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect reported fair value of financial instruments.

c) Impairment of goodwill

The Group tests, on an annual basis, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(j). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note 29.

d) Income taxes

Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

e) Hyperinflation

The Group exercises significant judgment 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 branch, Stanbic Bank South Sudan has been accounted for as an entity operating in a hyperinflationary economy. The results, cash flows and financial position have been expressed in terms of the measuring units current at the reporting date and the results and financial position.

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

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

Date	Base year	General price index	Inflation rate
30.09.2017	2016	2,178.73	78.63%
31.12.2016	2015	1,219.33	480.19%

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

	2017 KShs 000	2016 KShs 000
Net increase in revenue	**136,283**	655,448
Net monetary loss (Note 14)	**186,502**	1,150,687
Decrease in profit after tax	**(136,008)**	(549,127)

NOTES (CONTINUED)

4. 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.

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 customer turnover perspective.

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

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

Personal and Business Banking (PBB)

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

- Mortgage Lending – provides residential accommodation loans to individual customers.
- Instalment Sales and Finance Leases – comprises two areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.
- Card Products – provides card facilities to individuals and businesses.
- Transactional and Lending Products – transactions in products associated with the various points of contact channels such as 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 financial services to larger corporates, financial institutions and international counterparties. The products offered include:

- Global Markets – includes foreign exchange and debt securities and equities 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.
- Wealth Management and advisory services.

Major customers

The Group does not have any one major customer that contributes more than 10% of its revenues; neither was there a major customer whose deposits contributed more than 10% of the Group's total deposits as at 31 December 2017. However, the Group has one major customer whose deposits contribute 9.9% of total deposits as at December 2017 (2016: 5.8%). The interest expense paid to this customer is reported under the CIB segment.

NOTES (CONTINUED)

4. Operating Segments (continued)

Results by business units

Income statement

	Total KShs'000 2017	Total KShs'000 2016	CIB KShs'000 2017	CIB KShs'000 2016	PBB KShs'000 2017	PBB KShs'000 2016
Interest income	16,608,234	17,127,042	9,518,834	9,952,519	7,089,400	7,174,523
Interest expense	(5,963,953)	(6,266,995)	(3,800,224)	(4,396,983)	(2,163,728)	(1,870,012)
Net interest income	10,644,281	10,860,047	5,718,610	5,555,536	4,925,672	5,304,511
Impairment losses on loans and advances	(2,761,325)	(1,751,812)	(1,982,801)	(913,286)	(778,525)	(838,526)
Net interest income after loan impairment charges	7,882,956	9,108,235	3,735,809	4,642,250	4,147,147	4,465,985
Fees and commission income	4,348,008	3,242,504	2,030,401	1,514,147	2,314,631	1,728,357
Fees and commission expense	(401,215)	(337,539)	(121,364)	(155,852)	(276,876)	(181,687)
Net fees and commission income	3,946,793	2,904,965	1,909,037	1,358,295	2,037,755	1,546,670
Trading income	4,403,510	4,723,253	4,403,383	4,600,620	127	122,633
Net other operating income	69,805	29,093	67,902	16,364	1,903	12,729
Net trading and other income	4,473,315	4,752,346	4,471,285	4,616,984	2,030	135,362
Total income	16,303,064	16,765,546	10,116,131	10,617,529	6,186,932	6,148,017
Employee benefits expense	(5,735,195)	(5,440,584)	(2,482,980)	(2,431,981)	(3,252,215)	(3,008,603)
Depreciation and amortisation expense	(612,933)	(517,500)	(337,911)	(123,873)	(275,859)	(393,627)
Administrative expenses	(4,268,006)	(4,758,376)	(2,135,851)	(2,961,650)	(2,131,320)	(1,796,726)
Finance costs	(285,682)	-	(285,197)	-	(485)	-
Profit before income tax	5,401,248	6,049,086	4,874,192	5,100,025	527,053	949,061
Income tax expense	(1,091,754)	(1,630,497)	(896,418)	(1,253,511)	(195,336)	(376,986)
Profit for the year	4,309,494	4,418,589	3,977,774	3,846,514	331,717	572,075

NOTES (CONTINUED)

4. Operating Segments (continued)

Results by business units (continued)

Statement of financial position

	Total KShs'000 2017	Total KShs'000 2016	CIB KShs'000 2017	CIB KShs'000 2016	PBB KShs'000 2017	PBB KShs'000 2016
Assets						
Cash and balances with Central Bank of Kenya	8,044,783	8,621,228	4,494,062	7,871,308	3,550,720	749,920
Financial investments	76,244,871	52,927,188	76,244,871	51,190,442	-	1,736,746
Derivative assets	2,391,101	2,472,191	2,391,101	2,472,191	-	-
Loans and advances to banks	12,743,630	16,988,881	12,743,630	16,445,626	-	543,255
Loans and advances to customers	130,535,814	115,587,723	66,066,028	63,122,632	64,469,782	52,465,091
Other investments	17,500	-	17,500	-	-	-
Property, equipment and intangibles	3,663,272	3,397,362	2,038,746	1,339,229	1,624,527	2,058,133
Goodwill	9,349,759	9,349,759	8,882,271	9,349,759	467,488	-
Deferred income tax	2,444,394	1,407,363	1,613,706	905,178	830,688	502,185
Current income tax	83,026	113,547	87,614	104,111	(4,588)	9,436
Other assets	3,220,573	3,817,487	250,221	1,089,892	2,970,352	2,727,595
Total assets	248,738,719	214,682,729	174,829,751	153,890,368	73,908,968	60,792,361
Liabilities						
Customer deposits	154,660,772	119,328,219	84,638,490	62,232,770	70,022,282	57,095,449
Amounts due to other banks	38,707,135	36,506,824	38,707,135	36,517,365	-	(10,541)
Current income tax	-	1,402,810	-	803,853	-	598,957
Trading liabilities	362,630	3,867,718	362,630	3,867,718	-	-
Derivative liabilities	2,427,563	3,061,063	2,427,563	3,061,063	-	-
Borrowings	3,989,292	3,986,138	2,444,966	2,733,649	1,544,276	1,252,489
Other liabilities	5,596,773	6,389,083	3,403,215	4,937,001	2,193,616	1,452,082
Deferred tax liability	38,859	-	38,859	-	-	-
Total liabilities	205,783,032	174,541,855	132,022,858	114,153,419	73,760,174	60,388,436
		-				
Shareholders' equity	42,955,687	40,140,874	42,806,893	39,736,949	148,794	403,925
Total equity and liabilities	248,738,719	214,682,729	174,829,751	153,890,368	73,908,968	60,792,361

NOTES (CONTINUED)

4. Operating Segments (continued)

Results by geographical area

Statement of profit or loss

	Total KShs'000 2017	Total KShs'000 2016	**Kenya KShs'000 2017**	Kenya KShs'000 2016	**South Sudan KShs'000 2017**	South Sudan KShs'000 2016
Interest income	**16,608,233**	17,127,042	**16,607,079**	17,123,205	**1,154**	3,837
Interest expense	**(5,963,952)**	(6,266,995)	**(5,960,491)**	(6,266,993)	**(3,461)**	(2)
Net interest income	**10,644,281**	10,860,047	**10,646,588**	10,856,212	**(2,307)**	3,835
Impairment losses on loans and advances	**(2,761,325)**	(1,751,812)	**(3,009,644)**	(1,342,006)	**248,319**	(686,229)
Net interest income after loan impairment charges	**7,882,956**	9,108,235	**7,636,944**	9,514,206	**246,012**	(682,394)
Fees and commission income	**4,348,008**	3,242,504	**3,759,548**	2,851,357	**588,460**	391,147
Fees and commission expense	**(401,215)**	(337,539)	**(396,089)**	(313,385)	**(5,126)**	(24,154)
Net fees and commission income	**3,946,793**	2,904,965	**3,363,459**	2,537,972	**583,334**	366,993
Trading income	**4,403,510**	4,723,253	**3,943,475**	3,299,363	**460,035**	1,423,890
Net other operating income	**69,805**	29,093	**69,799**	29,093	**6**	-
Net trading and other income	**4,473,315**	4,752,346	**4,013,274**	3,328,456	**460,041**	1,423,890
Total income	**16,303,064**	16,765,546	**15,013,677**	15,380,634	**1,289,387**	1,108,489
Employee benefits expense	**(5,735,195)**	(5,440,584)	**(5,454,906)**	(5,110,751)	**(280,288)**	(329,833)
Depreciation and amortisation expense	**(612,933)**	(517,500)	**(606,974)**	(510,200)	**(5,959)**	(7,300)
Administrative expenses	**(4,268,006)**	(4,758,376)	**(3,876,440)**	(3,196,335)	**(391,566)**	(1,285,618)
Finance costs	**(285,682)**	-	**(58,678)**	-	**(227,004)**	-
Profit before income tax	**5,401,248**	6,049,086	**5,016,677**	6,563,348	**384,570**	(514,262)
Income tax expense	**(1,091,754)**	(1,630,497)	**(1,065,551)**	(1,618,470)	**(26,203)**	(12,027)
Profit for the year	**4,309,494**	4,418,589	**3,951,126**	4,944,878	**358,368**	(526,289)

NOTES (CONTINUED)

4. Operating Segments (continued)

Results by geographical area (continued)

Statement of financial position

	Total KShs'000 2017	Total KShs'000 2016	**Kenya KShs'000 2017**	Kenya KShs'000 2016	**South Sudan KShs'000 2017**	South Sudan KShs'000 2016
Assets						
Cash and balances with Central Bank of Kenya	**8,966,331**	8,621,228	**7,946,940**	6,962,668	**1,019,391**	1,658,560
Financial investments	**76,244,872**	52,927,189	**76,244,877**	52,920,801	**-**	6,387
Derivative assets	**2,391,101**	2,472,191	**2,391,055**	2,472,186	**46**	4
Loans and advances to banks	**19,741,699**	21,070,970	**8,522,015**	10,422,273	**11,219,684**	10,648,698
Loans and advances to customers	**130,646,725**	115,587,723	**130,642,006**	115,734,638	**4,719**	(146,915)
Investment in subsidiary	**17,500**	-	**17,500**	-	**-**	-
Property, equipment and intangibles	**3,663,273**	3,397,362	**3,600,449**	3,323,127	**62,824**	74,235
Goodwill	**9,349,759**	9,349,759	**9,349,759**	9,349,759	**-**	-
Deferred income tax asset	**2,444,394**	1,407,363	**2,444,394**	1,415,062	**-**	-
Current income tax	**83,025**	113,547	**63,661**	79,582	**19,364**	33,965
Other assets	**5,622,747**	5,995,766	**5,565,068**	3,649,740	**57,679**	2,346,026
Total assets	**259,171,430**	220,943,098	**246,787,723**	206,329,837	**12,383,707**	14,613,261
Liabilities						
Customer deposits	**154,660,772**	119,903,557	**146,647,348**	114,455,541	**8,013,424**	4,872,678
Amounts due to other banks	**46,759,668**	40,587,445	**45,941,810**	35,919,602	**817,858**	4,667,843
Current income tax	**-**	1,402,810	**-**	1,402,810	**-**	-
Trading liabilities	**362,630**	3,867,718	**362,630**	3,059,755	**-**	1,308
Derivative liabilities	**2,427,563**	3,061,063	**2,427,562**	3,867,718	**1**	-
Borrowings	**3,989,243**	3,986,138	**3,989,243**	3,986,138	**-**	-
Other liabilities	**7,977,140**	8,568,831	**5,247,823**	3,849,696	**2,729,317**	4,719,135
Deferred tax liability	**38,859**	-	**-**	-	**38,859**	-
Total liabilities	**216,215,875**	180,802,224	**204,616,416**	166,541,260	**11,599,459**	14,260,964
Shareholders' equity	**42,955,555**	40,140,874	**42,171,307**	39,788,577	**784,248**	352,297
Total equity and liabilities	**259,171,430**	220,943,098	**246,787,723**	206,329,837	**12,383,707**	14,613,261

NOTES (CONTINUED)

4. Operating Segments (continued)

Results by geographical area (continued)

Reconciliation of reportable assets and liabilities

	2017 KShs'000	2016 KShs'000
Assets		
Total assets for reportable segments	259,171,430	220,943,098
Elimination of inter-branch balances with South Sudan	(10,432,711)	(6,260,369)
Entity's assets	**248,738,719**	214,682,729
Liabilities		
Total liabilities for reportable segments	259,171,430	220,943,098
Elimination of inter-branch balances with South Sudan	(10,432,711)	(6,260,369)
Entity's liabilities	**248,738,719**	214,682,729

5. Financial risk management

Group risk management framework and governance structures

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

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

This note presents information about the 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 in the operating subsidiaries, 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 and the respective subsidiary 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.

5. Financial risk management (continued)

Group risk management framework and governance structures (continued)

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 Audit Committee is assisted in this function 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 positions.

a) Capital management

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

- To comply with the capital requirements set by the regulator, Capital Markets Authority in its relevant jurisdictions of operations;
- 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.
- To maintain a strong capital base to support the development of its business; and
- To comply, at the operating companies level, with capital requirements set by respective regulators such as the Central Bank of Kenya and Bank of South Sudan.

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.

Total capital is calculated as equity plus net debt.

	2017 KShs'000	2016 KShs'000
Total borrowings	-	-
Total equity	18,241,771	18,234,751
Gearing ratio	-	-

The Board of Directors at the subsidiary companies are responsible for monitoring and ensuring compliance with the regulatory framework as established by the regulating bodies, namely Central Bank of Kenya, Capital Markets Authorities in Kenya, Rwanda and Uganda, Bank of South Sudan and the Nairobi Securities Exchange. This section presents information about the Group's management of capital in the main operating divisions.

NOTES (CONTINUED)

5. Financial risk management (continued)

a) Capital management (continued)

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 regulator, Capital Markets Authority;
- 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.
- To maintain a strong capital base to support the development of its business; and
- To comply, at the operating companies level, with capital requirements set by respective regulators such as the Central Bank of Kenya and Bank of South Sudan.

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

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

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

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

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

- A minimum level of regulatory capital of KShs 1 billion as at 31 December 2017;
- A core capital (tier 1) of not less than 10.5 %(2016: 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% (2016: 8%)of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 14.5% (2016: 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)

5. Financial risk management (continued)

a) Capital management (continued)

Capital management - Group (continued)

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

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

	2017 KShs'000	2016 KShs'000
Tier 1 capital (Core capital)		
Share capital	**3,411,549**	3,411,549
Share premium	**3,444,639**	3,444,639
Foreign currency translation reserve	**(795,779)**	(869,568)
Retained earnings	**24,908,793**	22,604,156
Total Tier 1 capital (Core capital)	**30,969,202**	28,590,776
Tier 2 capital		
Regulatory credit risk reserve	**73**	65,597
Qualifying subordinate liabilities	**3,124,907**	3,919,701
Total Tier 2 capital	**3,124,980**	3,985,298
Total capital (Tier 1 + Tier 2)	**34,094,182**	32,576,074
Risk - weighted assets		
Operational risk	**31,767,770**	30,290,338
Market risk	**15,158,985**	14,483,350
Credit risk on-statement of financial position	**140,701,569**	120,422,923
Credit risk off-statement of financial position	**20,000,305**	14,554,692
Total risk - weighted assets	**207,628,629**	179,751,303
Capital adequacy ratios		
Core capital / total deposit liabilities	**19.7%**	23.10%
Minimum statutory ratio	**8.0%**	8.00%
Core capital / total risk - weighted assets	**15.0%**	15.90%
Minimum statutory ratio	**10.5%**	10.50%
Total capital / total risk - weighted assets	**16.5%**	18.10%
Minimum statutory ratio	**14.5%**	14.50%

All other subsidiaries were compliant with capital adequacy requirements within their respective jurisdictions throughout the year.

NOTES (CONTINUED)

5. Financial risk management (continued)

b) Credit risk

Credit risk is the risk of loss arising out of failure of customer 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.

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 Board Credit Committee (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.

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 customers 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
- 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.

Management reporting

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

- Monthly BCRC Report
- Quarterly Board Audit Report

5. Financial risk management (continued)

b) Credit risk (continued)

General approach to managing credit risk (continued)

- Quarterly Board Risk Report
- Regulatory returns
- Half-year results
- Annual financial statements

These reports are distributed to Standard Bank Group controlling divisions, regulators and are available for inspection by authorised personnel.

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 annually using the most recent internal data.

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

(i) the 'probability of default' by the customer 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

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 bank distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making and in managing credit risk exposures.

Loss given default

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

Exposure at default

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

Debt securities

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

NOTES (CONTINUED)

5. Financial risk management (continued)

b) Credit risk (continued)

General approach to managing credit risk (continued)

Relationship between the bank master rating and external ratings

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

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- 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:

i. 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
- Personal and Business Banking

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

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

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 customer is essential in properly assessing the credit risk, both initially and on an on-going basis, of each counterparty with whom it deals.

To this end CIB uses software developed by third party vendors, which is widely used by the banking industry globally in its credit management process. Expected default frequencies are an important tool in the formal credit assessment process of both new and existing business, and 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.

ii) 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.

iii) 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 Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

iv) 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.

NOTES (CONTINUED)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

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

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

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

Valuation of collateral

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

Collateral includes:

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

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

The Group does not hold collateral which it is permitted to use in the absence of default by the customers.

In the retail portfolio, 89% (2016: 87%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures above 50% collateral coverage category is 100% (2016: 100%). Of the Group's total exposure, 38% (2016: 38%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, Group counterparties and sovereign entities.

NOTES (CONTINUED)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

v) Collateral

31 December 2017	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Collateral coverage - Total: Greater than 0% to 50%	Collateral coverage - Total: Greater than 50% to 100%	Collateral coverage - Total: Greater than 100%
Asset class								
Corporate	112,918,860	3,156,071	109,762,789	-	109,762,789	-	109,762,789	-
Sovereign	81,938,220	81,938,220	-	-	-	-	-	-
Bank	12,743,626	12,743,626	-	-	-	-	-	-
Retail	71,401,695	7,597,906	63,803,789	-	63,803,789	-	63,803,789	-
-Retail mortgage	25,411,817	-	25,411,817	-	25,411,817	-	25,411,817	-
-Other retail	45,989,878	7,597,906	8,391,972	-	38,391,972	-	38,391,972	-
Total	279,002,401	105,435,823	173,566,578	-	173,566,578	-	173,566,578	-
Add: Financial assets not exposed to credit risk	4,807,042							
Add: Coins and Bank notes	1,586,469							
Add: Other financial assets	3,220,573							
Less: Impairments for loans and advances	(5,264,006)							
Less: Unrecognised off balance sheet items	(45,364,669)							
Total exposure	233,180,768							
Reconciliation to balance sheet								
Cash and balances with central banks	8,044,783							
Derivative assets	2,391,101							
Financial investments	71,329,764							
Pledged assets - available-for-sale	4,915,107							
Other financial assets	3,220,573							
Net loans and advances	143,279,440							
Total on – balance sheet exposure	233,180,768							

NOTES (CONTINUED)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

v) Collateral (continued)

31 December 2016	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Collateral coverage - Total: Greater than 0% to 50%	Collateral coverage - Total: Greater than 50% to 100%	Collateral coverage - Total: Greater than 100%
Asset class								
Corporate	92,687,711	2,615,689	90,072,022	-	90,072,022	-	90,072,022	-
Sovereign	64,640,257	64,640,257	-	-	-	-	-	-
Bank	12,575,544	12,575,544	-	-	-	-	-	-
Retail	59,287,265	7,726,870	51,560,395	-	51,560,395	-	51,560,395	-
-Retail mortgage	15,349,065	-	15,349,065	-	15,349,065	-	15,349,065	-
-Other retail	43,938,200	7,726,870	36,211,330	-	36,211,330	-	36,211,330	-
Total	229,190,777	87,558,360	141,632,417	-	141,632,417	-	141,632,417	-
Add: Financial assets not exposed to credit risk	5,389,128							
Add: Coins and Bank notes	1,571,641							
Add: Other financial assets	3,817,487							
Less: Impairments for loans and advances	(3,591,243)							
Less: Unrecognised off balance sheet items	(30,573,964)							
Total exposure	200,414,698							
Reconciliation to balance sheet								
Cash and balances with central banks	8,621,228							
Derivative assets	2,472,191							
Financial assets - available-for-sale	50,032,732							
Financial assets - held for trading	-							
Pledged assets - available-for-sale	2,894,456							
Other financial assets	3,817,487							
Net loans and advances	132,576,604							
Total on – balance sheet exposure	200,414,698							

NOTES (CONTINUED)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

v) Collateral (continued)

Repossessed Collateral

Assets repossessed as at the end of the year comprise saloon vehicles, prime movers and trailers, which had been financed by the 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:

	2017 KShs'000	2016 KShs'000
Nature of assets		
Residential property	**19,650**	33,900
Other	**265,976**	246,892
	285,626	280,792

It is the Group's policy to dispose off repossessed 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 repossessed properties for business use.

vi) 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 table below shows the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated, by class;

	2017 KShs'000	2016 KShs'000
Personal and Business Banking		
Instalment sales and finance leases	**61,380**	535,217
Other loans and advances	**21,957**	7,000,550
Corporate and Investment Banking		
	-	-
	83,337	7,535,767

NOTES (CONTINUED)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

vii) Impairment and provisioning policy

The internal and external rating systems described above focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment (see accounting policy 2.h (iv)) Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is lower than the amount determined from the expected loss model used for internal operational management and banking regulation purposes. The difference between the two methodologies is captured in the statutory reserve in equity (Note 40).

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

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

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

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

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

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

Criteria for classification of loans and advances

Performing loans

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

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

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

vii) Impairment and provisioning policy (continued)

Non-performing loans

Non-performing loans are those loans for which:

- the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition, or
- instalments are due and unpaid for 90 days or more.
- Non-performing specifically impaired loans: are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows.

Specifically impaired loans are further analysed into the following categories:

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

viii) Credit Quality

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 5.b (v). The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both the loan and advances portfolio and debt securities based on the following:

- 61% of the total maximum exposure is derived from loans and advances to banks and customers (2016: 66%); 33% represents investments in debt securities (2016: 26%)
- 86% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2016: 86%);
- 87% of the loans and advances portfolio are considered to be neither past due nor impaired (2016: 96%); and
- 95% of all the debt securities, which the Group has invested in, are issued by the Central Bank of Kenya (2016: 100%).

NOTES (CONTINUED)

5. Financial risk management (continued)

b) Credit risk (continued)

viii) Credit quality (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 2017	Total loans and advances to customers KShs'000 2017	Balance sheet impairments for performing loans KShs'000 2017	Performing loans: Neither past due nor specifically impaired: Normal monitoring KShs'000 2017	Performing loans: Neither past due nor specifically impaired: Close monitoring KShs'000 2017	Past due but not specifically impaired: Early arrears KShs'000 2017	Past due but not specifically impaired: Non-performing KShs'000 2017	Non-performing loans (NPL): Specifically impaired loans: NPL NET OF IIS (interest in suspense): Sub-standard KShs'000 2017	Doubtful KShs'000 2017	Loss KShs'000 2017	Total KShs'000 2017	Securities and expected recoveries on specifically impaired loans KShs'000 2017	Net after securities and expected recoveries on specifically impaired loans KShs'000 2017	Balance sheet impairments for non-performing specifically impaired loans KShs'000 2017	Gross specific impairment coverage %	Total non-performing loans KShs'000 2017	Non-performing loans %	Interest in Suspense KShs'000 2017
	N=A+B+C+L		A	B	C	D	E	F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
Personal and Business Banking	65, 639,943	378,864	48,122,211	7,168,528	6,832,168	-	1,171,006	2,077,484	268,547	3,517,037	1,884,756	1,632,281	1,632,281	46%	3,517,037	5%	503,267
- Mortgage lending	25,411,817	122,694	18,964,809	2,818,329	2,714,021	-	155,217	757,502	1,938	914,658	663,910	250,748	250,748	27%	914,658	4%	208,988
- Instalment sales and finance leases	13,149,039	89,734	9,064,565	356,683	2,408,572	-	422,076	873,041	24,102	1,319,219	591,806	727,413	727,413	55%	1,319,219	10%	149,453
- Card debtors	575,242	7,733	504,102	-	48,033	-	-	-	23,108	23,108	4,901	18,206	18,206	79%	23,108	4%	-
- Other loans and advances	26,503,845	158,703	19,588,735	3,993,516	1,661,542	-	593,713	446,940	219,400	1,260,053	624,139	635,914	635,914	50%	1,260,053	5%	144,827
Corporate and Investment Banking	70,159,876	1,641,540	56,186,738	4,408,933	4,363,318	-	-	5,182,008	28,879	5,210,887	3,599,567	1,611,320	1,611,320	31%	5,210,887	7%	1,160,705
- Corporate lending	70,159,876	1,641,540	56,186,738	4,408,933	4,363,318	-	-	5,182,008	28,879	5,210,887	3,599,567	1,611,320	1,611,320	31%	5,210,887	7%	1,160,705
Gross loans and advances to customers	135,799,819	2,020,404	104,308,949	11,577,460	11,185,486	-	1,171,006	7,259,492	297,426	8,727,924	5,484,323	3,243,601	3,243,601	37%	8,727,924	6%	1,663,972
Percentage of total book (%)	100.0%	1.49%	76.81%	8.53%	8.24%	0.0%	0.86%	5.35%	0.22%	6.43%	4.04%	2.39%	2.39%		6.43%		1.23%
Less:																	
impairment for performing loans and advances	(2,020,404)																
impairment for non-performing loans and advances	(3,243,601)																
Net loans and advances to customers	130,535,814																

NOTES (CONTINUED)

5. Financial risk management (continued)

b) Credit risk (continued)

viii) Credit quality (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 2016			Performing loans			Non-performing loans											
			Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans										
							NPL NET OF IIS										
	Total loans and advances to customers KShs'000 2016	Balance sheet impairments for performing loans KShs'000 2016	Normal monitoring KShs'000 2016	Close monitoring KShs'000 2016	Early arrears KShs'000 2016	Non-performing KShs'000 2016	Sub-standard KShs'000 2016	Doubtful KShs'000 2016	Loss KShs'000 2016	Total KShs'000 2016	Securities and expected recoveries on specifically impaired loans KShs'000 2016	Net after securities and expected recoveries on specifically impaired loans KShs'000 2016	Balance sheet impairments for non-performing specifically impaired loans KShs'000 2016	Gross specific impairment coverage %	Total non-performing loans KShs'000 2016	Non-performing loans %	Interest in Suspense KShs'000 2016
	N=A+B+C+L		A	B	C	D	E	F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
Personal and Business Banking	54,412,989	557,425	39,123,400	6,804,408	5,289,665	-	2,152,939	577,497	465,081	3,195,516	1,819,197	1,376,319	1,376,320	43%	3,195,516	6%	394,450
- Mortgage lending	18,109,188	91,239	13,191,151	2,727,613	1,539,175		650,992	-	256	651,248	528,532	122,716	122,716	19%	651,248	4%	159,772
- Instalment sales and finance leases	12,338,712	181,505	8,547,258	391,217	2,414,834		445,331	539,097	974	985,402	452,178	533,224	533,224	54%	985,402	8%	115,737
- Card debtors	433,312	10,969	374,556	-	43,337		-	-	15,419	15,419	7,907	7,512	7,512	49%	15,419	4%	-
- Other loans and advances	23,531,780	273,712	17,010,434	3,685,578	1,292,319		1,056,616	38,400	448,432	1,543,448	830,580	712,868	712,868	46%	1,543,448	7%	118,941
Corporate and Investment Banking	64,307,402	921,752	54,344,347	-	7,294,814	57,866	2,602,921	7,454	-	2,610,375	2,707,971	(97,596)	277,172	11%	2,668,241	4%	783,115
- Corporate lending	64,307,402	921,752	54,344,347	-	7,294,814	57,866	2,602,921	7,454	-	2,610,375	2,707,971	(97,596)	277,172	11%	2,668,241	4%	783,115
Gross loans and advances to customers	118,720,391	1,479,177	93,467,747	6,804,408	12,584,479	57,866	4,755,860	584,951	465,081	5,805,891	4,527,168	1,278,723	1,653,492	28%	5,863,757	5%	1,177,565
Percentage of total book (%)	100.00%	1.25%	78.73%	5.73%	10.60%	0.05%	4.01%	0.49%	0.39%	4.89%	3.81%	1.08%	1.39%		4.94%		0.99%
Less:																	
Balance sheet impairment for performing loans and advances	(1,479,177)																
Balance sheet impairment for non-performing loans and advances	(1,653,491)																
Net loans and advances to customers	115,587,723																

NOTES (CONTINUED)

5. Financial risk management (continued)

b) Credit risk (continued)

viii) Credit quality (continued)

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

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

	Performing (Early arrears)			Non - performing		
31 December 2017	**1 to 29 days KShs'000**	**30 to 59 days KShs'000**	**60 to 89 days KShs'000**	**90 to 180 days KShs'000**	**More than 180 days KShs'000**	**Total KShs'000**
Personal and Business Banking	**4,733,200**	**1,482,944**	**616,024**	**-**	**-**	**6,832,168**
Mortgage lending	**1,745,427**	**705,774**	**262,820**	**-**	**-**	**2,714,021**
Instalment sales and finance leases	**1,756,159**	**508,797**	**143,616**	**-**	**-**	**2,408,572**
Other loans and advances	**1,231,614**	**268,373**	**209,587**	**-**	**-**	**1,709,575**
Corporate and Investment Banking	**3,328,461**	**539,013**	**485,844**	**-**	**-**	**4,353,318**
Corporate lending	**3,328,461**	**539,013**	**485,844**	**-**	**-**	**4,353,318**
Total recognised financial instruments	**8,061,661**	**2,021,957**	**1,101,868**	**-**	**-**	**11,185,486**

31 December 2016						
Personal and Business Banking	3,435,980	1,342,009	511,677	-	-	5,289,666
Mortgage lending	975,673	372,007	191,496	-	-	1,539,176
Instalment sales and finance leases	1,488,613	737,579	188,642	-	-	2,414,834
Other loans and advances	971,694	232,423	131,539		-	1,335,656
						-
Corporate and Investment Banking	5,882,040	5	1,412,768	-	57,866	7,352,679
Corporate lending	5,882,040	5	1,412,768	-	57,866	7,352,679
Total recognised financial instruments	9,318,020	1,342,014	1,924,445	-	57,866	12,642,345

NOTES (CONTINUED)

5. Financial risk management (continued)

c) 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.

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.

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.

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.

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.

NOTES (CONTINUED)

5. Financial risk management (continued)

c) Market risk (continued)

Approach to managing market risk in the trading book

The Group's policy is that all trading activities are undertaken within the Group's trading operations. The market risk functions are independent of trading operations and accountable to ALCO. All VaR and stressed Value at Risk (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.

(i) 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.

(ii) 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.

(iii) 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 2017 did not exceed the maximum tolerable losses as represented by the Bank's stress scenario limits.

NOTES (CONTINUED)

5. Financial risk management (continued)

c) Market risk (continued)

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

(iv) Back-testing

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

(v) 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.

(vi) Foreign exchange risk

Definition

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

Approach to managing foreign currency risk

The 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.

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.

NOTES (CONTINUED)

5. Financial risk management (continued)

c) Market risk (continued)

(vi) Foreign exchange risk (continued)

The table below summarises the Group's exposure to foreign exchange risk at 31 December 2017.
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 2017	USD	GBP	EUR	Others	Total
Assets					
Cash and bank balances	14,703	427	661	2,780	18,571
Loans and advances	59,601	391	5,649	1	65,641
Financial investments	2,141	-	-	1	2,142
Balances due from Group Companies	2,581	-	-	210	2,791
Other foreign currency assets	2,851	22	397	974	4,244
Total financial assets	**81,877**	**840**	**6,707**	**3,966**	**93,389**
Liabilities					
Amounts due to banking institutions abroad	29,782	8	186	616	30,592
Deposits	55,221	1,851	6,327	1,684	65,083
Loans and advances	-	-	-	-	-
Balances due to Group Companies	9,911	-	1,637	-	11,548
Other foreign currency liabilities	5,182	8	137	1,260	6,587
Total financial liabilities	**100,096**	**1,867**	**8,287**	**3,560**	**113,810**
Net on balance sheet financial position	(18,219)	(1,027)	(1,580)	406	(20,420)
Off balance sheet net notional position	20,414	1,036	2,098	(720)	22,828
Overall net position	**2,195**	**9**	**518**	**(314)**	**2,408**

At 31 December 2016	USD	GBP	EUR	Others	Total
Assets					
Cash and bank balances	11,441	1,233	535	560	13,769
Loans and advances	59,669	256	4,918	243	65,086
Financial investments	-	-	-	6	6
Other assets	3,178	22	422	2,574	6,196
Total financial assets	74,288	1,511	5,875	3,383	85,057
Liabilities					
Deposits from banks	33,148	543	57	323	34,071
Deposits from customers	45,292	2,636	3,318	822	52,068
Other liabilities and accrued expenses	8,618	4	546	2,597	11,765
Total financial liabilities	87,058	3,183	3,921	3,742	97,904
Net on balance sheet financial position	(12,770)	(1,672)	(1,954)	(359)	(12,847)
Off balance sheet net notional position	15,086	1,683	1,904	125	14,990
Overall net position	2,136	11	50	(234)	2,143

5. Financial risk management (continued)

c) Market risk (continued)

(vi) Foreign exchange risk (continued)

The table below indicates the extent to which the Group was exposed to currency risk as at 31 December 2017 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 the statement of profit and loss.

Year ended 31 December 2017 Currency	2017 Increase in currency rate in %	2017 Effect on profit before tax KShs'000	2017 Effect on equity KShs'000	2017 Decrease in currency rate in %	2017 Effect on profit before tax KShs'000	2017 Effect on equity KShs'000
USD	0.82%	17,991	12,593	0.79%	17,333	12,133
GBP	2.92%	325	228	2.91%	324	227
EUR	1.93%	11,989	8,392	2.62%	16,275	11,393

Year ended 31 December 2016 Currency	2016 Increase in currency rate in %	2016 Effect on profit before tax KShs'000	2016 Effect on equity KShs'000	2016 Decrease in currency rate in %	2016 Effect on profit before tax KShs'000	2016 Effect on equity KShs'000
USD	1.05%	24,323	17,026	1.05%	(33,357)	(23,350)
GBP	4.09%	467	327	1.89%	(409)	(284)
EUR	3.26%	1,649	1,155	2.76%	(1,665)	(1,165)

d) Interest rate risk

Interest rate risk in the Banking book (IRRBB)

Definition

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

IRRBB is further divided into the following sub risk types:

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

NOTES (CONTINUED)

5. Financial risk management (continued)

(vii) Interest rate 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) and the economic value of equity.

The Group's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the bank operates. The Group'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 Group'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

	2017 **Increase in basis points**	**2017** **Sensitivity of net interest income**	**2017** **Sensitivity of other comprehensive income**	**2017** **Decrease in basis points**	**2017** **Sensitivity of net interest income**	**2017** **Sensitivity of other comprehensive income**
KShs	**350**	**948,553**	**(1,153,661)**	**300**	**(1,345,202)**	**988,852**
Others*(USD)	**100**	**3,735**	**-**	**100**	**(2,751)**	**-**

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

*This is any other currencies held by the Group not denominated in KShs

NOTES (CONTINUED)

5. Financial risk management (continued)

e) 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.

Liquidity risk – Company

A summary of liquidity risk showing matching of financial assets and liabilities at Stanbic Holdings Plc (Company only) is shown in the following table.

31 December 2017	Up to 1 month KShs'000	1 – 6 months KShs'000	6 – 12 months KShs'000	Total KShs'000
Cash and bank balances	111,803	-	-	111,803
Total assets	111,803	-	-	111,803
Other liabilities and accrued expenses	(105,801)	-	-	(105,801)
Total liabilities	(105,801)	-	-	(105,801)
Net liquidity gap	6,002	-	-	6,002

Liquidity risk management – Group

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 Group'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 Group's liquidity risk management framework differentiates between:

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

Governance committees

The primary governance committee overseeing this risk is the 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.

NOTES (CONTINUED)

5. Financial risk management (continued)

e) Liquidity risk (continued)

Liquidity risk management – Group (continued)

Approach to managing liquidity risk (continued)

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 funding strategy.

d) Preserving a diversified funding base;

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

e) Undertaking regular liquidity stress testing;

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

f) Maintaining adequate liquidity contingency plans or liquidity buffer;

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

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. The Group manages its liquidity risk at the individual subsidiary level. The Group's main subsidiary, Stanbic Bank Kenya Limited's, liquidity ratios at the reporting date and during the reporting year were as follows:

	2017	2016
At 31 December	**52.3%**	54.6%
Average for the year	**56.0%**	67.5%
Maximum for the year	**61.4%**	74.4%
Minimum for the year	**51.4%**	54.6%
Statutory minimum requirement	**20%**	20%

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 Groups 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)

5. Financial risk management (continued)

e) Liquidity risk (continued)

Liquidity risk management – Group (continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central Bank balances, items in the course of collection; loans and advances to Groups; and loans and advances to customers. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

Maturity analysis for financial assets and financial liabilities

	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
	2017	2017	2017	2017	2017	2017	2017	2017
	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	8,044,783	-	-	-	-	-	-	-
Financial assets held for trading	29,806,020	47,181,804	-	1,020,222	13,403,902	12,863,743	17,796,848	2,097,089
Pledged assets – available –for-sale	4,915,107	5,521,226	-	-	626,913	2,626,913	2,267,400	-
Financial assets-available-for-sale	36,079,567	43,695,915	-	2,000,000	21,538,319	4,785,507	5,148,579	10,223,510
Financial assets- held-to-maturity	5,444,178	5,590,371	-	-	263,932	263,932	2,093,757	2,968,750
Loans and advances to banks	12,743,630	12,874,511	8,538,628	4,335,883	-	-	-	-
Loans and advances to customers	130,535,814	166,750,036	23,414,144	2,728,564	14,218,061	16,371,383	95,065,830	14,952,054
Other assets and prepayments	3,220,573	3,220,573	3,220,573	-	-	-	-	-
	230,789,672	284,834,436	35,173,345	10,084,669	50,051,127	36,911,478	122,372,414	30,241,403
Derivative assets:	2,391,101							
- Inflows	-	4,048,589	-	401,116	1,321,742	890,084	922,757	512,890
- Outflows	-	(164,879)	-	(861)	(18,695)	(62,916)	(59,219)	(23,188)
	2,391,101	3,883,710	-	400,255	1,303,047	827,168	863,538	489,702
Non- derivative financial liabilities								
Amounts due to other banks	(38,707,135)	(40,314,245)	(3,534,670)	(4,517,078)	(7,480,047)	(6,506,198)	(12,471,123)	(5,805,129)
Customer deposits	(154,660,772)	(154,970,529)	(141,704,193)	(4,039,695)	(6,128,566)	(2,638,956)	(447,685)	(11,434)
Trading liabilities	(362,630)	(381,672)	-	(159,844)	(221,828)	-	-	-
Borrowings	(3,989,243)	(6,072,000)	-	-	(259,000)	(259,000)	(5,554,000)	-
Other liabilities	(5,596,830)	(5,596,830)	(5,596,830)	-	-	-	-	-
	(203,316,610)	(207,335,276)	(150,835,693)	(8,716,617)	(14,089,441)	(9,404,154)	(18,472,808)	(5,816,563)
Derivative liabilities:								
- Inflows	(2,427,563)	70,421	-	1,629	3,865	4,638	37,101	23,188
- Outflows	-	(3,179,730)	-	(179,335)	(860,151)	(785,378)	(841,976)	(512,890)
	(2,427,563)	(3,109,309)	-	(177,706)	(856,286)	(780,740)	(804,875)	(489,702)

NOTES (CONTINUED)

5. Financial risk management (continued)

e) Liquidity risk (continued)

Liquidity risk management – Group (continued)

Maturity analysis for financial assets and financial liabilities

	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
	2016	2016	2016	2016	2016	2016	2016	2016
	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	8,621,228	8,621,228	8,082,137	539,091	-	-	-	-
Financial assets – held for trading	15,995,195	16,272,449	-	2,500,000	13,588,724	8,724	174,042	959
Pledged assets – available -for-sale	2,894,456	3,269,088	-	-	1,583,330	338,818	1,346,940	-
Financial assets – available-for-sale	34,037,537	40,919,356	-	500,000	23,534,302	5,699,289	2,992,491	8,193,275
Loans and advances to banks	16,884,257	17,383,148	6,929,429	10,453,720	-	-	-	-
Loans and advances to customers	115,587,723	149,678,289	18,010,452	2,492,451	12,895,566	14,954,705	86,822,797	14,502,319
Other assets and prepayments	3,811,770	3,811,770	3,811,770	-	-	-	-	-
	197,832,166	239,955,328	36,833,788	16,485,262	51,601,922	21,001,536	91,336,270	22,696,553
Derivative assets:	2,472,190	-	-	-	-	-	-	-
- Inflows	-	15,483,070	-	4,075,216	4,612,182	5,778,592	1,015,748	1,333
- Outflows	-	(223,489)	-	(27,998)	(16,197)	(48,625)	(130,619)	(50)
	2,472,190	15,259,581	-	4,047,218	4,595,985	5,729,967	885,129	1,283
Non- derivative financial liabilities								
Deposits from banks	(36,506,824)	(37,551,425)	(545,947)	(1,912,698)	(906,905)	(10,974,540)	(21,995,087)	(1,216,248)
Deposits from customers	(119,903,557)	(119,707,937)	(100,743,959)	(7,692,769)	(7,539,296)	(3,548,683)	(183,231)	-
Trading liabilities	(3,867,718)	(3,804,511)	-	(1,762,520)	(2,041,991)	-	-	-
Borrowings	(3,986,138)	(6,590,000)	-	-	(259,000)	(259,000)	(6,072,000)	-
Other liabilities and accrued expenses	(5,939,718)	(5,939,718)	(5,939,718)	-	-	-	-	-
	(170,203,955)	(173,593,591)	(107,229,624)	(11,367,987)	(10,747,192)	(14,782,223)	(28,250,318)	(1,216,248)
Derivative liabilities:	3,061,063	-	-	-	-	-	-	-
- Inflows	-	66,765	-	15,010	47,022	565	2,834	1,333
- Outflows	-	(2,728,363)	-	(670,052)	(1,502,552)	(405,428)	(150,281)	(50)
	3,061,063	(2,661,598)	-	(655,042)	(1,455,530)	(404,863)	(147,447)	1,283

NOTES (CONTINUED)

5. Financial risk management (continued)

e) Liquidity risk (continued)

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

Type of financial instrument	Basis on which amounts are compiled
None-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 banks.

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

The following table sets out the impact of offset, as well as financial assets and financial liabilities that are subject to enforceable master netting arrangement or similar agreement, irrespective of whether they have been offset in accordance with IAS 32, as required by IFRS 7 (R) 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

	2017 Gross amount of recognised financial assets KShs'000	2017 Gross amounts of recognised financial liabilities offset in statement of financial position KShs'000	2017 Net amounts of financial assets presented in the statement of financial position KShs'000	2017 Financial instruments, financial collateral and cash collateral received KShs'000	2017 Net amount KShs'000
Assets					
Loans and advances to banks and customers	148,527,602	-	148,527,602	1,520,838	147,006,764
Derivative assets	2,391,101	-	2,391,101	-	2,391,101
	150,918,703	-	150,918,703	1,520,838	149,397,865

	Gross amount of recognised financial liabilities KShs'000	Gross amounts of recognised financial assets offset in statement of financial position KShs'000	Net amounts of financial assets presented in the statement of financial position KShs'000	Financial instruments, financial collateral and cash collateral pledged KShs'000	Net amount KShs'000
Liabilities					
Deposits	193,367,907	-	193,367,907	1,520,838	191,847,069
Derivative liabilities	2,427,563	-	2,427,563	-	2,427,563
	195,795,470	-	195,795,470	1,520,838	194,274,632

NOTES (CONTINUED)

5. Financial risk management (continued)

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

	2016 Gross amount of recognised financial assets	2016 Gross amounts of recognised financial liabilities offset in statement of financial position	2016 Net amounts of financial assets presented in the statement of financial position	2016 Financial instruments, financial collateral and cash collateral received	2016 Net amount
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets					
Loans and advances to banks and customers	132,576,604	-	132,576,604	2,583,216	129,993,388
Derivative assets	2,472,190	-	2,472,190	-	2,472,190
	135,048,794	-	135,048,794	2,583,216	132,465,578

	Gross amount of recognised financial liabilities	Gross amounts of recognised financial assets offset in statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments, financial collateral and cash collateral pledged	Net amount
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Liabilities					
Deposits	119,328,219	-	119,328,219	-	119,328,219
Derivative liabilities	3,061,063	-	3,061,063	-	3,061,063
	122,389,282	-	122,389,282	-	122,389,282

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 Bankruptcy of the Group 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	Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banking Act requirements.
Deposits and current accounts	Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Groups 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.

6. Interest income

	Group		Company	
	2017 KShs'000	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Interest on loans, advances and short-term funds	**12,061,634**	12,097,303	**-**	-
Interest on government securities available-for-sale	**4,285,211**	4,691,764	**-**	-
Placements and other bank balances	**261,389**	337,975	**4,901**	22,451
	16,608,234	17,127,042	**4,901**	22,451

Interest income excludes interest on impaired loans and advances which have been recognised as interest in suspense on the statement of financial position (see Note 23(e)).

7. Interest expense

	Group		Company	
	2017 KShs'000	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Current accounts	**718,978**	160,665	**-**	-
Savings and term deposit accounts	**2,984,876**	3,538,638	**-**	-
Deposits and placements from other banks	**1,738,995**	1,882,643	**-**	-
Interest on borrowed funds	**521,104**	685,049	**-**	-
	5,963,953	6,266,995	**-**	-

8. Fees and commission revenue

Account transaction fees	**1,347,361**	1,089,832	**-**	-
Knowledge based fees and commission	**1,177,103**	760,128	**-**	-
Electronic banking fees	**372,899**	289,805	**-**	-
Foreign service fees	**510,838**	325,880	**-**	-
Documentation and administration fees	**304,349**	299,101	**-**	-
Brokerage commission	**251,537**	223,548	**-**	-
Other	**383,921**	254,210	**-**	-
	4,348,008	3,242,504	**-**	-

The knowledge based fees are fees earned on Investment banking and custodial services. The commission relates to commission earned on guarantees.

Other fee and commission revenue includes insurance agency commission and debit card commission.

NOTES (CONTINUED)

9. Fees and commission expense

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Card based commission	104,222	60,728	-	-
Knowledge based fees and commission	69,010	111,358	-	-
Other bank - related fees and commission	227,983	165,453	-	-
	401,215	337,539	-	-

10. Trading revenue

Foreign exchange	3,827,033	3,361,113	-	-
Other Income-financial assets-held for trading	-	351,249	-	-
Fixed Income-financial assets-held for trading	576,477	1,010,891		-
	4,403,510	4,723,253	-	-

11. Other income

Dividend income	400	-	1,900,000	2,834,737
Interest recovered from receivables previously provided for	46,240	-	-	-
Other income	23,165	29,093	274	11,329
	69,805	29,093	1,900,274	2,846,066

Other income relates to income not earned in the normal course of business.

12. Employee benefits expense

Salaries and wages	5,346,064	5,076,130	-	-
Retirement benefit costs	389,131	364,454	-	-
	5,735,195	5,440,584	-	-
Included in retirement benefit costs are;				
Defined contribution scheme	385,986	360,708	-	-
National Social Security Fund	3,145	3,746	-	-
	389,131	364,454	-	-

NOTES (CONTINUED)

12. Employee benefits expense (continued)

	Group		Company	
	2017	2016	**2017**	2016
Average employee number for the year				
Management	**274**	308	**-**	-
Supervisory	**492**	461	**-**	-
Clerical	**261**	282	**-**	-
Other categories	**44**	58	**-**	-
Total	**1,071**	1,109	**-**	**-**

13 Breakdown of expenses by nature

		Group		Company	
	Notes	**2017 KShs'000**	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Profit before tax has been arrived at after charging:					
Employees benefit	12	**5,735,195**	5,440,584	**-**	-
Audit fees		**23,006**	18,400	**1,884**	1,805
Directors' fees		**35,307**	35,937	**7,165**	8,800
Depreciation of property and equipment	26	**377,316**	346,980	**-**	-
Amortisation of prepaid operating lease	27	**2,954**	2,952	**-**	-
Amortisation of intangible assets	28	**232,663**	167,568	**-**	-
Impairment of property and equipment		**-**	76,853	**-**	-

14 Finance costs

Bank charges	**99,181**	63,806	**524**	456
Loss in monetary value (Note 3 (e))	**186,501**	1,150,687	**-**	-
	285,682	1,214,493	**524**	456

15 Income tax expense

Current income tax	**2,096,245**	2,640,305	**1,554**	6,655
Current year charge (credit)/ debit (Note 35 (a))	**2,096,245**	2,639,014	**1,554**	6,655
Previous year's charge (credit)/ debit (Note 35 (b))	**-**	1,291		
Deferred income tax	**(1,004,491)**	(1,009,808)	**(215)**	9
• Current year charge asset (credit)/ debit (Note 35 (c))	**(1,030,555)**	(1,017,507)	**(215)**	9
• Current year charge liability (credit)/ debit (Note 35 (c))	**26,064**	7,699	**-**	-
Income tax expense for the year	**1,091,754**	1,630,497	**1,339**	6,664

NOTES (CONTINUED)

15. Income tax expense (continued)

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

	Group		Company	
	2017 KShs'000	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Profit before income tax	**5,401,248**	6,049,086	**1.878,229**	2,839,223
Tax at statutory tax rate of 30% (2016: 30%)	**1,620,374**	1,814,726	**563,469**	851,767
Tax effect of:				
• Income not subjected to tax	**(681,926)**	(470,063)	**(570,224)**	(850,421)
• Expenses not deductible for tax purposes	**137,002**	97,236	**8,094**	5,318
• Previous year's current tax underprovision	**-**	14,300	**-**	-
• Previous year's deferred income tax overprovision	**26,064**	(35,356)	**-**	-
• Effect of tax paid in other jurisdictions	**(9,760)**	7,351	**-**	-
• Hyperinflation adjustment- South Sudan	**-**	202,303	**-**	-
Income tax expense	**1,091,754**	1,630,497	**1,339**	6,664

16. Earnings per share

Earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2017	2016	**2017**	2016
Earnings (Profit after tax)				
Earnings for the purposes of basic earnings per share (KShs' 000)	**4,309,494**	4,418,589	**1,876,890**	2,832,559
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	**10.90**	11.18	**4.75**	7.17

There were no potentially dilutive shares as at 31 December 2017 or 31 December 2016. Therefore, diluted earnings per share are the same as basic earnings per share.

NOTES (CONTINUED)

17. Dividend per share

	Group and Company	
	2017	2016
The calculation of dividends per share is based on:		
Dividends for the year attributable to ordinary shareholders:		
Interim dividend paid (KShs '000)	**494,153**	699,720
Final dividend proposed (KShs '000)	**1,581,286**	1,375,719
	2,075,439	2,075,439
Number of ordinary shares at issue date (thousands)	**395,322**	395,322
Dividends per share – KShs	**5.25**	5.25

At the annual general meeting to be held on 12 June 2018, a final dividend in respect of the year ended 31 December 2017 of KShs 4.00 (2016: KShs 3.48) per share amounting to a total of KShs 1,581,287,000 (2016: KShs 1,375,719,000) 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 (2016: KShs 1.77) per share, amounting to a total of KShs 494,152,000 (2016: KShs 699,720,000) was paid. The total dividend for the year, if the final dividend will be declared, will therefore be KShs 5.25 (2016: KShs 5.25) per share, amounting to a total of KShs 2,075,439,000 (2016: KShs 2,075,439,000).

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

18. Cash and balances with Central Bank of Kenya

	Group		Company	
	2017 KShs'000	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Cash in hand	**1,586,469**	1,571,641	**-**	-
Balances with Central Bank of Kenya	**6,458,314**	7,049,587	**-**	-
	8,044,783	8,621,228	**-**	-

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 2017, the cash reserve requirement was 5.25% of the eligible deposits (2016: 5.25%). The cash reserve requirement balance for the year ended 31 December 2017 is KShs 7,459,981,410 (2016: KShs 6,059,435,235). The Central Bank allows a daily minimum of 3% of CRR when the average total reserving for the month is above KShs 5,250,000,000. The Group therefore held KShs 4,340,522,340 as at 31 December 2017 (2016: KShs 6,059,435,000) to fulfil the prudential requirement.

NOTES (CONTINUED)

19. Available-for-sale pledged assets

	Group	
	2017	2016
	KShs'000	KShs'000
Debt securities	**4,915,107**	2,894,456
Maturity analysis;		
Maturing within 6 months	**-**	1,569,524
Maturing after 6 months but within 12 months	**2,336,798**	276,247
Maturing after 12 months but within 5 years	**2,578,309**	511,277
Maturing after 5 years	**-**	537,408
	4,915,107	2,894,456

Dated pledged assets had a redemption value at 31 December 2017 of KShs 5,000,000,000 (2016: KShs 2,770,000,000).

These transactions are conducted under terms that are usual and customary to security lending, security borrowings and lending activities. They are strictly for the purpose of providing collateral for counter-parties to the extent that the counter-party is permitted to sell and/or re-pledge the assets.

20. Financial investments

	Group	
	2017	2016
	KShs'000	KShs'000
Financial assets – fair value through profit or loss (Note 20(a))	**29,806,020**	15,995,194
Financial assets - available-for-sale (Note 20(b))	**36,079,567**	34,037,538
Financial assets – at amortised cost (Note 20(c))	**5,444,176**	-
	71,329,763	50,032,732

a) Financial assets – fair value through profit or loss

Listed securities-trading	**29,806,020**	15,995,194
Maturity analysis		
Maturing within 1 month	**998,307**	2,493,499
Maturing after 1 month but within 6 months	**12,674,152**	4,955,950
Maturing after 6 months but within 12 months	**12,176,738**	8,442,722
Maturing after 12 months	**3,956,823**	103,023
	29,806,020	15,995,194

The maturities represent periods to contractual redemption of trading assets recorded. Dated trading assets had a redemption value at 31 December 2017 of KShs 30,622,707,000 (2016: KShs 16,219,650,000). The weighted average effective interest yield on debt securities held for trading at 31 December 2017 was 10.51% (2016: 12.4%).

NOTES (CONTINUED)

20. Financial investments (continued)

b) Financial assets - available-for-sale

	Group	
	2017	2016
	KShs'000	KShs'000
Classification		
Listed	**36,079,567**	34,037,538
Comprising:		
Government bonds	**10,409,256**	6,639,184
Treasury bills	**25,664,411**	27,398,354
Equities	**5,900**	-
	36,079,567	34,037,538
Maturity analysis		
Maturing within 1 month	**1,989,504**	499,133
Maturing after 1 month but within 6 months	**20,409,920**	22,651,717
Maturing after 6 months but within 12 months	**4,040,152**	4,952,972
Maturing after 12 months but within 5 years	**9,634,091**	284,460
Maturing after 5 years	**5,900**	5,649,256
	36,079,567	34,037,538

Dated financial investment securities had a redemption value at 31 December 2017 of KShs 36,628,247,000 (2016: KShs 35,085,350,000).

The weighted average effective interest yield on available-for-sale investment securities at 31 December 2017 was 11.34% (2016:12.24%). A fair value gain of KShs 298,645,000 (2016: Loss of KShs 29,490, 000) has been recognised in the statement of other comprehensive income on page 109. A realised gain of KShs 1,580,700 (2016: KShs 13,444,000) has been transferred to the statement of profit or loss.

c) Financial assets – held to maturity

	Group	
	2017	2016
	KShs'000	KShs'000
Listed	**5,444,176**	-
Comprising:		
Corporate bonds	**759,395**	-
Government securities	**4,684,781**	-
	5,444,176	-
Maturity analysis		
Maturing after 12 months but within 5 years	**5,444,176**	-

In the year the Group added a held to maturity portfolio. Dated held to maturity assets had a redemption value at 31 December 2017 of KShs 5,294,138,000 (2016: KShs nil)

The weighted average effective interest yield on held to maturity investment securities at 31 December 2017 was 9.14% (2016: nil).

NOTES (CONTINUED)

21. Financial liabilities at fair value through profit and loss

	Group	
	2017 KShs'000	2016 KShs'000
Trading liabilities – designated at fair value through profit or loss	**362,630**	3,867,718
Maturity analysis		
Maturing within 1 month	**152,965**	1,787,216
Maturing after 1 month but within 6 months	**209,665**	2,080,502
	362,630	3,867,718

The maturities represent periods to contractual redemption of trading liabilities recorded. Dated trading liabilities had a redemption value at 31 December 2017 of KShs 358,794,000 (2016: KShs 3,804,511,000). The weighted average effective interest cost on debt securities held for trading at 31 December 2017 was 5.64% (2016: 4.24%).

22. Loans and advances

The Group extends advances to the personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment credit, overdrafts and credit card borrowings.

a) Loans and advances to banks

	Group		Company	
	2017 KShs'000	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Balances with banks	**4,122,854**	2,800,452	**111,803**	-
Balances due from Group banks (Note 38 (a))	**4,524,530**	9,838,465		100,662
Balances with Bank of South Sudan	**4,183,523**	4,743,607	**-**	-
	12,830,907	17,382,524	**111,803**	100,662
Allowances for impairments				
Impairment for performing loans	**(61,539)**	(330,270)	**-**	-
Impairment for non-performing loans	**(25,738)**	(63,373)	**-**	-
Credit impairment allowances	**(87,277)**	(393,643)	**-**	-
Net loans and advances to banks	**12,743,630**	16,988,881	**111,803**	100,662

NOTES (CONTINUED)

22. Loans and advances (continued)

b) Loans and advances to customers

	Group	
	2017	2016
	KShs'000	KShs'000
Mortgage lending	**17,975,608**	15,349,063
Instalment sale and finance leases	**14,000,974**	13,166,542
Overdraft and other demand lending	**23,414,144**	18,010,452
Term lending	**79,833,848**	71,761,018
Card lending	**575,241**	433,316
Gross loans and advances to customers	**135,799,815**	118,720,391
Allowances for impairments		
Impairment for non-performing loans	**(3,243,601)**	(1,653,491)
Impairment for performing loans	**(2,020,400)**	(1,479,177)
Credit impairment allowances (Note 23 (c))	**(5,264,001)**	(3,132,668)
Net loans and advances	**130,535,814**	115,587,723

	Group	
	2017	2016
	KShs'000	KShs'000
Maturity analysis:		
Redeemable on demand	**18,016,245**	15,027,772
Maturing within 1 month	**11,609,492**	10,226,706
Maturing after 1 month but within 6 months	**16,938,688**	10,619,831
Maturing after 6 months but within 12 months	**3,834,190**	9,354,099
Maturing after 12 months but within 5 years	**40,091,563**	36,917,927
Maturing after 5 years	**40,045,636**	33,441,388
Net loans and advances	**130,535,814**	115,587,723

The weighted average effective interest rate on loans and advances to customers as at 31 December 2017 was 10.68% (2016: 10.76%). The Group extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment sales and overdrafts.

NOTES (CONTINUED)

22. Loans and advances (continued)

c) Allowances for Impairment

Year ended 31 December 2017	Non-performing loans KShs'000	Portfolio impairment KShs'000	Group Total KShs'000
At 1 January 2017	**1,653,491**	**1,479,177**	**3,132,668**
Amounts written off during the year as uncollectable	**(944,175)**	**-**	**(944,175)**
Amounts recovered during the year	**(100,406)**	**-**	**(100,406)**
Provision for loans impairment	**2,634,691**	**541,227**	**3,175,918**
At 31 December 2017	**3,243,601**	**2,020,404**	**5,264,005**

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

d) Loan impairment charge

	Group	
	2017 KShs'000	2016 KShs'000
Customers Loans impairment for non-performing loans	**2,634,690**	1,708,600
Customers Loans impairment for performing loans	**541,228**	324,395
Bank loans impairment for non-performing loans	**-**	63,373
Bank loans impairment for performing loans	**-**	331,827
Amounts recovered during the year for banks	**(268,732)**	-
Amounts recovered during the year	**(100,406)**	(591,867)
Recoveries of amounts previously written off	**(45,455)**	(84,516)
Net loans impairment charge on loans and advances	**2,761,325**	1,751,812

NOTES (CONTINUED)

22. Loans and advances (continued)

e) Impaired loans and advances

	Group	
	2017	2016
	KShs'000	KShs'000
Impaired loans and advances	**10,391,897**	7,013,116
Impairment for non-performing loans to banks (Note 23 (a))	**-**	(63,373)
Impairment for non-performing loans to customers (Note 23 (b))	**(3,243,601)**	(1,653,491)
Recoverable amount of impaired loans and advances	**7,148,296**	5,296,252
Total interest in suspense	**1,663,972**	1,178,514

The directors are of the opinion that the net amount of impaired loans and advances is recoverable in full.

f) Industry analysis

	Group			
	2017		2016	
	KShs'000	**%**	KShs'000	%
Agriculture	**20,684,210**	**16%**	13,780,097	12%
Electricity and water	**6,467,232**	**5%**	4,664,183	4%
Manufacturing	**19,861,043**	**15%**	17,232,690	15%
Building and construction	**2,035,480**	**2%**	2,198,175	2%
Wholesale, retail trade and restaurants	**15,583,731**	**12%**	31,951,378	26%
Transport and communication	**13,837,753**	**11%**	13,630,463	12%
Finance and insurance	**543,815**	**0%**	539,889	0%
Real estate and business service	**43,523,826**	**33%**	5,304,451	5%
Other activities and social service	**7,998,724**	**6%**	26,286,397	24%
	130,535,814	**100%**	115,587,723	100%

NOTES (CONTINUED)

22. Loans and advances (continued)

g) Segmental analysis of non-performing loans and advances – industry

	Group			
	2017		2016	
	KShs'000	%	KShs'000	%
Agriculture	**2,322,231**	**22%**	2,623,197	37%
Manufacturing	**4,442,432**	**43%**	1,001,861	14%
Building and construction	**161,950**	**2%**	172,712	3%
Wholesale, retail trade and restaurants	**450,901**	**4%**	773,869	11%
Transport and communication	**896,378**	**9%**	426,421	6%
Finance and insurance	**9,503**	**0%**	199,449	3%
Real estate and business service	**1,626,551**	**16%**	57,869	1%
Other activities and social service	**481,951**	**5%**	1,757,738	25%
	10,391,897	**100%**	7,013,116	100%

h) Instalment sales and finance leases

Loans and advances to customers include finance lease receivables, which are analysed below:

	2017 KShs'000	2016 KShs'000
Gross investment in instalment sales and finance leases:		
Not later than 1 year	**1,285,172**	1,461,570
Later than 1 year and not later than 5 years	**12,446,683**	11,698,480
Later than 5 years	**460,600**	122,230
	14,192,455	13,282,280
Unearned finance charge	**-**	-
Net investment in finance leases	**14,192,455**	13,282,280

The amount of finance lease receivable included above is nil (2016: Nil).

Impairment provisions of KShs 727,413,000 (2016: KShs 376,351,000) for instalment sale and finance lease receivables are included in the impairment for non-performing loans.

i) Loans to employees

	2017 KShs'000	2016 KShs'000
At start of year	**3,708,037**	3,710,046
New loans issued	**1,104,356**	1,235,293
Interest on loan	**160,804**	150,065
Loan repayments	**(1,124,715)**	(1,387,367)
At end of year	**3,848,482**	3,708,037

NOTES (CONTINUED)

23. Other assets and prepayments

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Uncleared effects	1,864,419	1,237,886	-	-
Off market loan adjustment	833,640	901,192	-	-
Trade receivables and prepayments	166,147	680,447	-	-
Due from related companies (Note 37 (h))	336,255	989,075	-	-
Others	20,109	8,887	-	-
	3,220,570	3,817,487	-	-

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.

24. Investment in subsidiaries

	Company			
Company	Beneficial ownership	Country of Incorporation	2017 KShs'000	2016 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	-
			18,217,512	18,175,338

The company has prepared consolidated financial statements as it wholly owns Stanbic Bank Kenya Limited, SBG Securities Limited and Stanbic Insurance Agency Limited. Stanbic Insurance Agency Limited (SIAL) was acquired by Stanbic Holdings Plc from Stanbic Bank Kenya Limited for KShs 42,174,000 in 2017. The purchase price represented SIAL's net asset value at the acquisition date.

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

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

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

25. Other investments

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Unquoted:			-	-
Equity investment at cost	17,500	17,500	-	-
Impairment of equity investment	-	(17,500)	-	-
At 31 December	17,500	-	-	-

The investment is in Anglo African Property Holding Limited where the Group holds a beneficial interest of 1%. For the last three years Anglo African property holdings has been profitable and not technically insolvent necessitating a writeback of the provision that had been held earlier.

NOTES (CONTINUED)

26. Property and equipment

a) Group

Year ended 31 December 2017	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 2017	385,493	3,557,435	166,055	105,026	4,214,009
Additions	-	294,077	48,295	114,882	457,254
Disposals	-	(15,357)	(9,694)	-	(25,051)
Transfers	-	48,392	-	(48,392)	-
At 31 December 2017	385,493	3,884,547	204,656	171,516	4,646,212
Depreciation					
At 1 January 2017	(93,203)	(1,772,898)	(139,943)	-	(2,006,044)
Depreciation for year	(15,666)	(350,746)	(10,904)	-	(377,316)
Disposals	-	9,457	9,694	-	19,151
Foreign exchange differences	-	(30,987)	-	-	(30,987)
Hyperinflation adjustment	-	5,259	-	-	5,259
At 31 December 2017	(108,869)	(2,139,915)	(141,153)	-	(2,389,937)
Net book value at 31 December 2017	276,624	1,744,632	63,503	171,516	2,256,275

Year ended 31 December 2016	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 2016	385,493	3,406,666	184,846	91,333	4,068,338
Additions	-	259,599	16,848	97,134	373,581
Disposals	-	(16,005)	(32,789)	-	(48,794)
Impairment	-	(190,058)	-	-	(190,058)
Transfers	-	94,130	-	(83,441)	10,689
Foreign exchange revaluation	-	(58,174)	(2,850)	-	(61,024)
Hyperinflation adjustment	-	61,277	-	-	61,277
At 31 December 2016	385,493	3,557,435	166,055	105,026	4,214,009
Depreciation					
At 1 January 2016	(80,490)	(1,593,551)	(149,395)	-	(1,823,436)
Depreciation for year	(12,713)	(322,849)	(11,418)	-	(346,980)
Disposals	-	8,278	18,505	-	26,783
Impairment	-	113,205	-	-	113,205
Foreign exchange differences	-	22,019	2,365	-	24,384
At 31 December 2016	(93,203)	(1,772,898)	(139,943)	-	(2,006,044)
Net book value at 31 December 2016	292,290	1,784,537	26,112	105,026	2,207,965

NOTES (CONTINUED)

26. Property and equipment (continued)

b) Company

	Computer Equipment	
	2017	2016
	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 2017 and 31 December 2016, there were no items of property and equipment pledged by the Group and Company to secure liabilities. No items of property and equipment were obtained from borrowed funds hence no capitalisation of borrowing costs.

Revaluation of land and buildings

The revaluation reserve in equity relates to the value of the Stanbic office in Chiromo at the point of merger between CFC 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.

NOTES (CONTINUED)

27. Prepaid operating lease

	Group	
	2017	2016
	KShs'000	KShs'000
Cost		
At 1 January	**85,499**	85,499
At 31 December	**85,499**	85,499
Amortisation		
At 1 January	**(31,598)**	(28,646)
Charge for the year	**(2,954)**	(2,952)
At 31 December	**(34,552)**	(31,598)
Net book value at 31 December	**50,947**	53,901

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

28. Other intangible assets – Group

Year ended 31 December 2017	Work in progress	Software	Other intangible assets	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Cost				
At 1 January 2017	117,395	2,433,219	1,099,059	3,649,673
Additions	75,631	378,282	-	453,913
Foreign exchange differences	-	(934)	-	(934)
Hyperinflation adjustment	-	238	-	238
At 31 December 2017	193,026	2,810,805	1,099,059	4,102,890
Amortisation				
At 1 January 2017	-	(1,705,578)	(808,599)	(2,514,177)
Amortisation charge for the year	-	(187,396)	(45,267)	(232,663)
At 31 December 2017	-	(1,892,974)	(853,866)	(2,746,840)
Net book value at 31 December 2017	193,026	917,831	245,193	1,356,050

NOTES (CONTINUED)

28. Other intangible assets – Group (continued)

Year ended 31 December 2016	Work in progress KShs'000	Software KShs'000	Other intangible assets KShs'000	Total KShs'000
Cost				
At 1 January 2016	48,972	1,952,988	1,099,059	3,101,019
Additions	103,602	454,868	-	558,470
Transfers	(34,804)	24,115	-	(10,689)
Foreign exchange differences	(375)	(60)		(435)
Hyperinflation adjustment	-	1,308	-	1,308
At 31 December 2016	117,395	2,433,219	1,099,059	3,649,673
Amortisation				
At 1 January 2016	-	(1,583,317)	(763,332)	(2,346,649)
Amortisation charge for year	-	(122,301)	(45,267)	(167,568)
Foreign exchange differences	-	40	-	40
At 31 December 2016	-	(1,705,578)	(808,599)	(2,514,177)
Net book value at 31 December 2016	117,395	727,641	290,460	1,135,496

The total amount disclosed as intangible assets is non-current and relates to computer software.

Work in progress relates to computer software development systems which had not been completed as at year end.

As at 31 December 2017, the intangible assets had a remaining useful life of 10 years.

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

	Cost KShs'000	**Useful life 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	
	2017 KShs'000	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Cost				
At 1 January and 31st December	**9,349,759**	9,349,759	**-**	-

Goodwill relating to Stanbic Holdings Plc was tested for impairment on 31 December 2017. The recoverable amount was determined to be the value in use. Unless indicated otherwise, the value in use in 2017 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.

NOTES (CONTINUED)

29. Intangible assets – goodwill (continued)

a) 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 16.72% per annum (2016: 17.90%). 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

A rise in the pre-tax discount rate to 25.82% (2016: 26.5%), that is +9.1% (2016: +8.6%) in the CIB unit would result to an impairment. A rise in the pre-tax discount rate to 18.92% (2016: 20.4%), that is +2.2% (2016: +2.5%) in the PBB unit would result to an impairment.

b) 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 8% (2016: 8%). 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.

A decrease in the net profit by 38% would result in a further impairment in the CIB unit. A decrease in the net profit by 17.0% would result in impairment in the PBB unit.

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. Ordinary share capital and ordinary share premium

(a) Authorised share capital

	2017		2016	
	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

(b) Issued share capital

	2017		2016	
	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	1,976,6089
Unissued shares	**78,362**	**391,813**	78,362	391,813

(c) Ordinary share premium

	2017 KShs'000	2016 KShs'000
At 1 January and 31 December	**16,897,389**	16,897,389

NOTES (CONTINUED)

31. Derivative assets and liabilities

	2017	Fair values		2016	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	17,445,355	185,265	216,441	15,869,130	167,449	742,879
Currency swaps	30,223,913	64,039	451,707	20,383,990	114,913	158,372
Currency options	18,403,411	867,354	183,107	13,196,814	147,084	117,067
Total over-the-counter derivatives	66,072,679	1,116,658	851,255	49,449,934	429,446	1,018,318
Interest rate derivatives						
Interest rate swaps	48,583,192	1,085,227	1,387,092	31,108,019	1,745,515	1,745,515
Cross currency interest rate swaps	4,154,802	189,216	189,216	2,059,445	297,230	297,230
Total over-the-counter derivatives	52,737,994	1,274,443	1,576,308	33,167,464	2,042,745	2,042,746
Total derivative assets held for trading	118,810,673	2,391,101	2,427,563	82,617,398	2,472,191	3,061,063
Current	78,456,434	894,299	831,596	46,184,751	367,710	1,025,872
Non-current	40,354,239	1,496,802	1,595,967	36,432,647	2,104,481	2,035,191
Total	118,810,673	2,391,101	2,427,563	82,617,398	2,472,191	3,061,063

All derivatives are classified as derivatives held for trading.

Fair values

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

Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The amount cannot be used to assess the market risk associated with the position and should be used only as a means of assessing the Group's participation in derivative contracts.

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 exposures. Derivative instruments used by the Group in both trading and hedging activities include forwards and other similar types of instruments based on foreign exchange rates and interest rates.

NOTES (CONTINUED)

32. Deposits from banks and customers

Deposit products include current accounts, savings accounts, call and fixed deposits and negotiable certificates of deposit.

(a) Deposits from Banks

	Group 2017 KShs'000	Group 2016 KShs'000
Deposits from Banks	**25,687,195**	32,365,282
Deposits due to Group banks (Note 38 (b))	**13,019,940**	4,141,542
	38,707,135	36,506,824

(b) Deposits from customers

	2017	2016
Current accounts	**105,335,213**	68,890,440
Call deposits	**7,240,980**	6,430,155
Savings accounts	**26,317,844**	23,177,470
Term deposits	**13,006,715**	18,584,682
LC acceptances	**2,760,020**	2,245,472
	154,660,772	119,328,219
Total deposits from banks and customers	**193,367,907**	155,835,043

Maturity analysis of deposits from customers

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

	Group 2017 KShs'000	Group 2016 KShs'000
Repayable on demand	**113,344,837**	91,792,719
Maturing within 1 month	**27,396,462**	14,969,648
Maturing after 1 month but within 6 months	**11,706,367**	8,838,412
Maturing after 6 months but within 12 months	**1,809,720**	3,581,089
Maturing after 12 months	**403,386**	146,351
	154,660,772	119,328,219

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 2017 was 2.57% (2016: 3.00%).

Industry analysis

	Group 2017 KShs'000	%	2016 KShs'000	%
Central government	**12,366,130**	**8%**	15,489,804	13%
Non-financial public enterprises	**11,067,951**	**7%**	774,459	1%
Non-bank financial institutions	**243,168**	**0%**	284,299	0%
Insurance companies	**750,878**	**0%**	1,327,366	1%
Hire purchase companies	**-**	**0%**	7	0%
Private enterprises	**102,473,546**	**66%**	60,376,911	51%
Non-profit institutions and individuals	**27,759,099**	**18%**	41,075,373	34%
	154,660,772	**100%**	119,328,219	100%

NOTES (CONTINUED)

33. Borrowings

At 31 December 2017

	Notional value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
Stanbic Bond	**4,000,000**	**3,989,243**	**12.95%**	**15-Dec-14**	**15-Dec-21**
Total	**4,000,000**	**3,989,243**			

At 31 December 2016

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

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

The Group has not had any defaults of principal, interest or other breaches with regard to any borrowings during 2017 and 2016. The Bonds are payable on their maturity dates at the notional value.

Interest expense incurred in the above borrowings was KShs 521,104,000 (2016: KShs 685,049,000). The weighted average effective interest rate on borrowings as at 31 December 2017 was 12.95% (2016: 12.95%).

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

The borrowings are unsecured subordinated debt instruments.

NOTES (CONTINUED)

34. Other liabilities and accrued expenses

a) Other liabilities and accrued expenses

	Group		Company	
	2017 KShs'000	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Items in transit	**152,955**	153,355	**-**	-
Accruals	**1,922,033**	1,659,907	**12,520**	9,695
Deferred bonus scheme (Note 34(b))	**309,825**	174,828	**-**	-
Unpresented bank drafts	**111,271**	105,509	**-**	-
Margin on guarantees and letters of credit	**1,520,838**	1,267,408	**-**	-
Due to group companies (Note 38(i))	**463,369**	992,289	**8,675**	1,550
Sundry creditors	**1,116,539**	2,035,787	**84,606**	48,865
	5,596,830	6,389,083	**105,801**	60,110

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 310,117,000 at 31 December 2017 (2016: KShs 174,828,000) and the amount charged for the year was KShs 257,187,000 (2016: KShs 136,373,000).

	Units	
Reconciliation	**2017**	2016
Units outstanding at beginning of the year	**133,976**	246,954
Granted	**-**	180,604
Exercised	**(116,975)**	(129,014)
Lapsed	**(15,856)**	(36,004)
Transfers	**139,517**	(128,564)
Units outstanding at end of the year	**140,662**	133,976

	2017	2016
Weighted average fair value at grant date (ZAR)	**-**	122.24
Expected life (years)	**2.51**	2.51
Risk-free interest rate (%)	**-**	5.54

NOTES (CONTINUED)

35. (a) Current income tax (liability)/asset

The tax receivable from the tax authorities in the jurisdictions of operations are highlighted below;

	Group	Company
	2017	2016
	KShs'000	KShs'000
Kenya operations	**66,358**	18,054
Foreign operations	**16,668**	-
As at 31 December	**83,206**	18,054

The tax reconciliations in the jurisdictions of operations are highlighted below;

	Group		Company	
	2017	2016	**2017**	2016
Kenya operations	**KShs'000**	KShs'000	**KShs'000**	KShs'000
At 1 January	**(1,042,810)**	382,965	**18,872**	(5,910)
Reallocation of Kenya/ (Foreign) operations to opening balance	**79,582**	(20,711)	**-**	-
Current income tax charge (Note 15)	**(2,096,245)**	(2,622,678)	**(1,554)**	(6,655)
Income tax paid	**3,483,135**	857,614	**736**	31,437
Prior year provision	**2,696**	-	**-**	-
As at 31 December	**66,358**	(1,402,810)	**18,054**	18,872

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

(b) Current income tax asset/(liability)

	Group	
	2017	2016
Foreign operations	**KShs'000**	KShs'000
As at 1 January	**113,547**	(89,535)
Reallocation of (Kenya)/ Foreign operations to opening balance	**(79,582)**	20,711
Exchange difference on translation	**(14,601)**	67,228
Current income tax charge (Note 15)	**-**	(17,627)
Income tax paid	**-**	132,770
Prior year provision	**(2,696)**	-
As at 31 December	**16,668**	113,547

The Group has operations in South Sudan which is in a net tax recoverable position. The tax is recoverable from to the Government of South Sudan.

NOTES (CONTINUED)

35. (c) Deferred income tax asset/(liability)

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

Kenya operations	Group		Company	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
At start of year	1,407,363	361,322	(11)	(2)
Reallocation of Foreign operations to opening balance	7,699	-	-	-
Credit/ (charge) to statement of profit or loss (Note 15)	1,030,555	1,009,808	214	(9)
Credit/(charge) to other comprehensive income	(1,324)	39,978	-	-
Exchange difference on translation	-	(3,745)	-	-
Prior year provision	101	-	-	-
At end of year	2,444,394	1,407,363	203	(11)

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

Year ended 31 December 2017	1.1.2017 KShs'000	Credited to statement of profit or loss KShs'000	Charge to statement of other comprehensive income KShs'000	Translation movements KShs'000	31.12.2017 KShs'000
Arising from:					
Property and equipment	(42,163)	(29,431)	-	-	(71,594)
Fair value gains on AFS instruments	(163,025)	766,754	(1,324)	-	604,405
Portfolio impairment	821,379	(21,487)	-	-	799,892
Finance leasing	21,487	309,654	-	-	331,141
Other provisions	965,170	(1,449)	-	-	963,721
Group intangible assets	(88,826)	210,049	-	-	121,223
Unrealised gain on South Sudan retained earnings conversion	(99,704)	(193,413)	-	-	(293,116)
Foreign currency exchange differences	(6,955)	(10,123)	-	-	(17,078)
Reallocation of tax subject to tax in other jurisdictions	-	-	-	7,699	7,699
Net deferred asset	1,407,363	1,030,554	(1,324)	7,699	2,444,394

NOTES (CONTINUED)

35. (c) Deferred income tax asset/(liability) (continued)

Year ended 31 December 2016	1.1.2016 KShs'000	Credited to statement of profit or loss KShs'000	Charge to statement of other comprehensive income KShs'000	Translation movements KShs'000	31.12.2016 KShs'000
Arising from:					
Property and equipment	(53,447)	11,284	-	-	(42,163)
Fair value gains on AFS instruments	(346,052)	143,049	39,978	-	(163,025)
Portfolio impairment	465,890	355,489	-	-	821,379
Finance leasing	21,487	-	-	-	21,487
Other provisions	560,114	405,056	-	-	965,170
Group intangible assets	(102,406)	13,580	-	-	(88,826)
Unrealised gain on South Sudan retained earnings conversion	(181,054)	81,350	-	-	(99,704)
Foreign currency exchange differences	(3,210)	-	-	(3,745)	(6,955)
Net deferred asset	361,322	1,009,808	39,978	(3,745)	1,407,363

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

Foreign operations	Group		Company	
	2017 KShs'000	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
At start of year	**7,699**	-	**(11)**	(2)
Debit to statement of profit or loss (Note 15)	**26,064**	7,699		
Debit to other comprehensive income	**5,096**	-	**11**	(9)
At end of year	**38,859**	7,699	**-**	(11)

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

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

Included in the total amount is a deferred income tax liability for Kenya of nil (2016: nil) and the branch in South Sudan of KShs 38,859,000 in 2017 (2016: KShs 7,699,000).

Year ended 31 December 2017	**1.1.2017 KShs'000**	**Charge/ (Credited) to statement of profit or loss KShs'000**	**Credited to OCI KShs'000**	**31.12.2017 KShs'000**
Arising from:				
Property and equipment	**7,699**	**26,064**	**5,096**	**38,859**
Net deferred income tax asset	**7,699**	**26,064**	**5,096**	**38,859**

NOTES (CONTINUED)

35. (c) Deferred income tax asset/(liability) (continued)

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

36. Notes to the cash flow statement

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

	Group		Company	
	2017 KShs'000	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Net income before income tax	**5,401,248**	6,049,086	**1,878,230**	2,839,223
Adjusted for:				
- Depreciation - property and equipment (Note 26)	**377,316**	346,980	**-**	-
- Amortisation of intangible assets (Note 28)	**232,663**	167,568	**-**	-
- Amortisation of prepaid operating lease (Note 27)	**2,954**	2,952	**-**	-
- Impairment - property and equipment (Note 13)	**-**	76,853	**-**	-
- Change in fair value of derivatives (Note 31)	**(552,410)**	1,604,628	**-**	-
- Share based payment reserve (Note 41)	**2,143**	1,098	**-**	-
- Hyperinflation	**(5,497)**	-	**-**	-
- Loss on disposal of property and equipment	**3,341**	7,399	**-**	-
Cash flow from operating activities	**5,461,758**	8,256,564	**1,878,230**	2,839,223

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

	Group		Company	
	2017 KShs'000	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Unrestricted cash and balances with CBK (Note 19)	**3,704,261**	2,561,793	**-**	-
Treasury bills	**14,852,342**	8,934,432	**-**	-
Loans and advances to banks (Note 23 (a))	**12,743,630**	16,988,881	**111,803**	100,662
Amounts due to other banks (Note 32 (a))	**(5,443,779)**	(3,499,101)	**-**	-
Cash and cash equivalent at the end of the year	**25,856,454**	24,986,005	**111,803**	100,662

NOTES (CONTINUED)

36. Notes to the cash flow statement (continued)

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

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.

37. 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)

37. Fair value of financial instruments (continued)

(a) Financial instruments measured at fair value

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

Assets measured at fair value on a recurring basis

	Note	**Level 2 KShs'000**	**Total KShs'000**
At 31 December 2017			
Assets			
Financial assets – fair value through profit and loss	21 (a)	**29,806,020**	**29,806,020**
Financial assets – available-for-sale	21 (b)	**36,073,667**	**36,073,667**
Pledged assets - available-for-sale	20	**4,915,107**	**4,915,107**
Derivative assets	31	**2,391,101**	**2,391,101**
		73,185,895	**73,185,895**
Comprising:			
Held-for-trading		**32,197,121**	**32,197,121**
Available-for-sale		**40,988,774**	**40,988,774**
		73,185,895	**73,185,895**
Liabilities			
Trading liabilities	22	**362,630**	**362,630**
Derivative liabilities	31	**2,427,563**	**2,427,563**
		2,790,193	**2,790,193**
Comprising:			
Held-for-trading		**2,790,193**	**2,790,193**

Assets measured at fair value on a recurring basis

	Note	Level 2 KShs'000	Total KShs'000
At 31 December 2016			
Assets			
Financial assets – fair value through profit and loss	21 (a)	15,995,194	15,995,194
Financial assets – available-for-sale	21 (b)	34,037,538	34,037,538
Pledged assets - available-for-sale	20	2,894,456	2,894,456
Derivative assets	31	2,472,191	2,472,191
		55,399,379	55,399,379
Comprising:			
Held-for-trading		18,467,385	18,467,385
Available-for-sale		36,931,994	36,931,994
		55,399,379	55,399,379
Liabilities		-	-
Trading liabilities	22	3,867,718	3,867,718
Derivative liabilities	31	3,061,063	3,061,063
		6,928,781	6,928,781
Comprising:			
Held-for-trading		6,928,781	6,928,781

There were no financial assets measured at fair value in level 3 as at 31 December 2017 and 31 December 2016.

There were no transfers between financial assets and fair value hierarchy in the year 2017 and 2016.

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).

37. Fair value of financial instruments (continued)

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

Sensitivity of fair value of level 2 financial instruments

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

Level 2 financial assets and financial liabilities

	Valuation basis/technique	Main assumptions[1]
Derivative instruments	Discounted cash flow model	Discount rate
	Black-Scholes model	Risk-free rate, volatility rate
	Multiple valuation technique	Valuation multiples
Trading assets	Discounted cash flow model	Discount rate, liquidity discount rate
	Black-Scholes model	Risk-free rate, volatility rate
Pledged assets	Discounted cash flow model	Discount rate, liquidity discount rate
Financial 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
Trading 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

(b) Financial instruments not measured at fair value

Cash and balances with Central Bank of Kenya (CBK)

The carrying amount of cash and balances with CBK is a reasonable approximation of fair value

Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight loans is a reasonable approximation of fair value. The estimated fair value of fixed interest-bearing loans is based on discounted cash flows using prevailing money-market interest rates for debts (ranging from 9% to 11.75%) with similar credit risk and remaining maturity.

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

NOTES (CONTINUED)

37. Fair value of financial instruments (continued)

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

Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates (ranging from 9% to 11.75%) to determine fair value.

Deposits from banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts (ranging from 9% to 11.75%) with similar remaining maturity.

Subordinated debt

The fair value of listed subordinated debt was estimated as the market value listed on the Nairobi Securities Exchange as at 31 December 2017.

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

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 31 December 2017					
Assets					
Cash and balances with CBK	8,044,783	-	-	-	8,044,783
Loans and advances to banks	-	-	12,711,390	12,711,390	12,743,630
Loans and advances to customers	-	-	147,236,355	147,236,355	130,535,814
Financial assets – held-to-maturity	-	5,590,370	-	5,590,370	5,444,176
	8,044,783	5,590,370	159,947,745	165,538,115	156,768,403
Liabilities					
Deposits from banks	-	-	(40,314,246)	(40,314,246)	(38,707,135)
Deposits from customers	-	-	(155,715,720)	(155,715,720)	(154,660,773)
Borrowings	-	-	(5,617,021)	(5,617,021)	(3,989,243)
	-	-	(201,646,987)	(201,646,987)	(197,357,151)

37. Fair value of financial instruments (continued)

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

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 31 December 2016					
Assets					
Cash and balances with CBK	8,621,228	-	-	8,621,228	8,621,228
Loans and advances to banks	-	-	17,372,706	17,372,706	16,988,881
Loans and advances to customers	-	-	132,057,370	132,057,370	115,587,723
	8,621,228	-	149,430,076	149,430,076	141,197,832
Liabilities					
Deposits from banks	-	-	28,864,081	28,864,081	36,506,824
Deposits from customers	-	-	111,039,158	111,039,158	119,328,219
Subordinated debt	-	-	6,095,080	6,095,080	3,986,138
	-	-	145,998,319	145,998,319	159,821,181

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

There were no transfers between financial assets and fair value hierarchy in the year 2017 and 2016.

NOTES (CONTINUED)

38. Related party transactions

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

There are other companies which are related to Stanbic Holdings Plc through common shareholdings or common directorships. In the normal course of business, nostro and vostro accounts are operated and placing of both foreign and local currencies are made with the parent company and other Group companies at interest rates in line with the market. The relevant balances are as shown below:

a) Loans due from group banks

	Group		Company	
	2017	2016	**2017**	2016
	KShs'000	KShs'000	**KShs'000**	KShs'000
Stanbic Bank Kenya Limited	**-**	-		100,662
Stanbic Bank Uganda Limited	**19,221**	83,088	**-**	-
Stanbic Bank Tanzania Limited	**48,733**	52,699	**-**	-
Stanbic Bank (Mauritius) Limited	**27**	3	**-**	-
Standard Bank of South Africa Limited	**1,799,470**	1,925,295	**-**	-
Standard Bank Isle of Man Limited	**2,580,033**	7,777,383	**-**	-
	4,447,484	9,838,468	**-**	100,662
Interest income earned on the above is:	**116,316**	58,996	**-**	22,451

b) Deposits due to group banks

	Group	
	2017	2016
	KShs'000	KShs'000
Standard Bank of South Africa Limited	**403,871**	218,062
Standard Bank Namibia Limited	**526**	556
Stanbic Bank Uganda Limited	**393,971**	311,888
Stanbic Bank Zambia Limited	**366**	321
Stanbic Bank Zimbabwe Limited	**358**	147
Stanbic Bank Botswana Limited	**1,350**	1,632
Standard Bank (Mauritius) Limited	**1,672,616**	1,689,123
Standard Bank Malawi Limited	**1,315**	1,703
Standard Bank Isle of Man Limited	**10,542,423**	1,909,587
Stanbic Bank Tanzania Limited	**3,096**	7,822
Standard Bank Swaziland Limited	**47**	701
	13,019,939	4,141,542
Interest expense incurred on the above is:	**237,889**	382,682

The weighted average effective interest rate on amounts due from group companies as at 31 December 2017 is 3.80% (2016 – 1.75%) and on amounts due to group companies was 3.13% (2016: 3.04%).

38. Related party transactions (continued)

c) Deposits due to group companies non-bank

	Group	
	2017 KShs'000	2016 KShs'000
Heritage	**479,109**	110,147
Stanlib Kenya Limited	**150,296**	-
Liberty Life	**110,851**	2,015
	740,256	112,162

d) Key management compensation

Key management personnel include: the members of the Stanbic Holdings Plc Board of directors and prescribed officers effective for 2017 and 2016. 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 38 (e) and 38 (f);

e) Loans and advances

Included in loans and advances are amounts advanced to certain companies in which directors are involved either as shareholders or directors (associated companies). In addition, there are contingent liabilities including guarantees and letters of credit, which have been issued to associated companies. The balances as at 31 December 2017 and 31 December 2016 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 588,641,000 (2016: KShs 369,256,000).

No specific credit impairments have been recognised in respect of loans granted to key management (2016: KShs nil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

f) Key management compensation

	Group		Company	
	2017 KShs'000	2016 KShs'000	**2017 KShs'000**	2016 KShs'000
Fees for services as a director	**35,307**	35,937	**7,165**	8,800
Salaries and other short-term employment benefits	**89,512**	129,638	**-**	-
Post-employment pension	**3,036**	2,748	**-**	-
Share-based payments	**15,864**	13,104	**-**	-
	143,719	181,427	**7,165**	8,800

NOTES (CONTINUED)

38. Related party transactions (continued)

g) Other receivable due from related companies

	Group	
	2017 KShs'000	2016 KShs'000
Liberty Life Assurance Limited	172	1,580
The Heritage Insurance Company Limited	-	175
Standard Bank Jersey Limited	3,017	4,543
Stanbic Bank Uganda Limited	12,177	9,394
Stanbic Bank Tanzania Limited	297,735	297,920
Standard Bank of South Africa Limited	265,678	925,228
Stanbic Bank Zambia Limited	-	1,265
Standard Bank Malawi Limited	3,199	630
Standard Bank RDC SARL	655	412
Standard Bank Isle of Man Limited	1,872	500
Standard Bank Swaziland Limited	-	332
Standard Bank de Angola S.A.	27,040	23,156
Standard Advisory London Limited	-	99
	611,545	1,265,234
Provisions on regional costs balances	(275,290)	(276,159)
Net receivables due from related companies	336,255	989,075

h) Other payables due to related companies

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Stanbic Bank Kenya Limited	-	-	8,675	1,550
Standard Bank Malawi Limited	1,353	3,185	-	-
Standard Bank of South Africa Limited	458,654	987,264	-	-
Stanbic Bank Uganda Limited	2,384	1,025	-	-
Stanbic Bank Tanzania Limited	816	816	-	-
Stanbic Bank Jersey Limited	162	-	-	-
	463,369	992,290	8,675	1,550

There is no interest accruing for these outstanding liabilities

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

	2017 KShs'000	2016 KShs'000
Standard Bank South Africa		
Franchise fees	551,226	540,690
Information technology	93,963	27,771
Other operating costs	67,327	3,627
	712,516	572,088

39. Contingent liabilities - Group

Commitments were with respect to:	2017 KShs'000	2016 KShs'000
Irrevocable letters of credit and acceptances	**4,841,591**	2,818,870
Revocable unutilised facilities	**6,252,527**	13,492,255
Guarantees	**34,270,551**	27,755,095
	45,364,669	44,066,220

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.

b) Segmental analysis of off-balance sheet liabilities

	2017 KShs'000	%	2016 KShs'000	%
Agriculture	**1,959,763**	**4%**	1,432,861	3%
Manufacturing	**3,226,186**	**7%**	5,694,315	13%
Construction	**3,806,467**	**8%**	4,423,594	10%
Energy	**8,296,149**	**18%**	3,270,626	7%
Transport and communication	**2,832,456**	**6%**	1,982,309	5%
Distribution/wholesale	**3,857,709**	**9%**	14,265,648	32%
Financial Services	**18,103,741**	**40%**	11,425,162	26%
Tourism	**1,111,650**	**3%**	211,126	1%
Other activities and social service	**2,170,548**	**5%**	1,360,579	3%
	45,364,669	**100%**	44,066,220	100%

c) Legal proceedings

In the conduct of its ordinary course of business, the Group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims arising, that the bank has adequate insurance programmes and provisions in place to meet such claims.

The amounts provided for in other liabilities are KShs 25,000,000 (2016: KShs 32,500,000).

NOTES (CONTINUED)

40. Other reserves

		Group	
	Note	**2017 KShs'000**	2016 KShs'000
Statutory reserve		**(11,112)**	54,335
Fair value reserve		**448,806**	150,161
Foreign currency translation reserve		**(1,024,625)**	(1,099,023)
Share based payment reserve	41	**16,017**	13,871
Revaluation reserve		**122,598**	122,598
At end of year		**(448,316)**	(758,058)

The revaluation reserve 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.

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

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

The statutory 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.

41. Share-based payment reserve

Group

	2017 KShs'000	2016 KShs'000
At start of year	**13,871**	42,393
Options exercised during the year	**-**	(29,620)
Equity growth scheme for the year	**2,146**	1,098
At end of year	**16,017**	13,871

The Group's share incentive scheme enables key management personnel and senior employees of the Group to benefit from the performance of 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 a Black-Scholes option pricing model. Each grant was valued separately.

At 31 December 2017, the total amount included in staff costs for Group Share Incentive Scheme was KShs. 6,085,000 (2016: KShs 793,000) and for Equity Growth Scheme was KShs 3,941,000 (2016: KShs 360,000).

NOTES (CONTINUED)

41. Share-based payment reserve (continued)

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) 2017	Number of options 2017	2016
Options outstanding at beginning of the year		**117,563**	347,783
Transfers	**62.39 – 111.94**	**34,126**	(75,876)
Exercised	**62.39 – 111.94**	**(74,750)**	(115,286)
Lapsed	**98.8**	**(4,688)**	(39,058)
Options outstanding at end of the year		**72,251**	117,563

The following options granted to employees had not been exercised at 31 December 2017:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
10,750	**104.53 – 111.94**	**109.27**	Year to 31 December 2020
61,501	**98.80 - 99.97**	**98.94**	Year to 31 December 2021
72,251			

NOTES (CONTINUED)

41. Share-based payment reserve (continued)

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

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5,000	98.00	98.00	Year to 31 December 2017
17,875	92.00	92.00	Year to 31 December 2018
18,750	62.39	62.39	Year to 31 December 2019
34,688	104.53 – 111.94	109.27	Year to 31 December 2020
41,250	98.80 – 99.97	98.94	Year to 31 December 2021
117,563			

Equity Growth Scheme	Appreciation right price range (ZAR) 2017	Number of rights 2017	2016
Rights outstanding at beginning of the year		**21,375**	26,200
Transfers	**62.39 – 111.94**	**26,013**	72,725
Exercised	**62.39 – 105.60**	**-**	-
Lapsed		**(5,575)**	(77,550)
Rights outstanding at end of the year		**41 813**	21 375

The following rights granted to employees had not been exercised at 31 December 2017:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
1,375	**62.39**	**62.39**	Year to 31 December 2019
16,250	**105.60 – 111.94**	**111.45**	Year to 31 December 2020
24,188	**98.80 – 96.68**	**98.54**	Year to 31 December 2021
41,813			

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

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5,125	62.39	62.39	Year to 31 December 2019
3,750	105.60 – 111.94	109.83	Year to 31 December 2020
12,500	98.80	98.80	Year to 31 December 2021
21,375			

NOTES (CONTINUED)

42. Capital commitments

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

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

	2017 KShs'000	2016 KShs'000
Authorised and contracted for	**237,506**	388,948
Authorised but not contracted for	**704,750**	-

43. 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;

	2017 KShs'000	2016 KShs'000
Less than one year	**260,421**	285,375
Between one and five years	**788,827**	882,767
More than five years	**9,852**	2,157,668
	1,059,100	3,325,810

44. Fiduciary activities

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

	2017 KShs'000	2016 KShs'000
Assets held on behalf of individual's trusts and other institutions	**266,101,243**	214,868,507


ADDITIONAL
INFORMATION

STATEMENT OF COMPLIANCE WITH CMA CORPORATE GOVERNANCE CODE

Market to book ratio at end of financial year	0.75
No. of outstanding shares at end of financial year	Issued shares: 395,321,638 Unissued shares: 78,362,573
Closing price of stock at end of financial year	KShs 81
Net sales as per Income Statement at end of financial year	KShs 16,303,064,000
Net profit as per Income Statement at end of financial year	KShs 4,309,494,000
Total debt (short and long term) as per Balance Sheet at end of financial year	KShs 3,989,243,000
Total equity as per Balance Sheet at end of financial year	KShs 42,955,687,000
Total no. of Board members at end of financial year	Nine
No. of independent directors at end of financial year	Five
No. of non-executive directors at end of financial year	Eight

Consecutive No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3&4	Application or Explanation - Note 2
		A	INTRODUCTION			
1	M	A.1	Has the company developed and published a Board Charter which is periodically reviewed and which sets out the Board responsibility for internal control?	1.1.2, 2.6.2, 6.3.2	FA	There is a Board Charter/ Mandate in place and which is reviewed on an annual basis by the Board. The Board Mandate is available on the Company's website.
2	M	A.2	Does the Board Charter or company documents distinguish the responsibilities of the Board from management in line with Code requirements?	1.1.2, 2.3.1, 2.3.2, 2.6.2	FA	Yes. The distinction is articulated in the terms of reference contained in the Board, Board Committee and Management Committee Mandates.
3	A or E	A.3	Is there a statement indicating the responsibility of Board members for the application of corporate governance policies and procedures of the company?	1.1.6	FA	The statement is included in the Board Mandate under the opening paragraph on the Board's Purpose and in the Terms of Reference.
4	M	A.4	How has the Board ensured all directors, CEOs and management are fully aware of the requirements of this Code?	1.1.6	FA	The Board had internal training on the Code in February, 2016, conducted by qualified external consultants; and in addition, individidual directors, the Company Secretary and the Chief Financial Officer have attended seminars on the Code hosted by the Capital Markets Authority and IFC. A checklist of the regulatory sections was also tabled to the Board.
5	M	A.5	Do company documents indicate the role of the Board in developing and monitoring the company strategy?	Part II - Overview, 2.3	FA	This is articulated in the Board Mandate.
6	A or E	A.6	Does the company strategy promote sustainability of the company?	2.3.6	FA	This is indicated in the Company's operating banking subsidiary, wherein the triple bottomline principle is a core strategic value driver and an outcome measurement.
7	M	A.7	Are all Board committees governed by a written charter/ terms of reference, disclosing its mandate, authority, duties, composition, leadership and working processes?	2.2.2	FA	Yes. These are contained in the Board Committee Charters/ Mandates.

Consecutive No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3&4	Application or Explanation - Note 2
		B	BOARD OPERATIONS and CONTROL			
8	M	B.1	Has the Board established a Nomination Committee comprised mainly of independent and non-executive Board members?	2.1.2, 2.2.2	FA	Yes. The membership is confirmed in the Board minutes which record the appointment of members. The membership comprises two independent Non-Executive Directors (NEDs) and one NED.
9	M	B.2	Is the chairperson of the Nomination Committee an independent director?	2.2.3	FA	Yes. The Chairman is also the Board Chairman.
10	M	B.3	Has the Board adopted and published procedures for nomination and appointment of new Board members?	2.1.1, 2.1.7	FA	These are contained in the Nominations Committee Mandate and in the Company's Articles of Association.
11	M	B.4	Is the Board size adequate for the exercise of the company business?	2.1.4	FA	Yes, there are currently nine directors above minimum number stipulated in the Company's Articles of Association.
12	A or E	B.5	Has the Board adopted a policy to ensure the achievement of diversity including age, race and gender) in its composition?	2.1.2, 2.1.3, 2.1.5, 2.5.1	FA	This policy is contained in the Board and Nominations Committee Mandates
13	M	B.6	Do the Board members represent a mix of skills, experience, business knowledge and independence to enable the discharge of their duties?	2.2.1	FA	Yes. This has been indicated in the director profiles contained in the Annual Report.
14	M	B.7	Has the Board adopted and applied a policy limiting the number of Board positions each Board member may hold at any one time?	2.1.6	FA	This is stipulated in the Board Mandate under the section on conflict of interest, which requires directors to disclose multiple directorships and to ensure that these do not conflict with their role.
15	M	B.8	Have any Alternate Board members been appointed? If so, have the Alternate Director/s been appointed according to regulation and Code requirements?	2.1.6, 2.1.7	FA	There are no alternate directors appointed
16	M	B.9	Are independent directors at least one-third of the total number of Board members?	1.1.2, 2.1.3, 2.4.1	FA	Five of the nine directors in 2017 are independent non-executive directors.
17	A or E	B.10	Does the Board have policies and procedures to annually assess the independence of independent Board members?	2.4.1	FA	Yes and this conducted annually during Board Self-Evaluations and is stipulated in the Board Mandate/Charter.
18	M	B.11	Do all independent Board members have a tenure of less than 9 years?	2.4.2	FA	Yes and this stipulated in the Board Mandate.
19	M	B.12	Is the Board comprised of a majority of non-executive Board members?	2.1.3	FA	Yes. Eight of the nine directors in 2017 are non-executive directors.
20	M	B.13	How does the Board ensure a smooth transition of Board members?	2.1.8	FA	By ensuring an adequate composition of the Board and that no more than a third of directors retire by rotation at one time. This is contained in the Company's Articles of Association.

STATEMENT OF COMPLIANCE WITH CMA CORPORATE GOVERNANCE CODE (CONTINUED)

Consecutive No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3&4	Application or Explanation - Note 2
21	M	B.14	Has the Board established an effective Audit Committee according to Code requirements?	2.2.4, 6.5.1, 2.1.7	PA	The Board has established an effective Audit Committee. The current chairman who has a professional qualification in accounting is a non-executive director but not independent. The current members are one independent non-executive director and two non-executive directors. The Company will be fully compliant by Q1, 2019.
22	M	B.15	Are the functions of the Chairperson and the Chief Executive Officer exercised by different individuals?	2.3.3	FA	Yes.
23	A or E	B.16	Is the Chairman of the Board a non-executive Board member?	2.3.4	FA	Yes.
24	A or E	B.17	Has the Board established procedures to allow its members access to relevant, accurate and complete information and professional advice?	2.3.5	FA	Yes, this is provided under the Board and Committee Mandates.
25	M	B.18	Has the Board adopted a policy on managing conflict of interest?	2.3.8	FA	Yes this is contained in the Board mandate and in the Company's Articles of Association.
26	M	B.19	Has the Board adopted a policy on related party transactions to protect the interests of the company and all its shareholders and which meets the requirements of the Code?	2.3.7	FA	Yes this is contained in the Board mandate under the section on Conflict of Interest.
27	M	B.20	Has the company appointed a qualified and competent company secretary who is a member in good standing of ICPSK?	2.3.9	FA	Yes.
28	A or E	B.21	Has the Board adopted policies and processes to ensure oversight of sustainability, environmental and social risks and issues?	2.3.2, 2.3.6	FA	Yes, these contained in various policies in the Company's subsidiary companies.
29	A or E	B.22	Has the Board developed an annual work-plan to guide its activities?	2.6.3	FA	Yes. This is approved at the meeting prior to the new financial year.
30	M	B.23	Has the Board determined, agreed on its annual evaluation process and undertaken the evaluation or the performance of the Board, the Board Committees, the CEO and the company secretary?	2.6.4, 2.8	FA	Yes. The reports on the same including the minutes of the session have been prepared.
31	A or E	B.24	Has the Board established and applied a formal induction program for in-coming members?	2.7.1	FA	There is a formal induction program for all in-coming members.
32	A or E	B.25	Do Board members participate in on-going corporate governance training to the extent of 12 hours per year?	2.7.3	FA	Yes. There are records showing the same.
33	A or E	B.26	Has the Board set up an independent Remuneration Committee or assigned to another Board committee the responsibility for determination of remuneration of directors?	2.9.2	FA	This function is under the Nominations Committee; however, the full Board considers and endorses the remuneration for ratification/approval by the shareholders.

Consecutive No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3&4	Application or Explanation - Note 2
34	M	B.27	Has the Board established and approved formal and transparent remuneration policies and procedures that attract and retain Board members?	2.9.1	FA	The Board has a formal and transparent Board remuneration policy.
35	M	B.28	How does the Board ensure compliance with all applicable laws, regulations and standards, including the Constitution and internal policies?	2.10, 2.10.1, 2.10.2	FA	The Compliance, Governance and Legal functions report to Board
36	M	B.29	In the past year, has the Board organized a legal and compliance audit to be carried out on a periodic basis?	2.10.3	FA	The law firm of Triple OK Law conducted a Legal & Compliance Audit
37	A or E	B.30	Has the Board subjected the company to an annual governance audit?	2.11.1	FA	The audit firm of CPF conducted a Governance Audit.
		C	**RIGHTS of SHAREHOLDERS**			
38	M	C.1	Does the governance framework recognize the need to equitably treat all shareholders, including the minority and foreign shareholders?	3.0 Overview, 3.2.1	FA	Yes. Contained in the Articles of Association.
39	M	C.2	Other than at the AGM, how does the Board facilitate the effective exercise of shareholders' rights?	3.1.1	FA	Public notice to all shareholders in the instance there are changes that are material.
40	M	C.3	How does the Board facilitate shareholders participation at the AGM?	3.1.1	FA	Public notices within the stipulated time, including the agenda, venue and documentation for discussion at the meeting.
41	A or E	C.4	Are minority and foreign shareholders holding the same class of shares treated equitably?	3.2.1	FA	Yes as contained in the Articles of Association.
42	A or E	C.5	Is there evidence that the Board proactively provides information to shareholders and the media, (and in a timely basis) on corporate affairs and corporate governance?	3.1.1, 3.4.1	FA	Yes the evidence is in the media publications, on the Company website and on the Nairobi Securities Exchange website.
		D	**STAKEHOLDER RELATIONS**			
43	A or E	D.1	Does the Board have a stakeholder-inclusive approach in its practice of corporate governance and which identifies its various stakeholders?	4.1.1	FA	Yes. The Annual Report highlights this.
44	A or E	D.2	Has the Board developed policies, procedures and strategies to manage relations with different/ key stakeholder groups?	4.1.2, 4.1.3, 4.1.5, 4.2.1	FA	Through policies and procedures under its subsidiary companies. Stakeholder communication policy and plan are in place.
45	A or E	D.3	How does the Board take into account the interests of key stakeholder groups prior to making decisions?	4.1.4	FA	Through Public Notices and where required by law seek approval at a general meeting.
46	M	D.4	How does the Board ensure effective communications with stakeholders?	4.2, 4.2.1	FA	By complying with the requirements of legislation, regulation and the Company's Articles of Association on public notices to stakeholders.

STATEMENT OF COMPLIANCE WITH CMA CORPORATE GOVERNANCE CODE (CONTINUED)

Consecutive No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3&4	Application or Explanation - Note 2
47	M	D.5	Has the Board established a formal dispute resolution process to address internal and external disputes?	4.3.1	FA	There are formal internal & external dispute resolution processes.
		E	ETHICS AND SOCIAL RESPONSIBILITY			
48	A or E	E.1	Does the Board ensure that all deliberations, decisions and actions are founded on the core values (responsibility, accountability, fairness and transparency) underpinning good governance and sustainability?	5.1.1	FA	Yes as guided by its Code of Ethics.
49	M	E.2	Has the Board developed a Code of Ethics and Conduct (which includes sustainability) and has it worked to ensure its application by all directors, management and employees?	2.6.1, 5.2.2, 5.2.3, 5.2.4	FA	Yes. The Code of Ethics is on the Company's website.
50	A or E	E.3	How does the Board ensure that compliance with the Ethics Code and Conduct is integrated into company operations?	5.2.3	FA	The policies of the Company's operational subsidiaries are aligned to the values in the Group Code of Ethics . In addition, all Group employees are required to undertake an online course and examination on the Code of Ethics.
51	A or E	E.4	Does the Board incorporate ethical and sustainability risks and opportunities in the risk management process?	5.2.1	FA	Yes, through its operating subsidiary companies.
52	A or E	E.5	How is the company performance on ethics assessed, monitored and disclosed to internal and external stakeholders?	5.2.4	FA	The Company's performance of ethics is disclosed in the Company's Annual Report; and is assessed through a formal governance audit conducted in 2017 by an independent audit firm.
53	A or E	E.6	Has the company established and implemented a whistle blowing policy?	5.2.5	FA	Yes. The same is on the Company's website.
54	A or E	E.7	Has the Board/or management developed policies on corporate citizenship and sustainability and strategies for company use?	5.3.1, 5.4.1	FA	Yes there is a Group Corporate Social Investment Framework.
55	M	E.8	Does the Board consider not only the financial performance but also the impact of the company's operations on society and the environment?	5.3.2, 5.3.3	FA	Yes. The information is contained in the Annual Report.
56	A or E	E.9	Does the Board monitor and report activities leading to good corporate citizenship and sustainability to demonstrate they are well coordinated?	5.4.1	FA	Yes in the Annual Report.

Consecutive No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3&4	Application or Explanation - Note 2
		F	ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL			
57	M	F.1	Does the Audit Committee and the Board consider and review the financial statements for integrity of the process and for truthful and factual presentation?	6.1, 6.1.1a	FA	Yes as contained in the minutes of the meetings.
58	M	F.2	Does the Annual Report contain a statement from the Board explaining its responsibility for preparing the accounts and is there a statement by the external auditor about his/her reporting responsibilities?	6.1.2	FA	Yes.
59	A or E	F.3	Does the Board or audit committee have a process in place to ensure the independence and competence of the Company's external auditors?	6.1.1b	FA	Yes. The Company uses a reputable firm of qualified auditors and the independence of the external auditors is confirmed in the Post-Audit report on annual basis.
60	M	F.4	Do the shareholders formally appoint the external auditor at the AGM through a formal and transparent process?	6.1.3	FA	Yes. It is part of the agenda that is circulated with the AGM Notice at least 21 days prior to the meeting.
61	A or E	F.5	Is the Company working towards the introduction of integrated reporting or is the company's Annual Report prepared on an integrated basis using a framework available from the Integrated Reporting Council, The Global Reporting Initiative, G4 Sustainability Guidelines and/or Sustainability Accounting Standards Board standards?	6.1.5	FA	The Company's Annual Report is prepared on an integrated basis using the The Global Reporting Initiative.
62	A or E	F.6	Has the Board established an effective risk management framework which is inclusive of environmental and social risks and issues?	6.2.1	FA	Yes. The Company's main subsidiary, Stanbic Bank Kenya Limited applies the Equator Principles in its lending activities for applicable projects.
63	M	F.7	Has the Board established and reviewed on a regular basis the adequacy, integrity and management of internal control systems and information systems (including for compliance with all applicable laws, regulations, rules and guidelines)?	6.3.1, 6.3.2, 6.3.3	FA	Yes. These are contained in the Board and Board Committee Mandates for the Company and its operating subsidiaries.
64	M	F.8	Does the Board annually conduct a review on the effectiveness of the company's risk management practices and internal control systems and report this to shareholders?	6.4.1	FA	Yes. The shareholders are informed through the Annual Report.
65	M	F.9	Has the Board established an effective internal audit function according to Code requirements and which reports directly to the Audit Committee?	6.5.2	FA	Yes. This is contained in the Board Audit Committee Mandate.

STATEMENT OF COMPLIANCE WITH CMA CORPORATE GOVERNANCE CODE (CONTINUED)

Consecutive No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3&4	Application or Explanation - Note 2
66	A or E	F.10	Does the Board disclose details of Audit Committee activities ?	6.5.2	FA	Yes. In the Annual Report..
		G	TRANSPARENCY and DISCLOSURE			
67	M	G.1	Does the company have policies and processes to ensure timely and balanced disclosure of all material information as required by all laws, regulations and standards and this Code.	7.0 Overview, 7.1.1	FA	Yes. This role is conducted by the Board, Compliance, Company Secretary and Finance.
68	A or E	G.2	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to the company's governance, the Board and the Audit Committee?	7.1.1	FA	Yes.
69	A or E	G.3	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to the company's mission, vision and strategic objectives?	7.1.1	FA	Yes.
70	A or E	G.4	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to remuneration and whistleblowing?	7.1.1	FA	Yes, in the Annual Report.
71	A or E	G.5	As a minimum, does the company website disclose current information on all areas prescribed in 7.1.1 (Board Charter, Whistleblowing Policy, Code of Ethics and information on resignation of directors)?	7.1.1	FA	Yes.
72	A or E	G.6	Does the Board disclose the management discussion and analysis as required in 7.1.1?	7.1.1	FA	Yes, including for its operating banking subsidiary.
73	A or E	G.7	Has the Board provided disclosures as required in 7.1.1 on compliance with laws, regulations and standards; ethical leadership, conflict of interest, corporate social responsibility and citizenship?	7.1.1	FA	Yes.
74	A or E	G.8	Has the Board made all required disclosures, including confirming requirements of 7.1.1 which include that a governance audit was carried out and that there are no known insider dealings?	7.1.1	FA	Yes. The Governance Audit was carried out in 2017.
75	A or E	G.9	Has the Board disclosed the company's risk management policy, company procurement policy, policy on information technology as per 7.1.1?	7.1.1	FA	Yes as pertains to its operating banking subsidiary.

Consecutive No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application - FA, PA or NA - See Notes 1, 2, 3&4	Application or Explanation - Note 2
76	M	G.10	Has the Board disclosed information on shareholders, including the key shareholders and the extent of their shareholdings as required in 7.1.1 and on stakeholder who influence company performance and sustainability?	7.1.1	FA	Yes. In the Annual Report, annual returns and monthly reporting to CMA and NSE, as well as in the Company website.
77	M	G.11	Has the Board disclosed all related-party transactions?	7.1.1	FA	These are disclosed where there are related - party transactions as required.
78	M	G.12	Does the Board include in its Annual Report a statement of policy on good governance and the status of the application of this Code?	1.1.3, 7.1.1r	FA	This is contained in the Annual Report

Note 1	All elements marked in green are mandatory and MUST be complied with and , if not, regulatory sanctions will be imposed. When completing column 'F' for MANDATORY ITEMS, 'FA' will mean 'Fully Complied With', 'PA' will mean 'Partially Complied With' and 'NA' will mean 'Not Complied With'.
Note 2	Column 'F' should be marked as follows: 'FA' - Full Application, PA - Partially Applied or 'NA' - Not Applied. Full application of this Code is prescribed, therefore anything less than 'full application' is considered 'non compliance and non-application' of the Code. A response of PA or NA is non-compliance and requires an explanation to be provided with a firm commitment to moving towards full compliance. See also Note 4.
Note 3	An explanation of how the Code provision is applied is required in column 'G' and shall be supported by evidence. If the provision is NOT applied, an explanation for why it is not applied or only partially applied is required in column 'G'. For each question, column 'G ' will be completed.
Note 4	If an explanation is required because of non-application of any element of the Code, the explanation must be satisfactory, must be provided to relevant stakeholders including the Capital Markets Authority and shall include: a: reasons for non-application b: time frame required to meet each application requirement c: the strategies to be put in place to progress to full application.

GROUP SHAREHOLDING

Top 10 Global Investors as at Sunday December 31 2017

	Names	Address	Shares	Percentage
1	STANBIC NOMINEES LTD A/C NR00901	P.O. BOX 30550-00100 NAIROBI	237,192,981	60.00%
2	STANDARD CHARTERED NOMINEES NON-RESD. A/C 9866	P.O. BOX 40984-00100 NAIROBI	33,969,924	8.59%
3	STANDARD CHARTERED NOMINEES NON -RESD. A/C 9867	P.O.BOX 40984-00100 NAIROBI	13,044,272	3.30%
4	STANDARD CHARTERED KENYA NOMINEES LTD,A/C KE20510	40984-00100	8,657,666	2.19%
5	STANDARD CHARTERED KENYA NOMINEES LTD A/C KE002012	40984-00100	8,081,755	2.04%
6	STANDARD CHARTERED NOMINEESLTD NON RESD A/CKE11663	40984-00100 NAIROBI	7,862,400	1.99%
7	STANDARD CHARTERED NOMINEES NON -RESD. A/C KE9053	P.O. BOX 40984-00100 NAIROBI	5,232,833	1.32%
8	THE PERMANENT SECRETARY TO THE TREASURY OF KENYA	(ON BEHALF OF THE GOVT. OF KEN-999999 TREASURY BUILDING	4,342,548	1.10%
9	STANDARD CHARTERED KENYA NOMINEES LTD A/C KE23050	40984-00100	4,123,627	1.04%
10	STANDARD CHARTERED NOMINEE ACCOUNT KE17661	40984-00100	3,694,281	0.93%
11	Others		69,119,351	17.48%
		Grand Totals:	**395,321,638**	**100.00%**

Shares Distribution Statistics as at Sunday December 31 2017

	Range	Records	Range Total	Percentage
1	1 to 500	1,872	344,369	.09 %
2	501 to 1000	592	490,678	.12 %
3	1001 to 5000	966	2,306,464	.58 %
4	5001 to 10000	447	3,316,719	.84 %
5	10001 to 50000	379	8,296,300	2.10 %
6	50001 to 100000	99	6,922,546	1.75 %
7	100001 to 500000	86	20,047,539	5.07 %
8	500001 to 1000000	14	9,911,560	2.51 %
9	1000001 to 2000000000	20	343,685,463	86.94 %
	Grand Totals:	**4,475**	**395,321,638**	**100.00%**

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Sixty-Third Annual General Meeting of the Members of Stanbic Holdings Plc (the Company) will be held on Tuesday, 12 June 2018, at Louis Leakey Auditorium, National Museums of Kenya, Nairobi, at 11.00 a.m. to transact the following business:

1. The Secretary to read the notice convening the meeting and to confirm the presence of a quorum.
2. To receive and note the Audited Financial Statements for the year ended 31 December 2017 and the Directors' and Auditor's Report thereon.
3. To consider and if thought fit, approve the recommendation by the Board for a final dividend of KShs 4.00 per share for the year ended 31 December 2017. The published book closure date announced for 13 June 2018, has been changed to 31 July 2018. This change in dates has been necessitated by the tender offer made to shareholders of the Company by Stanbic Africa Holdings Limited, which was announced on 16 March 2018. In order to accommodate the required minimum 30 day tender offer period, the obtaining of requisite regulatory approvals for the final payments to shareholders accepting the tender offer and the finalisation of the shareholders register of the Company after the tender offer, the payment of the dividend can only be made after such finalisation. If a final dividend is approved by the Company's shareholders, the payment of a final dividend will be made on or about 10 August 2018.
4. To elect Directors:
   i) In accordance with Article 110 of the Company's Articles of Association, Mr Kitili Mbathi retires by rotation and being eligible, offers himself for re-election as a director.
   ii) In accordance with Article 110 of the Company's Articles of Association, Mr Peter N. Gethi, retires by rotation and being eligible, offers himself for re-election as a director.
   iii) In accordance with Article 110 of the Company's Articles of Association, Ms Rose W. Kimotho retires by rotation and being eligible, offers herself for re-election as a director.
   iv) In accordance with Article 109 of the Company's Articles of Association, Ms Rose Osoro, a director appointed to the Board to fill a casual vacancy, retires at the dissolution of the meeting and having been recommended by the Board, offers herself for election as a director.
   v) In accordance with Article 109 of the Company's Articles of Association, Ms Dorcas Kombo, a director appointed to the Board to fill a casual vacancy, retires at the dissolution of the meeting and having been recommended by the Board, offers herself for election as a director.
5. To consider and if thought fit, to pass an ordinary resolution pursuant to Section 681 (1) of the Companies Act, 2015, approving the Directors' remuneration report for the year ended 31 December 2017 as provided in the Audited Financial Statements.
6. To consider and if thought fit, to pass an ordinary resolution approving the Directors' remuneration policy.
7. To consider and if thought fit, to pass an ordinary resolution pursuant to Section 721(4) (a) of the Companies Act, 2015, to appoint Messrs PricewaterhouseCoopers as auditors of the Company, taking note that the auditors have indicated their willingness to continue in office.
8. To consider and if thought fit, to pass an ordinary resolution pursuant to Section 724(1) of the Companies Act, 2015, authorising the Directors to fix the remuneration of the appointed auditors.
9. To consider and if thought fit, to pass an ordinary resolution pursuant to Section 769(1) of the Companies Act, 2015, to appoint the following members of the Board Audit Committee:
   1. Mr Christopher B. Newson
   2. Mr Kitili Mbathi
   3. Ms Rose Osoro
   4. Ms Dorcas Kombo
10. To consider and if thought fit, to pass a special resolution pursuant to Section 22 of the Companies Act, 2015, to authorise for amendment of Article 99 of the Company's Articles of Association to read as follows:

    "The number of Directors shall not be less than seven (7) and, unless and until otherwise determined by ordinary resolution of the Company in general meeting, shall not exceed fifteen (15).
11. To consider and if thought fit, to pass an ordinary resolution approving the incorporation of a subsidiary company of Stanbic Bank Kenya Limited, which, subject to requisite regulatory approvals being obtained, is to be registered as a company limited by guarantee, by the name of Stanbic Kenya Foundation Limited. The sole purpose of the company is to be a foundation for Stanbic Bank Kenya Limited, for implementation of corporate social investment programmes.
12. Any other business for which due notice has been given.

BY ORDER OF THE BOARD

for the financial year

Lillian Mbindyo

Company Secretary

Date: 2 March 2018

NOTE:

1. In accordance with section 298(1) and (2) of the Companies Act, 2015 every member entitled to attend and vote at the above meeting and any adjournment thereof is entitled to appoint a proxy with full rights as the member, to attend, to speak and vote on his/her behalf. The Member may appoint more than one proxy for a meeting provided each proxy is appointed to exercise the rights attached to a different share or different shares held by the member. A proxy need not be a Member of the Company. A proxy form can be downloaded from the Company's website, www.stanbicbank.co.ke, or collected from the Registered Office of the Company at Stanbic Centre, Chiromo Road, Westlands, Nairobi.
2. Completed proxy forms should be returned to the Company Secretary by delivery to the Registered Office or by post to P.O. Box 72833-00200 Nairobi, to arrive not later than 48 hours before the meeting.
3. In accordance with Article 165 of the Company's Articles of Association, a copy of the Annual Report may be obtained from the website stated above or from the Company Secretary at the Registered Office.
4. Shareholders wishing to receive a proxy form and/or a copy of the Annual Report by e-mail may send a request, quoting their full name and account number, to info@image.co.ke

PROXY FORM

To The Company Secretary
Stanbic Holdings Plc
P O Box 30550 – 00100
NAIROBI

I/We ....

of ....,

being a member of STANBIC HOLDINGS PLC hereby appoint ....

....

of ....

or failing him/her ....

of ....

as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on Tuesday, 12 June 2018 and at any adjournment thereof.

Dated this .... day of 2018

Note: The proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof.

stanbicbank.co.ke