Annual Integrated 2015 report

CfC Stanbic Holdings Limited

CfC Stanbic Moving Forward™
A member of Standard Bank Group


DIGITAL
BANKING

Who we are

East Africa is our home and we are focused on driving her growth. With a heritage of over 100 years, we are a leading financial services organisation with an on-the-ground presence in Kenya and East Africa. CfC Stanbic is a member of the Standard Bank Group Limited, Africa's leading bank and financial services group, which operates in 20 African countries.

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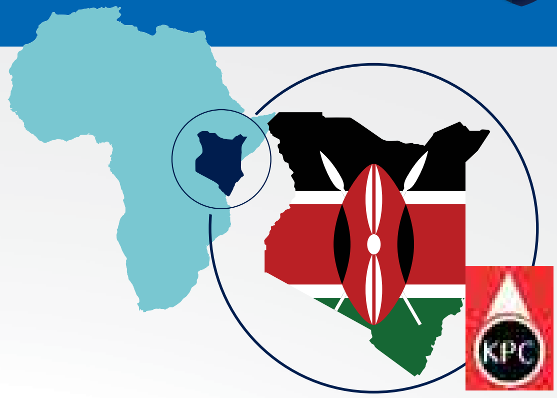
“What’s key to realising a massive infrastructure project?” / **“A confident vision.”**



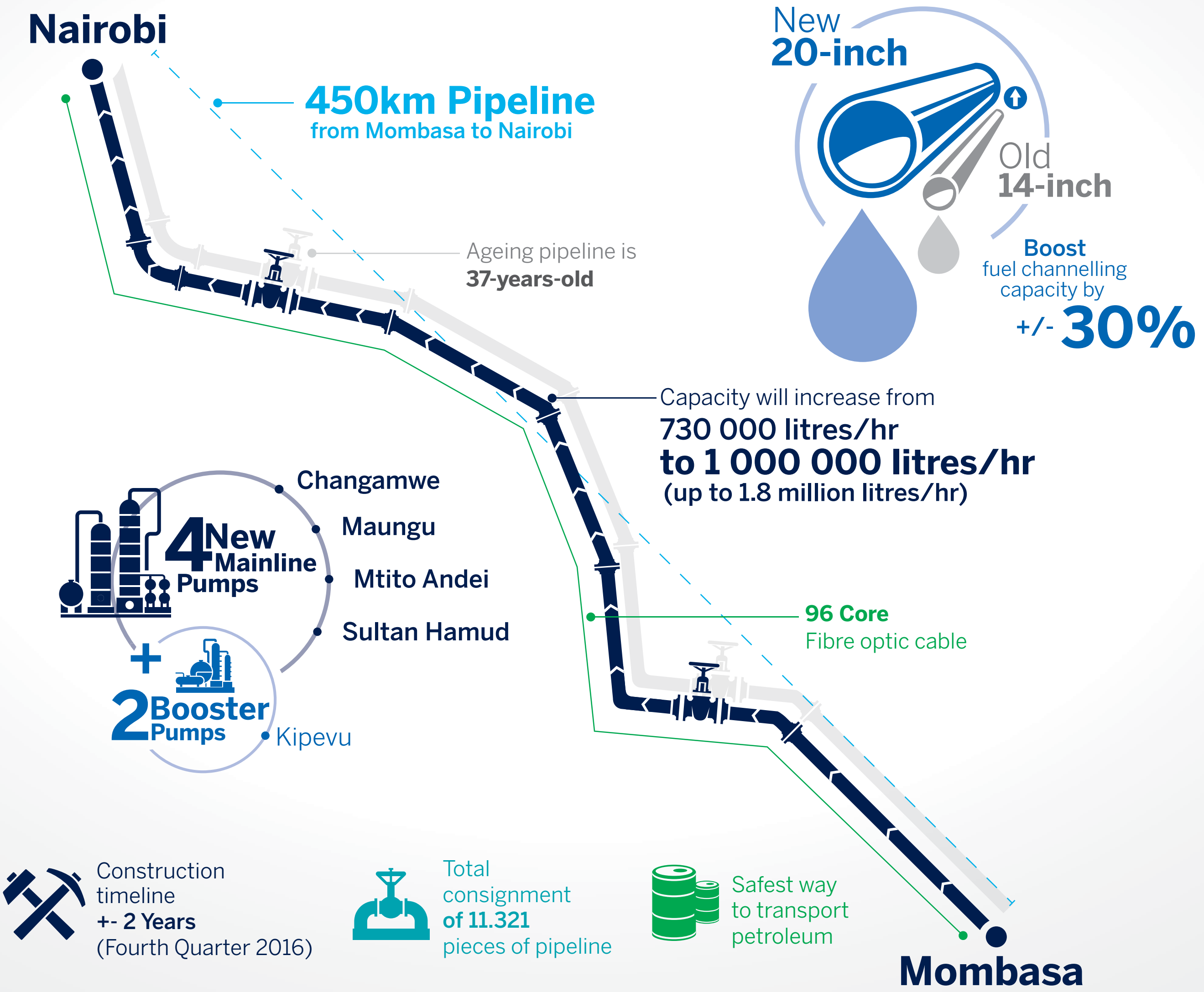
New Kenya **Petroleum Pipeline**

will meet the rapid rise in local and regional demand for petroleum products until the year 2044.

Kenya’s national demand for petroleum products stands at about **4.4 billion litres up from 3.4 billion in 2010.**

Regionally, the combined demand for Rwanda, Uganda, Burundi, eastern DRC, South Sudan and northern Tanzania stands at about **2.8 billion litres, up from 2.4 billion in 2010.**

CfC Stanbic Bank was **Co-Mandate Lead Arranger** and **Underwriter** of this project and is proud to have played a part in moving the region forward.



Construction timeline
+- 2 Years
(Fourth Quarter 2016)

Total consignment
of 11.321
pieces of pipeline

Safest way to transport petroleum

Kenya Pipeline Company is also constructing a 10-inch, 122km oil pipeline

Sinendet — **Kisumu**

Boost volumes of product moved by an **additional 360 000 litres/hr** to serve western Kenya, Uganda, Rwanda, Burundi, northern Tanzania and eastern DRC.

Transport 192 trucks/day
5 560 trucks/month

Employment Creation
1 000+ new jobs

Best Global Practices
Health, Safety and Environmental

OVERVIEW

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About this report

We continue to grow our market in the East Africa region and our operations continue to contribute to the social and economic development of the communities we serve. We want to ensure that the impact of our business, as well as the organisations, projects and initiatives that we support, contribute positively towards this growth, as this will secure our long-term commercial sustainability. Integrated reporting captures these core issues and encourages us to integrate them into our thinking. This method of reporting is fast becoming the standard way of communicating the annual results and we welcome this new journey. It creates an added discipline around reporting our progress to our stakeholders and communicating our long-term objectives.

Scope and boundary of this report

This 2015 Annual Integrated Report covers the period 1 January 2015 to 31 December 2015. The Annual Integrated Report focuses on our operations in East Africa. Unless indicated otherwise, all data pertains to the Group. Any restatements of comparable information are noted as such. The Group's financial information is prepared according to International Financial Reporting Standards (IFRS). Non-financial information deemed material is also included, guided by the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework.

Determining materiality

Our Annual Integrated Report is aimed at presenting a balanced, concise analysis of our strategy and performance, as well as governance and prospects. In determining the content to be included in this report, we consider the most pertinent developments and initiatives, as well as related performance indicators and future expectations that relate to our material issues.

We consider an issue to be material if it is likely to impact our ability to achieve our strategy, remain commercially sustainable and become increasingly socially relevant. In particular, material issues are those that have a strong bearing on our stakeholders' assessments of the extent to which we fulfill their needs over the long term. We also take into account the factors that affect the economic growth and social stability of the regions where we do business.

The specific short, medium and long-term matters that relate to how we deliver on our strategy and manage each of these sustainability issues are discussed with leadership every year to produce our Annual Integrated Report.

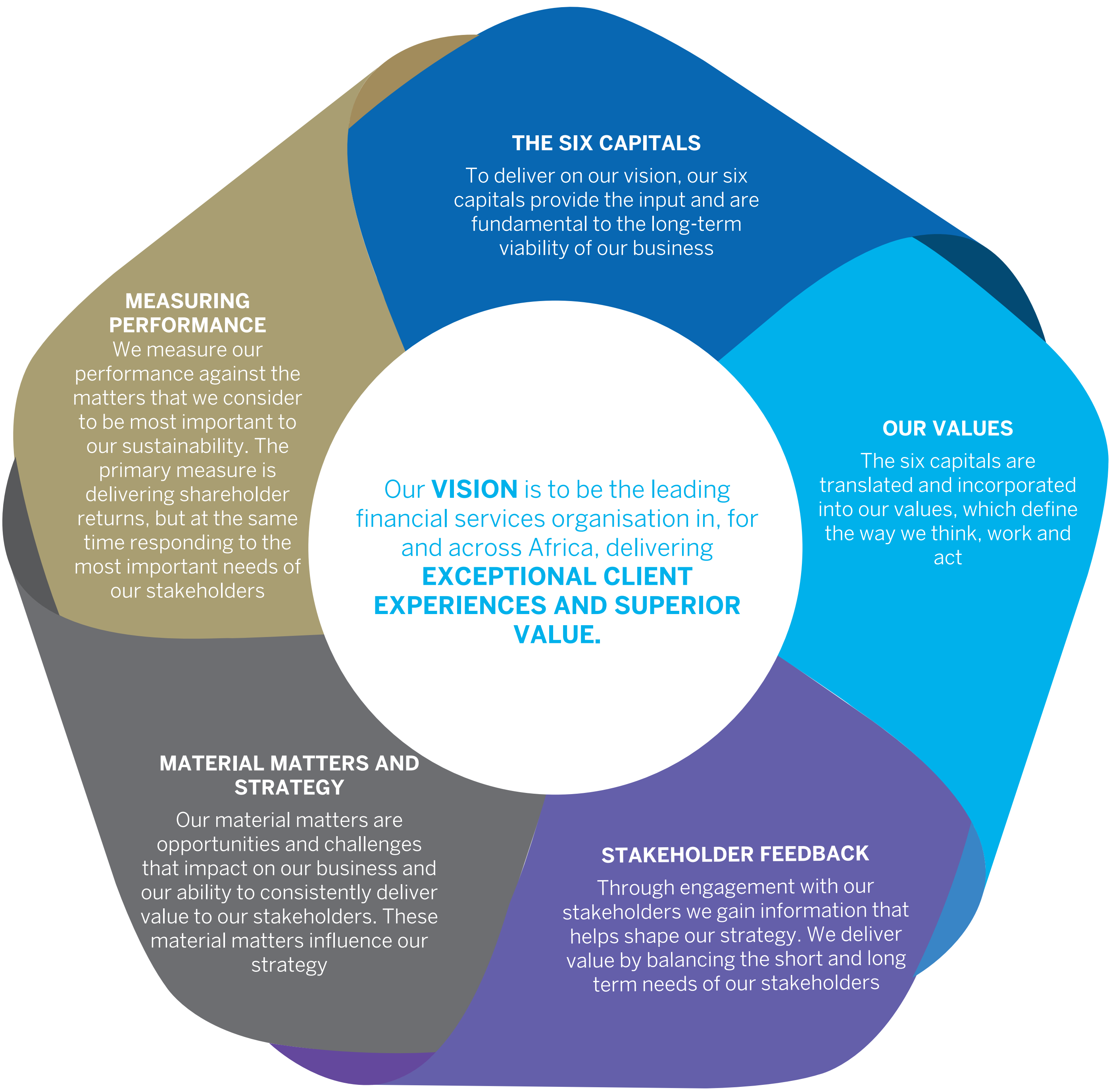
Based on our leadership engagement, governance processes and stakeholder engagement initiatives, particularly with investors, we are confident that all material matters have been identified and disclosed in this report.

Integrated thinking

To us, integrated thinking is about ensuring the long-term sustainability of our organisation through the sustained creation of value for stakeholders. This requires active consideration of the relationships between our various operating and functional units and the capitals that the organisation uses or affects. CfC Stanbic Holdings is committed to embedding the principles of integrated thinking in its business. The extension of this, integrated reporting, allows us to communicate our commitment to creating value for all our stakeholders, and to describe where we are on that journey at this point in time.

We have structured this report by looking at the inputs in the form of the six capitals (introduced on page 14) required in order for us to do business and generate value over the long-term; our material issues driving our strategy; our impacts (positive and negative); and how they respond to the needs of our key stakeholders.

We hope this report will be useful to our existing and prospective investors, but also to our diverse range of other stakeholders, and provide them with accountability measures, transparency and a clear picture of the issues that affect us the most.



Performance highlights

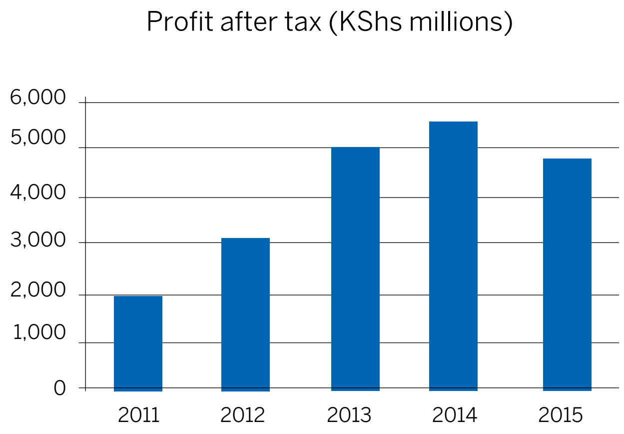
KShs 4,906 million

Profit after tax

2014: KShs 5,687 million

28%

Compounded annual growth rate



51.2% cost-to-income ratio

2014: 50.2%

13.0% return on average equity

2014: 16.4%

15.9% tier 1 capital adequacy ratio

2014: 17.5%

Employees
1,078
2014: 1,063

Customer loans and advances
KShs 105b
2014: KShs 88 billion

Penetration of digital channels
>60%
2014: 35%

Customer deposits
KShs 106b
2014: KShs 96 billion

AWARDS & RECOGNITION 2015

emeafinance Europe • Middle East • Africa

Best investment bank in Kenya for the 8th year running

Global Finance

Best foreign exchange bank in Kenya

Best sub-custodian in Kenya

Banker Africa East Africa Awards 2015

Best investment bank in Kenya

PWM The Banker Global Private Banking Awards 2015

Best private bank in Kenya

FiRe Financial Reporting Award

2nd runner-up (Bank category)

Think Business

1st runner-up in best bank in customer satisfaction

2nd runner-up in best bank in mortgage finance

Kenya Revenue Authority

Best V.A.T Yield - Value added Tax

Distinguished Taxpayers Award

CfC Stanbic Bank Limited Chief Finance Officer, Abraham Ongenge, receives the award on behalf of the Bank from President Uhuru Kenyatta at the KICC in Nairobi on 21 October, 2015.

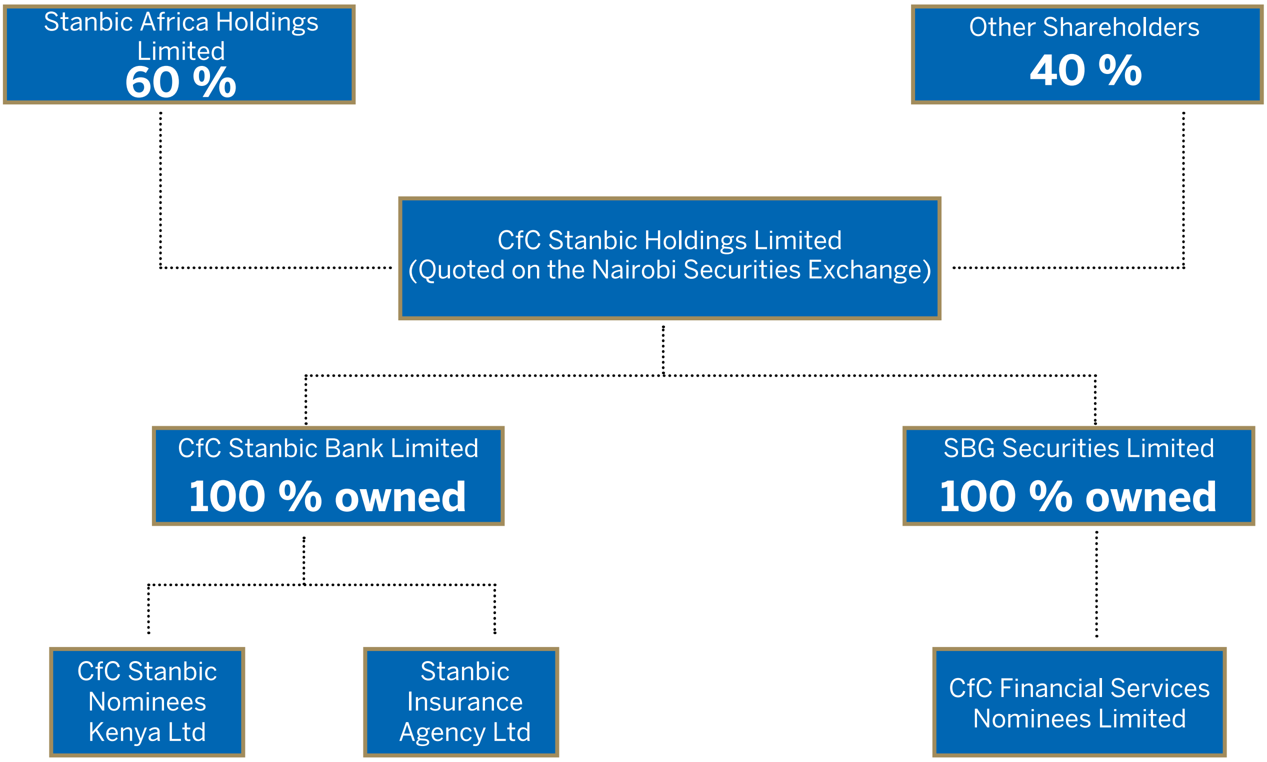
Business structure

CfC Stanbic Holdings Limited (the Company) and its subsidiaries (the Group) is a subsidiary of Stanbic Africa Holdings Limited (SAHL), which is in turn owned by Standard Bank Group Limited (SBG), Africa's leading banking and financial services group.

CfC Stanbic Holdings Limited owns 100% of CfC Stanbic Bank Limited and 100% of SBG Securities Limited.

CfC Stanbic Bank Limited owns 100% of CfC Stanbic Nominees Limited and Stanbic Insurance Agency Limited (SIAL).

SBG Securities Limited owns 100% of CfC Financial Services Nominees Limited.



CfC Stanbic Holdings Limited

Personal & Business Banking (PBB)

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

KShs 5,475 million

Gross revenue

2014: KShs 5,053 million

Corporate & Investment Banking (CIB)

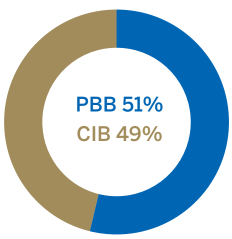
provides corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties.

KShs 10,562 million

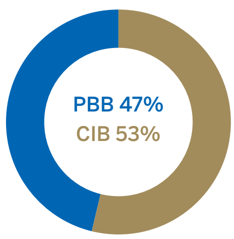
Gross revenue

2014: KShs 11,115 million

CUSTOMER DEPOSITS



CUSTOMER LOANS AND ADVANCES



Our Values

Our vision is to be the leading financial services organisation in, for and across Africa, delivering exceptional client experiences and superior value.

Serving our customers

We do everything in our power to ensure that we provide our customers with the products, services and solutions to suit their needs provided that everything we do for them is based on sound business principles.

Growing our people

We encourage and help our people to develop to their full potential, and measure our leaders on how well they grow and challenge the people they lead.

Delivering to our shareholders

We understand that we earn the right to exist by providing appropriate long-term returns to our shareholders. We try extremely hard to meet our various targets and deliver on our commitments.

Being proactive

We strive to stay ahead by anticipating rather than reacting, but our actions are always carefully considered.

Working in teams

We, and all aspects of our work are interdependent. We appreciate that, as teams, we can achieve much greater things than as individuals. We value teams within and across business units, divisions and countries.

Constantly raising the bar

We have confidence in our ability to achieve ambitious goals and we celebrate success, but we must never allow ourselves to become complacent or arrogant.

Respecting each other

We have the highest regard for the dignity of all people. We respect each other and what Standard Bank stands for. We recognise that there are corresponding obligations associated with our individual rights.

Upholding the highest levels of integrity

Our entire business model is based on trust and integrity as perceived by our stakeholders, especially our customers.

How we create value

Inputs the six capitals	Value adding business activity	Outputs financial performance
For more detail refer to page: 14	24	18

Inputs: the six capitals

Financial Capital
- Core capital KShs 25.9 billion
- Tier II capital KShs 4.5 billion

Natural capital
- Long-term objective to ensure clean development

Intellectual capital
- Market-leading innovations
- Strategic partnerships, including Industrial and Commercial Bank of China (ICBC)

Social and relationship capital
- Stakeholder engagement
- International best-practice environment and social risk management framework

Human capital
- 1,078 employees
- Client-centric culture

Manufactured capital
- 24 branches
- 47 ATMs
- Market-leading digital channels and products

Income after credit impairments

Value adding business activity	Outputs
We **lend money** to our customers and clients within the constraints of available capital and within our risk appetite and the prescribed regulatory environments. This creates assets for the Bank, from which we derive interest income over time.	Interest income and credit impairment charges
We **source funding** from deposits placed by customers and other funders to enable lending. This creates liabilities, which generate future interest expenses.	Interest expense
We **provide transactional banking facilities and knowledge-based services** to our customers and clients.	Net fee and commission revenue
We **offer market access and risk mitigation products** to our clients to support their business requirements, including foreign exchange, commodity, credit, interest rate and equity instruments.	Trading revenue
We **earn revenue from other sources** linked to our core business, including private equity and strategic investment banking.	Other revenue

−

Expenses

Value adding business activity	Outputs
We **invest in developing and retaining our people** in order to execute our strategy and deliver to our customers and clients.	Staff costs
We **invest in our operations**, which includes IT systems and infrastructure, to improve efficiency and deliver relevant products and services to our customers and clients.	Other operating costs

=

Net profit − Dividends to our shareholders, Taxes to governments

Principle Risk
arising from this activity

44

Outcomes
societal value generated

36

Credit risk

Interest rate risk

Liquidity risk

Credit risk

Market risk

Operational risk, including compliance, environmental and /or social risk

Business and reputational risk

Individual wealth creation through asset growth and/or income generation. Business growth, infrastructure development, job creation, supply of goods and services and corporate tax base. We employ responsible lending practices and global best practice in social and environmental risk and opportunities management in projects we finance.

Effective protection of our depositors' funds and reduced systemic risk in the banking system, through our capital and liquidity management framework - ensuring that we are able to meet our funding requirements and payment obligations under both normal and stressed conditions.

Convenient and cost-effective movement of money for our customers, through our digital platform. Client access to our experience and track record in the region through our knowledge-based services, including corporate advisory and loan structuring services.

Business growth, job creation and corporate tax base contribution by supporting market access and sourcing of capital, for example through equities exchange listing. Investments into East Africa by structuring and marketing local investment vehicles internationally. Financial protection through our risk mitigation products - particularly important for trading related activities which are central for national economic diversification.

Economic growth and additional value creation by investing in activities other than in the ordinary course of business operations, such as private equity and strategic investment activities.

Enhanced financial services and related skills through our employee training and development programmes. The employment multiplier effect means that for each job that we create we sustain, directly and indirectly, a number of other jobs in the local economy.

Reinvestment in our business to ensure we remain sustainable and competitive and able to continue to make a positive contribution in our society, through our products and services, employment, procurement of goods and services and contribution to the tax base.

= Retained equity which is reinvested to sustain and grow our business

The six capitals

These are the forms of capital that are fundamental to our ability to create value over the long term. The six capitals model is also referred as the 'capitals model of value creation' by the IIRC. While we have not formally adopted the six capitals categorisation, our report explains our dependence and impact on these capitals.

Financial capital	is the money we obtain from providers of capital that we use to support our business activities and invest in our strategy. Financial capital, which includes reserves generated through share capital, other equity-related funding and retained profits generated from our operations, is used to fund our business activities.
Natural capital	relates to the natural resources on which we depend to create value and returns for our stakeholders. As a financial services group we must deploy our financial capital in such a way that promotes the preservation or at least minimises the destruction of natural capital.
Manufactured capital	is our tangible and intangible infrastructure that we use to conduct our business activities, including our IT assets.
Human capital	refers to our people and how we select, manage and develop them. This enables them to utilise their skills, capabilities, knowledge and experience to improve and develop products and services that meet the needs of our customers and clients across the diverse regions in which we operate.
Social and relationship capital	refers to the cooperative relationships with our customers, communities, capital providers, regulators and other stakeholders that we create, develop and maintain to remain socially relevant and operate as a responsible corporate citizen.
Intellectual capital	which includes the knowledge of our people and our intellectual property, brand and reputation, is closely related to financial, human and manufactured capital given the nature of our business.

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Dear fellow stakeholders

CHAIRMAN'S STATEMENT

"We are committed to putting the customer at the heart of the banking experience and at the centre of everything we do"

In 2015, we made great strides in matching our services and products to the needs of our customers within the region. This is in line with our new strategy to move beyond being a great niche bank to pursue a clientele we have not traditionally engaged. As a Group, we have continued to improve our visibility, attracting new customers, who represent a wide variety of backgrounds. This customer growth was greatly driven by our digital platforms and support systems as well as the establishment of new physical branches across the country. The digital revolution continues to spur growth and open up new opportunities across multiple sectors. However, because of existing barriers, the full impact of this revolution will not be realised uniformly across all areas of the country and within every market segment in the short-term. In my view, it is important that we strive to strike an ideal balance between the growth of our online services and physical presence.

Fred N Ojiambo, MBS, S.C
CHAIRMAN OF THE BOARD OF DIRECTORS

When I took over as Chairman, it was clear to me that providing services to the unbanked was a critical step in adding value to a broader range of stakeholders. We have since taken steps in that direction and our footprint has improved significantly. We continue to reach into customer segments that we have not been present in before and move closer to the people. The Group is cognisant that even as we engage with a greater number of market segments, our core strengths are different from other financial players. We are a Group, serving the needs of a highly dynamic region.

Our performance

In 2015, we did not perform as well as we had anticipated. One of the difficulties we faced pertained to the business environment in South Sudan, which significantly impacted our results. However, our fundamentals remain intact and the mid- to long- term prospects are extremely exciting.

The Group successfully incorporated Stanbic Insurance Agency Limited, the bancassurance business, in April 2015. Stanbic Insurance Agency Limited is a wholly owned subsidiary company of CfC Stanbic Bank Limited. We would like to notify our shareholders of our intention to transfer Stanbic Insurance Agency from being a subsidiary of CfC Stanbic Bank Limited to being a 100% direct subsidiary of CfC Stanbic Holdings Limited, through a sale agreement. This is subject to regulatory approval.

Good governance remains a key pillar in securing our long-term success. The Board members have very distinct and strict fiduciary and legal responsibilities under Kenyan laws, which are underscored in the new Companies Act that came into force in 2015. The Board focused on ensuring alignment of the Group's policies with the laws and regulations of Kenya. We need to be responsive to the regulatory environment in Kenya and also South Africa-driven regulatory requirements that impact on the Group. As with most multinational companies, this is always a delicate balance to strike. We intend to leverage our international networks and local expertise, supported by our insightful knowledge of local markets through our dynamic Board, Executive Committee and highly skilled workforce.

We welcomed Philip Odera, as our new Chief Executive Officer for CfC Stanbic Bank Limited (the Bank) in 2015. We want to ensure that the information provided to the Board is forward looking, which will guide our decision making process.

The financial services sector is a highly technical field. To build the capacity of the Board, we partnered with senior management and technical staff from the Bank to conduct training. This training focused on the technical and operational aspects of the business. Such initiatives allow the Board to optimize its contribution in terms of strategy and oversight. In addition, the Board engaged in a workshop that involved a strategy rethink of our "business-as-usual" approach and came up with "disruptive solutions" aimed at addressing the new world of finance and ensuring long-term sustainability.

Looking forward

My vision for 2016 is to focus on sustainability and ethics. I believe there is much business value that can be derived from paying attention to these areas, which present a risk if not overseen properly.

Integrated reporting captures these core issues and encourages us to integrate them into our thinking. It is fast becoming the normal way of communicating the annual report. We welcome this new journey. This is not a single event, rather it is a process that will help our business become more conscious about how we create and manage value over the long-term for our stakeholders. It creates an added discipline around reporting to stakeholders on our progress in view of our long-term objectives.

Overall, I feel that our Board performed well in 2015 and has set the pace for an even better year ahead. I wish to recognise and extend my sincere appreciation to our esteemed customers for their steadfast support and patronage. I thank the Board, Management and staff of the Group for their dedicated service during the year.

To our shareholders, we are sincerely grateful for your continued confidence in the Group.

Finally, I want to recognize and thank the Kenyan and South Sudan governments and our regulators, the Central Bank of Kenya, the Bank of South Sudan, the Capital Markets Authority, the Nairobi Securities Exchange, the Insurance Regulatory Authority and the Retirement Benefits Authority for providing an enabling business environment and for their co-operation and guidance during the year.

2 March 2016

Financial review

CFO STATEMENT

> "We witnessed the benefits of a more diversified business and clearly articulated strategy. This enabled us to respond effectively to shifting market dynamics during the year."

Overview of the operating environment

Kenya

2015 provided the toughest operating environment to date due to volatility in interest and the foreign exchange rate environment. Fortunately, our efforts at building a more sustainable outfit is paying off as we witnessed the benefits of a more diversified business and clearly articulated strategy. This enabled us to respond effectively to shifting market dynamics during the year. We began the year with tight liquidity, which stifled some of the investments we made in the previous year. This resulted in a soft performance of the trading book in the first half of 2015. The situation was exacerbated by the poor performance of the equities market on the Nairobi Securities Exchange, but we responded remarkably in the second half of the year to post a reasonable performance. Another factor that impacted the external environment was the capital gains tax, which was introduced in 2015 and later retracted. There was also uncertainty for emerging markets globally, which resulted in reduced investment in the Kenyan economy. However, looking at it holistically, we had good growth in customer loans and advances (18.8%), but the timing means that the impacts of this will only be seen on the income statement in 2016.

Abraham Ongenge
CHIEF FINANCE OFFICER

Overview of the key features of 2015 financial results

The Group reported a year on year decline in profitability mainly due to:

- Decrease in revenue in our South Sudan operations as the effects of political unrest continue to impact the South Sudan economy.
- Decrease in trading income driven by rise in yields due to heavy mopping up of liquidity leading to low trading activity.

However the Group continued to report growth in balance sheet with customer deposits growing by 10% and customer loans growing by 19%.

SBG Securities improved its market share to 14.97% from 13.24% in 2014. This is despite lower volumes experienced in the securities exchange in 2015 due to local currency depreciation against the dollar.

The Group continues to focus on cost discipline with costs growing below inflation.

Profitability

Profit after tax declined by 14% to KShs 4,906 million, a decrease of KShs 781 million from the results of the year ended 31 December 2014. This resulted in a decrease in earnings per share to KShs 12.41 per share from KShs 14.38 per share in 2014.

Return on equity

The return on average equity net of goodwill decreased to 17% in 2015 from 23% in 2014. On a weighted average capital basis, the return on equity was 13% compared to 16% in 2014.

Economic factors affecting the results

Inflation

The year-end inflation rate stood at 8.0% compared to 6.0% in 2014. The increase was driven by higher food prices.

Central Bank Rate (CBR)

The Central Bank Monetary Policy Committee raised the CBR to 11.5 % from 8.5 % in comparison to December 2014.

Key financial highlights

Performance Indicators	2015	2014
Total income growth	0.4%	4%
Credit impairment charges growth	(29%)	8%
Profit before tax growth	(4%)	7%
Customer loans and advances growth	19%	28%
Customer deposits growth	10%	1%
Capital adequacy (tier 1 ratio)	16%	18%
Return on average equity (post tax)	13%	16%
Earnings per share (KShs)	12.41	14.38

Net interest income increased by KShs 841 million. In 2015, non-interest income accounted for 45% of total operating income as compared to 50% in 2014.

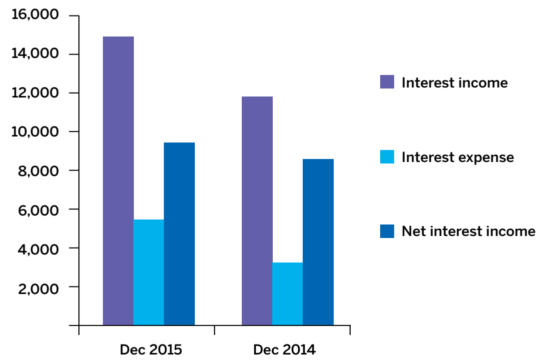
Operating costs increased by KShs 210 million, a 2.5% increase from the previous year.

The cost to income ratio edged slightly higher to 51% due to the increase in operating costs by 2.5% compared to growth in revenue by 0.4%.

Net interest income

	2015 KShs 000	2014 KShs 000	Change
Interest income	14,667,896	11,642,457	26%
Interest expense	(5,364,849)	(3,180,512)	69%
Net interest income	**9,303,047**	**8,461,945**	**10%**

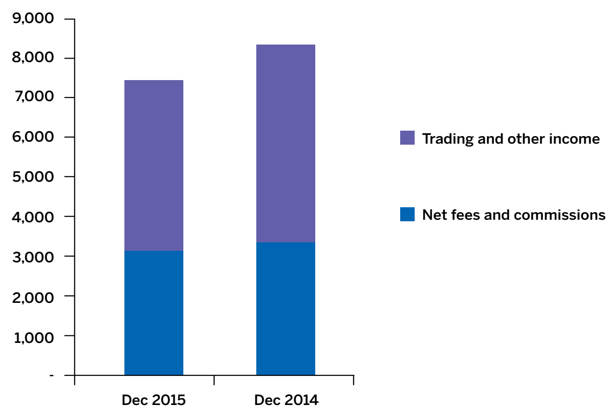
KShs millions

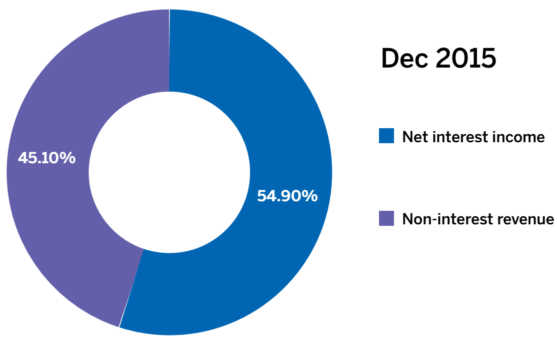


The increase in interest income was mainly driven by growth in customer loans and advances. In line with balance sheet growth, the Group was successful in securing term funding from various funding partners that resulted in interest expense increase year on year. The Group continues to focus on improving the funding mix by growing core customer balances (current accounts and savings deposits).

Non-interest Revenue

KShs millions





Net fees and commission income

Net fees and commission income decreased from KShs 3,308 million in 2014 to KShs 3,069 million in 2015. This was mainly attributable to decreased transactional volumes and the trade finance activity in South Sudan .

Trading revenue

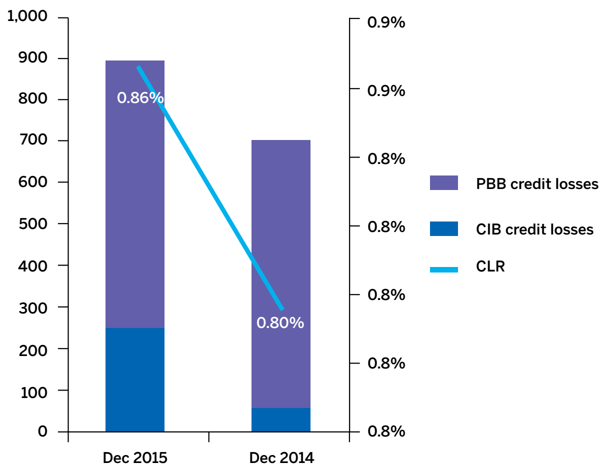
Income from trading decreased from KShs 4,779 million to KShs 4,307 million. The decrease was mainly driven by harsh trading environment in the Kenya bond market, partly offset by net unrealised gain on monetary assets in South Sudan arising from devaluation of the South Sudanese Pound.

Impairment losses

	2015 KShs 000	2014 KShs 000
Impairment charge for non-performing loans	1,237,063	1,298,029
Impairment charge for performing loans	335,239	(55,132)
Recoveries during the period	(571,559)	(441,734)
Other movements	(93,438)	(98,341)
Net impairment charge on loans and advances	**907,305**	**702,822**

Credit Impairment charges

KShs millions

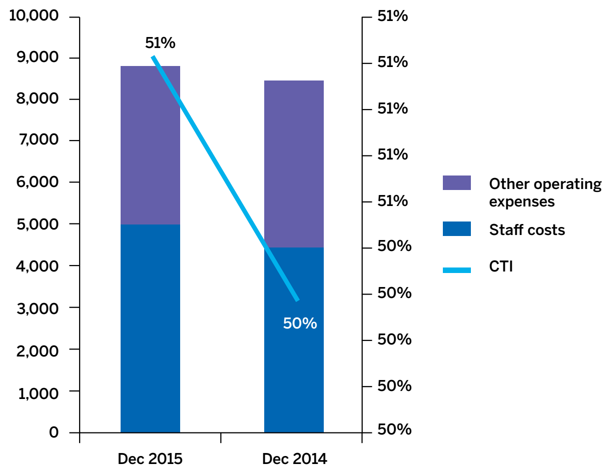


Increase in provisions was mainly due to growth of the Bank's loan book as demonstrated by above 100% increase in impairment charge for performing loans.

Operating expenses

	2015 KShs 000	2014 KShs 000
Staff costs	5,035,142	4,472,141
Operating expenses	3,642,414	3,995,289
Total expenses	**8,677,556**	**8,467,430**

KShs millions



Employee compensation and related costs increased by KShs 563 million mainly due to annual salary reviews, coupled with an increase in staff head count to support the Group's growth strategy.

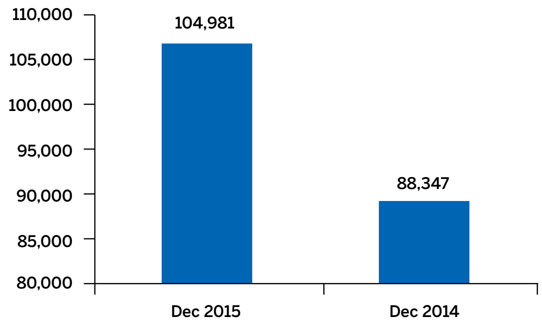
Other operating expenses for 2015 were lower than 2014 costs by KShs 353 million largely due to improved efficiency and benefits derived from use of technology.

Statement of financial position

During the year under review, the Group's total assets grew by 15% to KShs 208 billion as at close of 2015. The balance sheet growth was largely driven by growth in customer loans and advances and loans and advances to banks.

Customer loans and advances

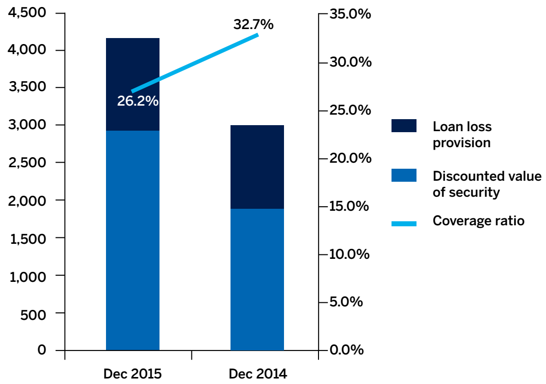
KShs millions



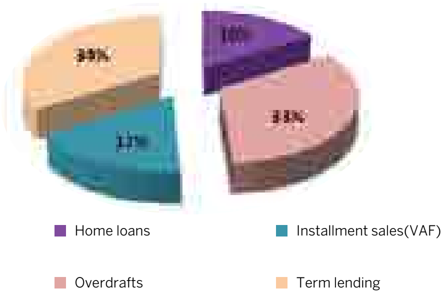
2015 Loans and advances by product

2015 Loans and advances by business unit

Customer loans and advances non-performing loans (NPLS)



2015 NPLs by product

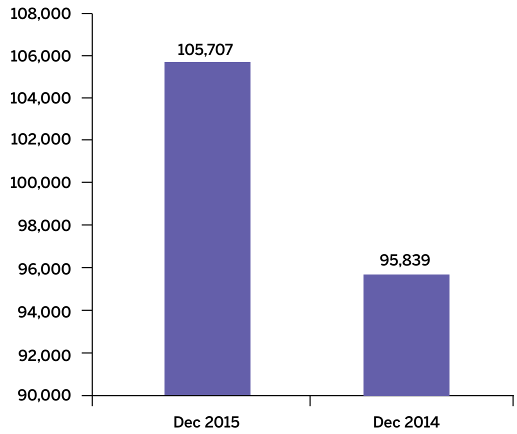


2015 NPLs by business unit

Customer loans grew by KShs 16,634 million to close the year at KShs 104,981 million.

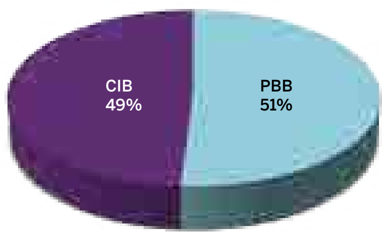
Customer deposits

KShs millions



2015 customer deposits per product

2015 customer deposits by business unit



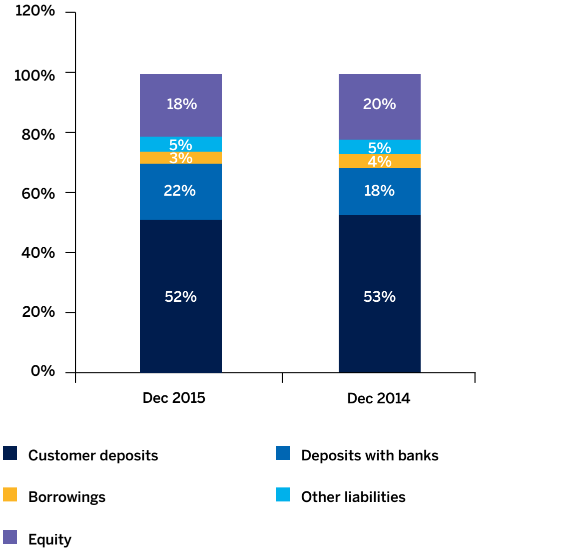
Customer deposits increased by KShs 9,868 million to close the year at KShs 105,707 million. Customer deposits grew by 10% year on year with core accounts accounting for 69% of total deposits.

Capital adequacy

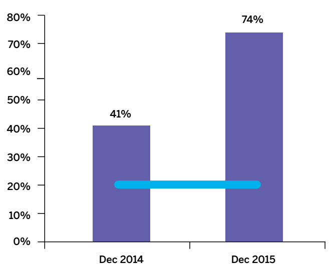
At 31 December 2015, the Bank's total capital ratio was 18.70% (2014: 21.08%) of risk-weighted assets, with core capital at 15.95% (2014: 17.52%). The capital adequacy ratios remain above the stipulated regulatory minimum of 14.5 % and 10.5 % respectively.

Part of the earnings for the year will be reinvested in the business to enable it grow its assets.

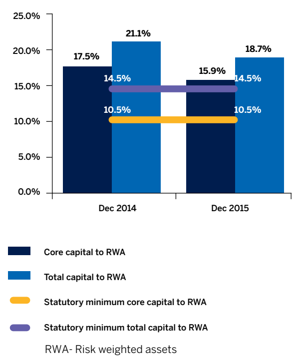
Funding mix



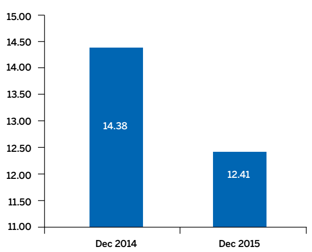
Liquidity ratio (Bank only)



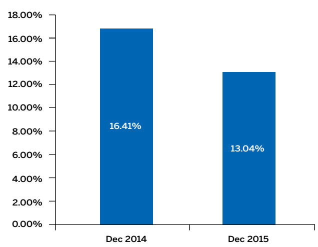
Capital adequacy ratio (Bank only)



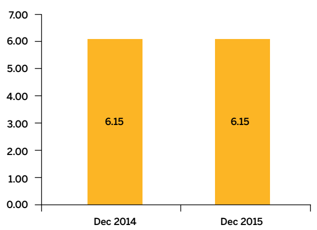
Earnings per share



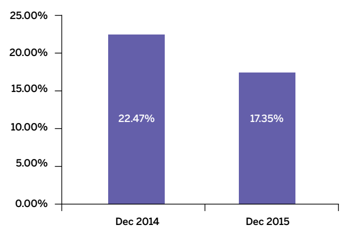
Return on average equity



Dividends per share



Return on average equity net of good will



South Sudan

The South Sudan branch's contribution to the Bank's profit was 7% in 2015 (2014: 8%). Despite the deteriorating operating environment, the branch reported a profit of KShs 376 million.

The Government of South Sudan introduced reforms aimed at liberalising the market key among them being adoption of a floating exchange rate regime in the last quarter of year 2015 which resulted in an immediate devaluation of the South Sudanese Pound.

We protected the gains we had previously made and that benefit realized itself in second part of the year. We expect the challenging environment to continue, while efforts to find a lasting peace solution could positively impact the business environment in South Sudan in 2016.

CfC Stanbic Bank is licensed and regulated by the Central Bank of Kenya.

Business unit reviews

Personal & Business Banking (PBB)

"Our purpose is enabling people to succeed. We are leading with business banking underpinned by the fact that SME is a growth sector. We will focus on creating valuable relationships with our customers through provision of quality services that meet their day-to-day needs"

Adam Jones,
HEAD - PERSONAL AND BUSINESS BANKING

Overview of business performance in 2015

Personal and Business Banking continued to focus on three key areas – personal banking, business banking and high net-worth individuals. We provided simple, affordable, convenient and accessible banking services to personal markets, business customers alongside tailored personal financial solutions for our high net-worth individual clients.

In each of these lines of business, our main focus areas were:

- Client relationship management.
- Customer growth and acquisition.
- Business transformation through efficiency improvement and cost reduction initiatives.
- Investment in new age distribution platforms.

In 2015 we saw a sudden rapid rise in interest rates, which caused a margin squeeze for us as most of our business came through foreign currency lending. We reached some key milestones in business development in 2015:

The launch of Stanbic Insurance Agency

In line with regulatory changes, banks can now offer insurance agency services in Kenya. Our agency was approved in August 2015 and we believe there is a significant opportunity to fulfil our customers' insurance needs. This is especially true as business banking is our sweet spot and there are fewer established insurance players in this segment. Our new bancassurance system went live in October 2015 and we believe that this platform will be pivotal in supporting our business growth plans for this area.

The launch of our digital platforms

We are placing significant effort into the development of our digital platforms. Our physical branch network is relatively small with 24 branches at present (two to be opened in 2016) and our digital platform is our main driver for business growth.

We rolled out the new mobile banking app and Internet Banking platform in 2015. The mobile banking app was well received by customers, leading to a higher number of transactions and value transacted on mobile banking compared to ATMs. The new internet banking platform has the widest range of online services in Kenya, offering our customers great convenience for payments to other local banks as well as international payments. We now have two digital branches; Nyali branch in Mombasa and our enhanced digital experience centre at Garden City branch in Nairobi, which opened in 2015 and offers automatic and real-time cash deposit capability - a first in the market.

We have seen good traction with our digital channels where overall penetration grew from 35% in 2014 to over 60% in 2015. Mobile banking penetration is now at 85% and internet banking at 52%. Our ATM network recorded an average uptime of 98.5% throughout the year, with mobile banking and internet banking at over 99% availability. This is an improvement on 98% in 2014 and a result of significant investment in our core banking IT system.

Our aim is to become among the top three leading banks in Kenya, through continued investment in solutions that focus on the day-to-day needs of our customers.

Through collaboration and partnership with telecommunication companies we have developed a superior collections solution that can be scaled across different sectors such as schools, agribusiness, retail and distributorships. Our business banking customers are able to send money collected on mobile money to their bank accounts and this has recorded tremendous growth, evidencing the need to cater for our customers' cash management needs.

Process automation

We also launched our automated account opening process and developed a platform that automates processing of lending applications. The system will be fully operational in the third quarter of 2016, leading to faster turnaround times, better customer experience and greater operational efficiency. We have also rolled out a superior platform that will allow retail customers to receive payments via debit and credit cards. This is an area where our parent company is the market leader in South Africa, expertise that we have been able to draw on.

Strategy

Kenya has always been one of the key growth countries for Standard Bank Group, with a promising long-term outlook and extensive infrastructure development plans by the government. We have also seen some recovery in the tourism sector in 2015 and growth numbers are looking robust in comparison to many other markets on the continent. In addition, Kenya is a key market for Chinese investment and is seen as a regional hub for business and finance. In this regard we have a great competitive advantage as 20% of the Group parent company, SBG, is owned by ICBC, the largest bank in the world.

Our strategy in PBB is to continue to lead with the business banking segment, which currently makes up about two-thirds of our business in terms of total PBB revenue. In doing so, we focus on supporting SME growth, which is the engine of economic growth in Kenya. In this space, our strategic focus on payments and collections services gives us a competitive edge going forward.

At the same time, we are looking to grow our personal banking segment, which currently makes up about one-third of our business. This will be achieved through cross-selling and holistic service offerings facilitated by collaboration across our business teams and units. We want to leverage our digital platforms to focus on access, efficiency and convenience for the customer and we are looking to reach a broader range of customers, including those who have not been banked before.

Another potential growth area on the personal side is Wealth and Investment, a business segment that was introduced four years ago and has witnessed promising client growth. This also offers a crossover with the business side as these clients often also conduct their business banking with us. This segment has grown significantly having received the award of being the best private bank in Kenya, 2015. In addition, I want to highlight that we take pride in having been able to grow this market segment while upholding the highest international standards of vetting. Our staff go through annual mandatory training in terms of our Anti Money Laundering procedures and we adhere to strict background checks of our clients.

Our products and services at PBB

Mortgage lending

- Residential accommodation loans to individual customers

Instalment sale 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

- Credit card facilities to individuals and businesses (credit card issuing)

Lending products

- Lending products offered to both personal and business markets
- Business lending offerings constitute a comprehensive suite of lending products, structured working capital finance solutions and commercial property finance solutions

Transactional products

- Comprehensive suite of transactional, savings, investment trade, foreign exchange, payment and liquidity management solutions made accessible through a range of physical and electronic facilities

Bancassurance and Wealth

- Short-term and long-term insurance comprising of Credit life and Home Owners and Commercial Business Cover
- Wealth management services through investment services, trust and fiduciary, philanthropy, risk solutions, specialized lending and transactional banking services

CASE STUDY

Kinangop Dairy

Being more than just a lender to one of our clients

Kinangop Dairy Ltd (KDL) was established and incorporated in 1999 as Mkulima Creameries Ltd to buy, process, package and distribute dairy products using milk produced in the rich milk catchment areas of the North and South Kinangop areas of Central Province.

In 2006, Mkulima Creameries Ltd changed its name to Kinangop Dairy Limited with a view to widening its operations and to associate more closely with Kinangop Farmers.

KDL and the Bank established a relationship in 2012 when KDL's operations were limited to a cooling plant with an annual turnover of between KShs 15 million and KShs 20 million. At the time, the company struggled to secure finance as the financial institutions it approached did not see the value in financing equipment such as additional chilling plants.

This changed when the Bank approved a loan in 2012/2013 for the company to purchase its first processing machine, worth KShs 100 million, which produced milk with a three-day shelf life. This helped to boost the operation's business turnover in the subsequent year, resulting in a growth of over KShs 500 million in 2014.

KDL subsequently made the decision to expand its processing capability by purchasing another processing machine, capable of producing milk with a three-month shelf life (long life milk). This saw turnover grow to KShs 1.7 billion in 2015. KDL currently processes over 70,000 litres of milk per day.

Business Solutions

Throughout this journey, and via engagement with top level management and relevant business units, the Bank was able to identify needs and challenges around cash management. These included issues relating to the timely banking of cash proceeds from milk sales to KDL's bank account and related security issues (daily runs for milk delivery commence at 3am and end at 6am), as well as other issues such as the need for reconciliation of funds paid in by each distributor and need for a unique identifier reference. The payment platform provides a module where the business owner can pull reports to analyse sales activity trends and manage stock levels, get to know which routes are doing better or those which are more suited for certain products.

In the latter part of 2014, the Bank supported KDL in adopting solutions to digitally collect its funds through a Paybill account, in partnership with Safaricom. The Bank extends real-time settlement of funds as transactions flow into the Paybill account. This is an effective, real-time and risk free solution which allows KDL to efficiently collect money from its various distributors – who are geographically widely dispersed – a process that was previously conducted through physical branches of many different banks. The solution also avails a reconciliation tool that enables KDL to focus on its core competence- growing and scaling up dairy farming in a bid to meet rising demand.

The benefits for the client include:

- Optimised cash flow management.
- Enhanced working capital cycles leading to improved liquidity positions for the business.
- Track and account for all milk sales – eased reconciliation.
- Enhanced security as cash-in option is digital.
- Reduced trips to deposit cash into the bank account.
- Curbed fraud (fake bank cash deposit slips).
- Increased movement of stock and sales.
- Real-time value credited to client's account seamlessly.
- 24/7; 365-day access to its accounts from a cash-in perspective.
- The Bank referred KDL to another of its bank customers to supply the operation with cartons for packaging.

The Bank has become KDL's primary financial partner, with additional products and services such as line of credit, overdraft, vehicle and asset finance facility, a bid bond and term loan to finance capex.

KDL has also appointed Stanbic Insurance Agency Limited to handle its insurance covers and claims, and the Bank to provide banking services for the SACCO with over 7,000 farmers paid every month.

Through automation, the customer is able to tell the difference between his/her records against the records kept by the Bank through integration to the customer's ERP system.

In summary, the Bank provided innovative customer centric solutions and worked to establish a holistic appreciation of a sector ecosystem - in this case for the dairy sector - enabling the Bank to add value in several different ways. By partnering with Safaricom, the Bank was able to provide solutions in remote areas where the Bank does not have branches.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Corporate & Investment Banking (CIB)

> We aim to play a systemic role in the sectors we operate in and seek to add value, not just by being a lender, but an advisor and partner across the business value chain

Mike Blades,
REGIONAL HEAD - CORPORATE AND INVESTMENT BANKING

Overview of business performance in 2015

CIB serves a wide range of clients in meeting their banking, finance, trading, investment and advisory requirements. In each of these lines of business, our main focus areas for 2015 included:

- Client centricity.
- Growing our local currency balance sheet.
- Providing world class service to our clients.

2015 was one of the toughest trading years for CIB Kenya. This was as a result of the volatile interest rates, which negatively impacted lending margins.

But despite the challenging environment, we continued to enjoy good customer asset growth in 2015, with no imminent concerns on the loan book, which is supported by our low credit loss ratio.

Strategy

I believe we are coming out of this tough year stronger and better prepared. We plateaued from a growth perspective and we asked ourselves some hard questions in terms of the way forward. From a Standard Bank Group perspective, alongside South Africa, Kenya and Nigeria are considered the "core markets". There are tremendous opportunities in the Kenyan market, with its comparatively diversified economy and good long-term growth prospects.

In addition, we have a highly educated and skilled workforce. These market opportunities are known to many, so Kenya is also the most competitive banking market on the continent. This means we have to be good at what we do and work hard to create returns that are sustainable over the long term.

The way we are adjusting our strategy is to increase our share in local currency assets and liabilities by broadening our customer base and placing an increased focus on transactional banking. Our overriding goal as agreed by Management and the Board is to be amongst the top three banks within the next five years, by being the best transactions bank in Kenya. By this we mean being the best payment and collection bank in Kenya.

Our main service delivery platform will be the digital platform and CIB and PBB will work together to ensure we capture this opportunity in its entirety. Our focus is on the client and how we as a team, across business units, can offer a full range of services and solutions to the client and its surrounding eco-system.

Standard Bank Group and CfC Stanbic are well known for excellence in Investment Banking transactions. This is evidenced by our involvement in the big Power and Infrastructure projects in Kenya and on the African continent. As such we help facilitate infrastructure development that is key to economic growth. What is perhaps less known is our involvement in the surrounding value chain. Our strap-line is "Empowering business people to succeed", so while the development and financing of an infrastructure project is an important milestone in terms of achieving economic growth, we also help maximize the growth opportunities by working with associated businesses and the ecosystem around that project. We aim to play a systemic role in the sectors we operate in and seek to add value, not just by being a lender, but as an advisor and partner across the business value chain.

We are also fully cognisant that it is in our interest as an integral entity in the economy, to do our part in ensuring that economic growth is long term and sustainable. This means actively taking into account long-term considerations such as social and environmental risks and opportunities in the business activities we support. This is an ongoing process where we continuously seek to further strengthen our environmental and social risk management practices.

Moving forward

One of our greatest moments in 2015 was achieving the internal recognition that we need to work together across units within the Bank to achieve great success by embracing the "Universal Bank" concept. This is an area of focus and will be a big test for us in 2016.

To deliver the value that we aspire to, all business units need to work together in pursuit of a shared goal which is to be a top 3 bank in Kenya.

What we will look out for in 2016:

- Monitor progress in terms of execution of the strategy, especially the growth of our local currency business.
- Ensure we are relevant in the economic sectors that are enjoying the most growth.
- Maintaining discipline around being client centric and providing end-to-end solutions to our clients.
- Providing superior service to clients.

Our products and services at CIB

Relationship management, client coverage and sector expert

Global Markets	Investment Banking	Transactional products and services
• Foreign exchange • Debt security trading • Equity • Markets and interest trading • Fixed income trading	• Project finance • Advisory • Corporate lending • Syndicated lending • Equity capital markets • Debt capital markets • Property finance	• Cash management • Investor service • Liquidity management • Trade finance • Working capital financing

CASE STUDY

Kenya Pipeline Company

Excellence in infrastructure financing

The Kenya Pipeline Company (KPC) Limited is a State Corporation, which is 100% owned by the Kenyan Government. Its mandate is to construct, operate and maintain an oil pipeline network to transport refined fuel throughout Kenya. KPC enjoys a pipeline transport and storage monopoly and its clients are oil marketing companies with the largest four accounting for 75% of petroleum sales market share in Kenya.

The purpose of KPC's Line 1 Replacement Project is to complement and eventually replace its existing 14-inch diameter petroleum products pipeline, which has been in operation for the last 36 years. The length of this new pipeline will be 450km, running alongside the existing one. The capacity of this new pipeline is designed to meet the projected petroleum products demand for the East African Region through to the year 2044.

The new pipeline is a transformational project that will have an enormous impact on the regional economy as many landlocked countries also depend on the reliable and efficient delivery of petroleum products from the pipeline. It will offer employment opportunities for Kenyans and enhanced safety and Government revenue by providing the safest means of transporting petroleum products. The project applies global best practices on health, safety and environmental management, in line with the Equator Principles.

Milestone in infrastructure financing

With its Co-Mandated Lead Arrangers, CfC Stanbic Bank devised the most fit-for-purpose debt solution for Kenya Pipeline Company by arranging the facility. The total debt requirement was USD 350 million, sourced from a consortium of six banks, including CfC Stanbic Bank.

As one of KPC's primary relationship banks, CfC Stanbic Bank has proven its ability to structure and meaningfully participate in the financing of KPC's major expansion projects on a number of occasions.

Transactions such as this clearly demonstrate CfC Stanbic Bank's deep knowledge of and presence in Kenya, as well as the ability to structure bespoke facilities in much needed large scale infrastructure development projects that meet client requirements and draw on expert resources across the wider Standard Bank Group.

This was a milestone transaction for the market because of the tenor and structure being fully underwritten without the need for independent risk insurance or a government guarantee.

CfC Stanbic Bank was able to deliver solutions for KPC's short-term and long-term needs at the right price. With the right partners, CfC Stanbic Bank has backed KPC successfully in the past and will continue to do so.

Economic review

2015 was indeed a challenging year for the global economy. The US raised interest rates after nearly a decade, China acknowledged the importance of re-balancing their economy to become a more services oriented economy from an export driven model. Likewise, the Eurozone continued to battle with tepid economic growth and political challenges while geopolitical concerns intensified mainly between Russia and the US. African economies mainly those dependent on commodity exports felt the pinch from China's waning demand for its commodities, while the possibility of a capital reversal back into the US increased volatility for most African currencies.

The US Federal Reserve raised rates after nearly a decade in December 2015 citing an improvement in the labour market and wage inflation. Indeed, the US Federal Reserve is likely to continue raising rates in 2016, however unlike the December hike, these should be priced in much better by the market, thus ripple effects on emerging market currencies and global financial markets should be less drastic.

International oil prices continued to plummet as supply from US shale oil producers rose while waning demand from China, Japan and the Eurozone also led to this sharp decline. Likewise, sanctions against Iran were lifted in January 2016 which could potentially exacerbate the global glut situation and thereby exert further downward pressure on oil prices.

Furthermore, China unexpectedly devalued the CNY back in August 2015 in an attempt to make their local unit commonly referred to as the Renminbi more market friendly. Policy makers in Beijing have acknowledged the importance to re-balance their economy to a more services driven one than the previous export led model. China's growth in 2015 fell to a 25 year low with more fiscal stimulus looking inevitable to revive the world's second largest economy.

Kenya economic review

Kenya's economic growth remained resilient in 2015 in what was an extremely challenging year for global growth. We expect real GDP growth to expand by 5.7% year-on-year (y/y) in 2016 up from an estimated 5.3% y/y in 2015. Increased public investment in infrastructure will probably ensure that the construction sector continues to remain an important driver of growth in 2016 as well. However, the agriculture sector may experience some challenges in the first half of 2016 as most weather experts warn of a dry spell following the El Nino weather conditions, while similarly looser monetary policy in source markets like the Eurozone and the UK will diminish vegetable and flower farmers export earnings in the first half of 2016. However, we expect activity in the agriculture sector to recover after the onset of the long rain season from May 2015. The CfC Stanbic PMI showed an encouraging rebound in private sector activity in December 2015 (55.5) after posting record lows in September 2015 (51.9) and October 2015 (51.7). However, despite the December reading rising to an eight month high, growth in the fourth quarter was the weakest on average (53.6) since the series began in 2014.

Additionally, headline inflation which has currently exceeded the government's upper band target of 7.5% y/y may continue to remain elevated in the first quarter of 2016. However, with global food prices edging lower and closely mirroring the trend of international oil prices, food inflation pressures are unlikely to resemble those we witnessed back in 2011 during the Horn of East Africa drought. More importantly however, underlying inflation pressures have been tamed by the Central Bank of Kenya (CBK) and hence it was a good decision by the Monetary Policy Committee (MPC) to leave the Central Bank Rate (CBR) steady at its meeting on 20 January 2016. After all, raising the CBR wouldn't lower food prices and the excise tax implemented in December 2015 was effectively a one-off. We see headline inflation moderating from the second half of the year however the MPC may prefer to stand neutral leaving the CBR unchanged at 11.5% for the remainder of the year. Admittedly, though the next move in the CBR will probably be to the downside however, as core inflation pressures remain well anchored aided by a more a stable exchange rate while lower international oil prices will help lower inflationary expectations as well.

The Kenyan Shilling has been remarkably resilient and a beacon of strength in the region weathering the storm better than most other currencies in 2015, as the US dollar strengthened across the board. In fact any depreciation in 2016 is likely to be more measured as the CBK has more than enough ammunition in terms of Foreign Exchange (FX) reserves and the precautionary facility from the IMF. Furthermore, we suspect the Current Account (C/A) deficit fell to 8.0% of GDP in 2015 aided by the reduction in the oil import bill. However, in reality if we exclude machinery imports related to the Standard Gauge Railway (SGR) the C/A deficit is much lower than that. A decent recovery in the tourism sector in 2016 and with oil prices likely to remain low, the C/A deficit will probably continue to remain within single digits as a percentage of GDP, in spite of the continuation in capital expenditure for infrastructure projects.

We see infrastructure as a necessary virtue for Kenya, and it's clear that infrastructure spending will have short term vulnerabilities but certainly have long term benefits. When assessing possible risks to Kenya's economic outlook for 2016, fiscal slippage stands out. We are in a pre-election year and while spending on development will increase future productive capacity, the government ought to ensure that recurrent expenditure doesn't get out of control. Arguably, it may not be politically correct to drastically cut recurrent expenditure in a pre-election year, however it may be prudent to just push forward some development projects.


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“Who’s got what I need to take my business to the top?”
“The multi-award winner.”
Best Investment Bank in Kenya
EMEA Banking Awards 2015
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Global Finance
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AFRICAN BANKING AWARDS 2015
BEST SUBCUSTODIAN BANK AWARD • 2015
GLOBAL FINANCE
Once again, we’ve come out tops at the awards. But the true reward is our successful partnership with you, which has yielded so many accolades, locally and internationally, with over 20 awards won across the Group. Our track record of success, is your reassurance that we will never stop in our efforts to keep moving you and your business forward.
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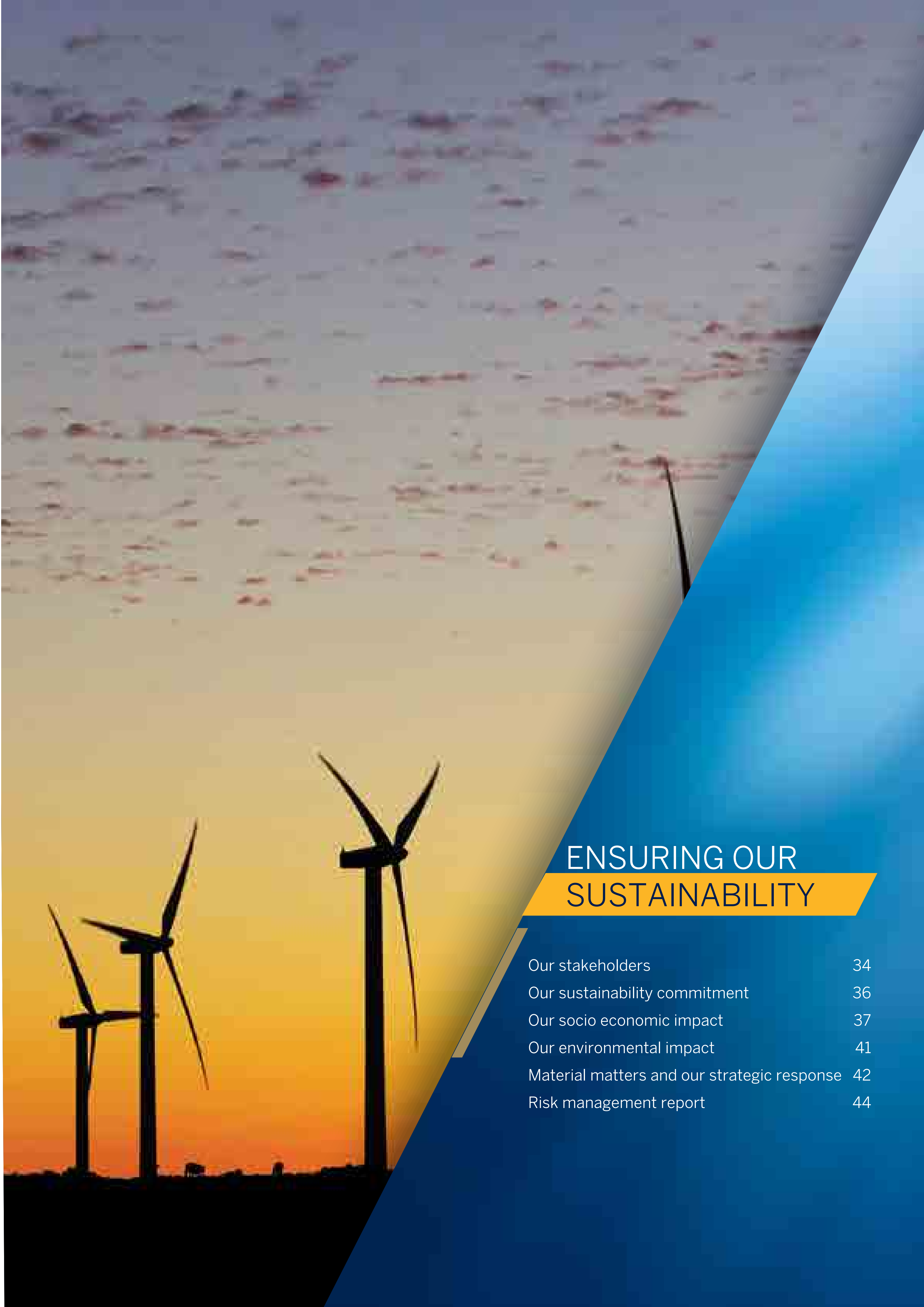

ENSURING OUR SUSTAINABILITY

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Our stakeholders

Our stakeholder engagement is critical in guiding our business operations. This engagement is guided by our leadership and values and is driven by the various business units which meet regularly and interact with our stakeholders. Through this consistent engagement, driven by our staff members, who act as our primary ambassadors, we are able to identify key areas of shared concern and incorporate them, to the best of our ability, into our operations. The issues that have been identified as key to our stakeholders are discussed throughout this report.

Our key stakeholders include:

Shareholders

Enhanced shareholder value is a key component of building a business that will be sustainable in the long term, and continue to generate maximum value for the business as well as its stakeholders. Our business model continues to focus on driving higher sustainable revenue while embracing a strong risk management framework - we seek to achieve an ideal balance between risk and reward in our business, and continue to build and enhance our risk management capabilities.

Customers

We aim to provide effective and appropriate services and products for our customer, and also provide them additional value by empowering them to take advantage of opportunities around them. Our operations remain customer-centric, and our focus on enhancing our digital platforms will ensure we remain responsive to their needs. We all work towards one common goal: the best possible customer experience. By supporting new and existing businesses to grow, as well as creating an enabling environment within which they can operate in by financing infrastructure development and cleaner energy solutions, our impact will be magnified in the community in which we operate.

Employees

Our human resource remains our most important asset in contributing to, driving and querying the success of our strategy. We focus on creating a good work environment, as well as contributing towards the well-being and capacity-building of our staff members. We are committed to ensuring our human resource policies are fair, promote inclusivity, and encourage career progress. Activities conducted during the year included: staff development, training, leadership development, as well as employee wellness programmes.

We have begun mapping performance indicators relevant to our different stakeholder groups to measure our overall performance and progress in terms of their identified issues and ultimately ensure our long-term business success. Some of these performance indicators are used throughout this report. This is an ongoing process that we will continually expand and improve upon.

Regulators

Trust and integrity are core values that guide our engagement with regulators. The Central Bank of Kenya is our primary regulator; we continue to invest in this relationship by actively participating in industry-specific engagement and contributing our technical expertise and experience to policy debates. In the region, we continue to promote healthy relationships with the various regulators who oversee our operations, including; Bank of South Sudan, Nairobi Securities Exchange, Capital Markets Authority, South African Reserve Bank; and Kenya Revenue Authority.

Community

To ensure the sustainability of the Group we look beyond the business itself and toward the broader environment and the societies in which our customers operate. This is reflected through our Environmental & Social (E&S) risk assessment procedures in our credit process and though our community investment programs. We continue to promote local businesses by ensuring they are key beneficiaries in our supply chain. Through our procurement strategy, we develop plans for each spend category to meet our business needs, and integrate local businesses, to the best of our ability.

Business organisations and peers

We are members of the Kenya Bankers Association (KBA). This is our primary forum for engaging with our peers for our common interest in growing the Kenyan economy and banking sector as a whole. In 2015, we engaged with the KBA and its subcommittees on a range of issues;

- upcoming regulation
- IT governance
- financial crime
- consumer education
- sustainable finance principles

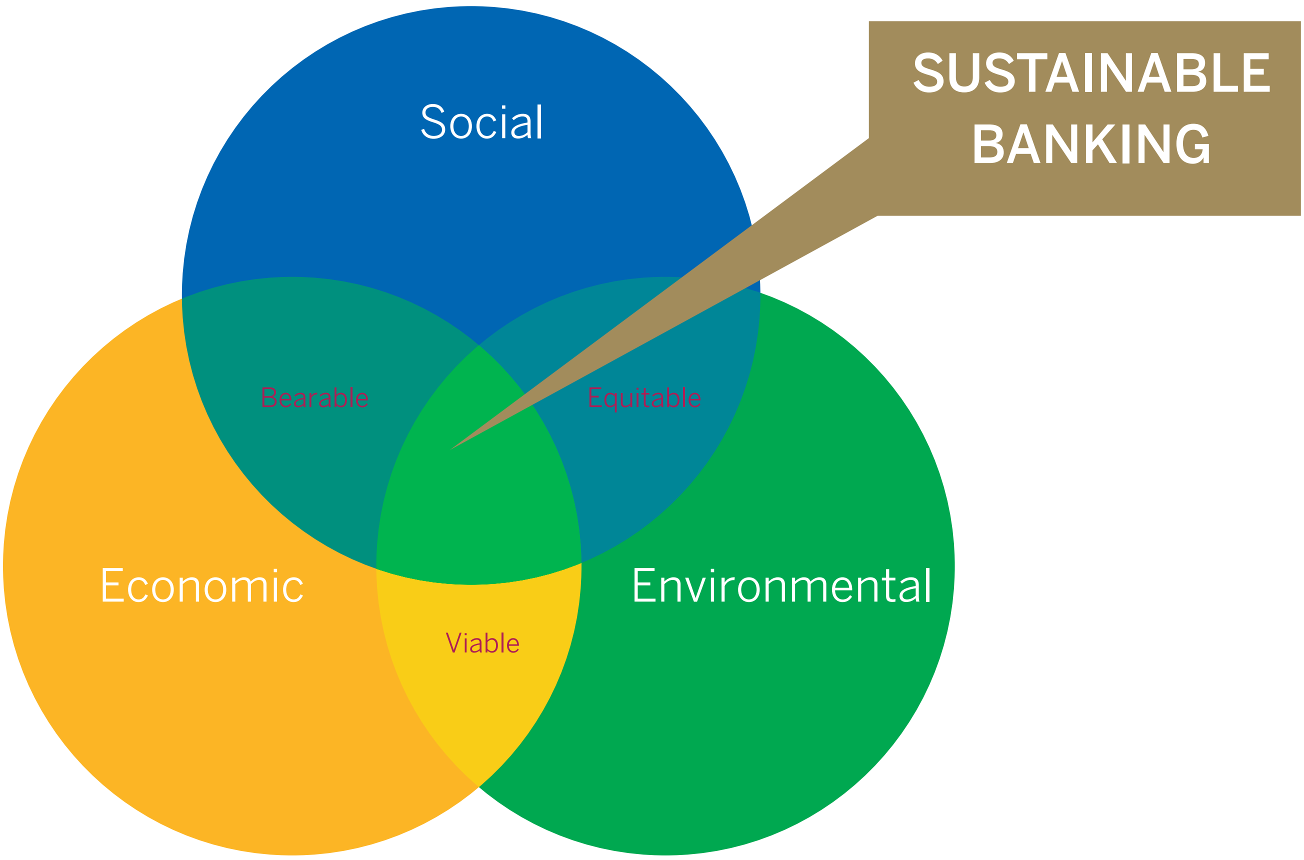
Our sustainability commitment

Our sustainability commitment

The greatest impact we have on society and the environment is through the activities we finance. It is in our own interest, both as members of the community and as a commercial business, to ensure we support long term sustainable economic development and growth. We believe that working towards this goal presents a real opportunity to drive value in the business.

Sustainability governance

At CfC Stanbic Holdings we look at this process as a journey. Our commitment is to firmly embed our sustainability approach throughout all levels of the business, with leadership provided by the Board and Executive Committee. We are currently doing this in a number of areas. We are fully committed to our community investment program. We also have robust policies and procedures in place for environmental and social (E&S) risk management in the credit application process, underpinned by our Group Environmental and Social Risk Management Policy. Specifically, we want to claim leadership in large scale renewable energy financing in Kenya. In addition, we have taken steps in 2015 to green our own internal footprint.



Our socio economic impact

By providing access to credit and savings products, we enable individuals and businesses to secure livelihoods and improve the well-being and quality of life of the people they directly benefit. By unlocking finance for businesses of every size, we help to stimulate economic growth and job creation.

The financing of infrastructure projects has a direct impact on the development of key sectors of the economy. As we uphold the highest international standards of responsible finance, the very nature of our business positions us to help our customers and stakeholders manage social and environmental challenges and invest for the future to minimize risk, which in turn contributes to the viability and sustainable growth of local markets and the national economy.

Responsible lending and consumer protection

To manage the risk associated with our lending business and without compromising the ability of our qualifying clients to access the credit they need, our credit policies and scorecards allow for a fair, comprehensive and robust credit assessment in compliance with the standards set by the Central Bank of Kenya to ensure customers do not become over-indebted and to protect the Group's reserves.

4.41% NPLs
(2014: 3.35%)

5.6% NPL industry average in Kenya 2014

In line with the new Consumer Protection Act 2015 as well as the KBRR rate and transparency guidelines enforced in 2014, we have increased the amount of information that is provided to customers about forthcoming changes in conditions attached to our facilities, including our rates. As a Group we are in compliance with these regulations.

Product fact sheet available to customers for all banking products

Transformational infrastructure and unlocking business growth in the value chain

We finance infrastructure projects and offer advisory services that stimulate economic growth; this contributes towards equitable access of economic resources, driving the emergence of businesses and services in multiple sectors, as well as in support industries. In all the projects we support, we are keen to analyse the potential impact we will have not only on the business or initiative itself, but also on the entire value chain surrounding it.

Infrastructure projects financed in 2015:
Kenya Pipeline Company
Rift Valley Railways
Athi River Mining

27,500 SMEs financed
(2014: 21,167)

Agriculture finance and support

Agriculture remains a key driver of Kenya's economic growth and it provides a livelihood to a majority of the productive demographic of the economy. Because of the nature of our food production, which relies heavily on small-scale farming and is prone to risks presented by the effects of climate change, we provide specific products for the agricultural sector to help promote the growth of a vibrant value chain. We have a dedicated team of agricultural economists, business managers and divisional managers, who provide support to clients and stakeholders within the sector. This includes financial support, operational guidance, training and partnership.

KShs 19.2 billion invested into agri-business
(2014: KShs 14.5 billion)

Innovation and financial inclusion

The digital revolution is profoundly affecting the way financial service organisations operate. Most notable are the opportunities to improve customer engagement, develop customised products and services and introduce distribution channels that are more efficient and cost-effective for the ultimate benefit of the customer. One of our main priorities in 2015 was to launch our digital platform online capabilities across our markets and product lines, expanding our digital branches to complement physical branches. To support this, we have continued to invest in our core banking IT systems for faster and more reliable service.

Core to our PBB strategy is to lead with business banking. While our entry point is likely to be business, we seek to serve the entre value chain in business banking, from the business owners and their clients, to suppliers and employees - from the most basic to the most sophisticated of financial services needs. Our focus on the accessible and cost-effective digital platform benefits both the employer and the employee.

>60% penetration of digital channels
(2014: 35%)

85% penetration of mobile banking
(2014: 49%)

Average uptime of our network
98.5% ATM, 99% Internet Banking

Preventing financial crime

With the growth in banking customers, as well as the advent of technology to drive service delivery in the sector, financial crime has become a key concern to the financial sector as a whole. Issues include money laundering, fraud, the vulnerability of data, as well as the misuse of funds for illegal activities including terrorism. As an actor in the financial sector, our Group has an enormous responsibility in working with our stakeholders to promote policies and regulations that help prevent financial crime.

We are also tasked with ensuring that our policies, systems and procedures are robust enough to prevent such incidents and are responsive to a fast-evolving external environment. We review our policies on an annual basis to analyse where improvements are needed to ensure we are always one step ahead.

In 2015 we received a satisfactory compliance audit. This was the first joint audit on the African continent, conducted by the Central Bank of Kenya and the South African Reserve Bank. We were recognised as a distinguished tax payer with the best yield on VAT in Kenya.

100% of staff underwent Anti-Money Laundering training

57 Financial crime awareness raising programs for staff (2014: 42)

Procurement

The Group supports the economy by sourcing the majority of its services and products locally, thereby ensuring we create and sustain, directly and indirectly, a number of other jobs in the local economy. Procurement sourcing within the Group is overseen by a tender committee, which is governed by an outsourcing policy that has been approved by the Board of Directors

>80 % of contracts awarded to local suppliers

Employee wellbeing

At CfC Stanbic Holdings, we recognise that our human capital is our greatest asset and the welfare of our staff and partners is key to driving our vision. The Group is committed to creating a compelling employee value proposition. This includes meeting employees' expectations through fair employment policies, career development and lifestyle support.

Staff development plans, training, leadership development programmes and employee wellness programmes are all geared towards promoting overall wellbeing.

Low levels of attrition 7%

KShs 103m Budget spend on professional development training

75 % Promotion from within

Diversity and inclusion

We continuously strive to enhance the balance of our workforce with respect to gender and we have set ourselves a target of having no more than 2/3 of our Board members from either gender. Our Core Values serve as beacons to guide us towards an overall philosophy in our dealings with our key stakeholders, being our customers, employees and shareholders.

Gender balance in our workforce

47% female, 53% male

Local and expatriate hires

98.6% local, 1.4% expatriates

Partnerships

Where appropriate, the Group will work in partnership with other stakeholders on external issues that impact on our business and the communities in which we operate. We bring to these partnerships a commitment to manage our own impacts and seek business solutions and products that are relevant to our customers and the wider business community. We participate in developing industry-wide approaches to enhancing the reputation of the industry and improving its ability to meet the expectations of shareholders and other stakeholders. In Kenya, we endorse the Kenya Bankers Association's Sustainable Finance Principles and will develop a roadmap for its implementation within the Group.

Community investment

As a financial institution that believes in sustainability, we always take into account ethical, social and environmental issues when making our decisions and query the long-term value we add in the communities in which we operate. We believe a responsible bank is one that puts its customers, as well as the community in which it operates, at the heart of everything it does.

It is the vision of CfC Stanbic Holdings to empower communities where we operate and we have committed to Corporate Social Investments across the country, which are anchored on three key pillars: education; community health and wellness; and entrepreneurship and financial literacy. Our community social responsibility (CSR) committee enjoys representation from all departments within the Group and across our branches.

KShs 8 million spent on CSI with staff participation (2014: KShs 13 million)

Community Social Investments 2015

Education

The most significant indicators of social progress are education and health. In 2015, we increased our corporate social investments budget in line with our profitability and maintained our focus in providing access to formal education and key life skills. We support education at the primary, secondary and tertiary levels (universities and colleges), with our main focus on supporting initiatives that address the science, mathematics and accounting skills gaps in the Kenyan labour market. Our programs include:

Strathmore University Scholarship

2015 was the second year running for the scholarship fund where, in partnership with Strathmore University, we offered bright but financially needy students with an opportunity to pursue careers in our industry. The scholarship is offered on an annual basis and caters for both tuition fees and accommodation for seven students. It is open to all undergraduate students who meet the admission criteria, are academically outstanding and financially in need. The scholarships are worth KShs 11 million, and run for four years.

CfC Stanbic staff interacting with orphaned children on a visit to Upendo Village Naivasha.

United States International University Scholarship Fund (USIU)

In 2015, the fund entered its fifth year, adding another two students to the group that it supports at the university, which now has a total of eight beneficiaries. The students are all pursuing degrees in the area of finance and accounting, and are given opportunities to visit the bank's head office to get first-hand information and experience of the operations of a financial institution. The first group of students sponsored by the Group at USIU graduated in 2015.

CfC Stanbic Bank Chief Executive, Philip Odera tours Oyola Primary School in Kisumu County where the bank built classrooms.

Palmhouse Foundation Sponsorship and Mentorship Programme

CfC Stanbic Bank's partnership with Palmhouse Foundation entered its sixth year in 2015 and it continues to support the education of bright, needy students through their four years of secondary school. Currently, 16 students are enrolled in various secondary schools across the country, with eight successfully completing their secondary education since the inception of the programme. Four of these beneficiaries are currently pursuing university degrees, while another four are waiting for their final year results. Throughout the year, CfC Stanbic Bank staff provide mentorship to these students during the school holidays.

SOS Children's Villages sponsorship

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 from different age groups throughout the year.

Other projects that benefited from the Group's Corporate Social Investments in 2015 include:

- Pathfinder International
- Starehe Girls Centre (Nairobi)
- Riamaoncha ELCK Primary School (Kisii)
- Nairobi Chapel Education Scholarship Fund
- Upendo Village (Naivasha)
- Mary Immaculate Centre (Nairobi)
- Maji Mazuri Children's Home (Kasarani)

Communications Manager Willis Angira having fun with the children from SOS Children's village in Nairobi.

Community Health and Wellness

Investments in this area are mainly directed towards HIV/AIDS, tuberculosis (TB) and malaria prevention and cure, with particular emphasis on education and awareness. Some activities included the promotion of uptake of Voluntary Counselling and Testing (VCT), lifestyle management, as well as improved home-based care and community support. Programmes that assist orphans and the elderly affected by HIV/AIDS can also be supported.

The Group also supported the annual Mater Heart Run, which brings together Kenyans from all walks of life to enjoy some exercise in the spirit of helping children with heart ailments get the necessary surgery. The Group sponsored a team of over 100 staff members to participate in the 2015 run to the tune of KShs 350,000. The Group also sponsored the First Lady's "Beyond Zero" half marathon in support of reducing maternal and child mortality.

Children from the SOS Village Nairobi ready to perform at a client's Christmas thanks-giving event.

Entrepreneurship and Financial Literacy

We invest in entrepreneurial skills development and mentorship programmes, which contribute to position CfC 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 organizations 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.

We are working to further expand our strategic program in this area in 2016.

Our environmental impact

Environmental risks and challenges are an important issue area, especially in resource-dependent countries like Kenya. Reputational, legal and operational risks arising from pollution of the environment, as well as the impacts of climate change with extreme weather patterns, including floods and drought, are material considerations for businesses going forward. Below, we outline how we mitigate some of these risks and manage their impacts.

The Equator Principles

By virtue of being a member of the Standard Bank Group, the Group abides by the Equator Principles. The Equator Principles offer a framework for managing environmental and social (E&S) risk. These are applied to all new project finance loans of USD10 million and above, across all industry sectors. The set of guidelines is also applicable to any advisory services we provide on project finance loans.

3 projects applying Equator Principles

Kenya Pipeline Company
Rift Valley Railways
Athi River Mining

(2014: Lake Turkana Wind Power Project and Garden City)

Our Environmental and Social Risk Management Policy and Procedures

Having risk assessment procedures in place helps us protect the quality of our loan book and over time allows us to identify emergent commercial opportunities. An E&S Risk Management Policy is in place with procedures for evaluation of such risks in the credit process. The policy is applied to all business, corporate and project finance loans. The procedure evaluates a transaction's potential risks to the environment and society as well as its impacts in its area of influence.

All projects finance transactions have to be cleared for E&S issues

Financing cleaner technology solutions

The importance of access to clean and renewable energy cuts across all sectors of our economy. In addition to this, access to renewable off-grid energy solutions will be critical in driving economic growth and promoting the well-being of rural and marginalised communities. The Bank seeks to support market-based projects that promote the development and use of cleaner energy, including renewable energy finance and carbon trading.

Renewable energy projects financed within the past 2 years:
Wind energy:
Lake Turkana Wind Power Project

Greening the footprint of our in-house activities

Greening our footprint and being more efficient with our resources internally makes sense both economically and environmentally. In addition, as we require robust E&S risk management from our clients, it is only fair that we embed these values in our operations. We believe E&S issues are material to business success and we want to lead by example, with our initiatives mostly staff-led. Some of the activities rolled out in 2015 include:

- Waste minimization: We have done away with plastic cups and all staff have individual recyclable water bottles.
- We are moving towards the "paperless office"" and have reduced paper consumption everywhere, from the branches to the Board of Directors.
- Recycling: We have placed waste segregation bins throughout our Head office. In 2016 we will be following through with audits of our waste management contractors. We are applying the hierarchy of "Reduce, Reuse, Recycle" to our waste.

For the coming year we will continue these efforts and set ambitious targets to become more efficient with our resources and expand our focus into other areas such as travel, fuel, power and water.

Material matters and our strategic response

Defining and responding to key issues in our business

We define our material issues as topics, opportunities and challenges that have a significant impact on our business and its ability to operate sustainably and consistently deliver value for stakeholders. They represent our primary risks and opportunities. These issues shape the thinking around the Bank's strategy and help us direct our planning. The process of identifying and determining matters that are material to the Group and our stakeholders is dynamic and is based on formal and informal stakeholder feedback, as well as integrated sustainability thinking.

In response to these issues, our strategy is designed to create maximum value for our shareholders and minimise the risks identified over the short, medium and long-term. This value creation is intrinsically linked to our long-term success. Our material matters and key strategic areas, including short- to medium-term execution areas and targets are summarised in this section.

OUR GOAL

To be a leading financial services organisation

OUR TARGETS (SHORT TO MEDIUM TERM)

A return on equity in the range of 25%+

A cost to income ratio around 40%

OUR SHORT-TERM EXECUTION AREAS

1. Client centric innovation: Deliver business solutions through the Universal Banking approach, a solid digital platform and faster turnaround times
2. Strong discipline around cost: maintaining cost efficiency while investing for the future
3. Cheaper deposits to improve margins: widen our sector presence and grow our local currency lending portfolio
4. Invest in non-interest revenue to improve returns: focus on bancassurance and excellence in transactional banking

OUR STRATEGIC RESPONSE

Growing our personal and business banking franchise by leading with Business Banking Focus on growth sectors of the economy	Client centric innovation	Robust internal controls and compliance to regulatory compliance requirements	Excellence in large scale infrastructure financing and presence across the business value chain	Leading role in green infrastructure and resource efficient business solutions Supporting community investment programs

OUR MATERIAL MATTERS

Long-term economic growth prospects in the region	Competition and evolving customer trends	Increasing regulation	Infrastructure development & industrialisation	The need for growth to be environmentally and socially sustainable

Economic growth prospects in Kenya and the region

The economic growth in Kenya and the regional bloc is compelling as countries in East Africa enjoy improved investor confidence, investment in critical infrastructure to open up the region, innovation in key sectors, as well as growing markets and the resulting opportunities. A 2015 report by investment monitoring platform, FDI (Foreign Direct Investment) Markets, placed Nairobi in top spot for FDI in-flows on the continent. These trends have positioned the region as an attractive hub for multinationals from across the globe.

How this is reflected in our strategy: Leading with business banking

We are well positioned to support local, regional and international multinational companies in their pursuit of growth opportunities and business consolidation. Our core strength is in corporate and business banking and we are able to draw on the advantage of being part of a multinational company with deep knowledge of the local market.

Competition and evolving customer trends

Our customers' needs are fast changing and becoming more sophisticated. This is as a result of the growth and adoption of ICT, the diversity of financial services required to meet personal and corporate needs, as well as the changing regulatory environment. With this backdrop, there is the potential threat of additional competition around "shadow banking" and the entry of "fintech" companies where regulation is less heavy. Because of this, there is an increased demand for convenience and efficiency in our services.

How this is reflected in our strategy: Client centricity, convenience and accessibility

The digital revolution is profoundly affecting the way financial services organisations operate. The opportunities it gives us to improve our customer engagement and develop customised products and services is notable, as is the opening of new distribution channels that are more efficient and cost-effective. One of our main priorities in 2015 was to launch our digital platform across our markets and product lines. This included digital branches, internet and mobile banking. We have also continued to invest in our core banking IT systems for faster and more reliable service. In addition to the digitalisation of services, we seek to increase accessibility and convenience through the Universal Banking concept, providing the full range of solutions to our customer, from lending to transactional services and investment banking. Our customers are at the centre of everything we do.

Increasing regulation

Financial sector players have a critical preventive role to play in financial crime. Recent public reports (Illicit Financial Flow: Report of the High Level Panel on Illicit Financial Flows from Africa, UNECA 2015) state that an estimated $50 billion leaves Africa every year in illicit outbound financial flows through tax evasion and money laundering. This is roughly the same amount as official development assistance to the region. 2015 saw two banks placed under receivership. This speaks to the tightened supervision by the regulator and, over time, an increasingly favourable environment for companies that uphold the highest standards and levels of compliance.

How this is reflected in our strategy: Robust internal controls and compliance to regulatory compliance requirements

The compliance environment for banks is becoming increasingly controlled and we have embedded governance, compliance and risk management standards across our operations to ensure that we fulfil our principle of 'doing the right business the right way'. A staff campaign to build capacity in understanding our regulatory obligations was implemented in 2015. We continued to enjoy constructive relationships with regulatory authorities in Kenya and where possible contributed actively to the development of national policy, legislation and regulation through formal submissions, as well as engagement with policymakers and regulatory authorities. Our approach is guided by our aim to promote unambiguous, cohesive and practical regulatory frameworks aimed at minimising unintended consequences.

Infrastructure development and industrialisation

Infrastructure development is crucial in terms of opening up new markets and spurring the growth of industry as well as the ancillary businesses that grow around them. This will help unlock even more opportunities for individuals and corporates, stimulating broad-based economic growth, business development and job creation across the economy over the long term.

How this is reflected in our strategy: Excellence in infrastructure financing

One of Group's key strengths is in infrastructure finance. Infrastructure investment will be key to unlocking new opportunities both on the supply and demand sides of key economic sectors. We seek to stimulate growth along the entire value chain in the industries we support.

Environmentally and socially sustainable growth

Our development has to be environmentally-friendly to ensure it does not compromise on long-term benefits and opportunities of future generations. In a resource-based economy like Kenya's, using our resources in a sustainable manner will help strengthen food security, prevent resource conflicts and protect key economic sectors such as agriculture and tourism. These are critical considerations for businesses going forward. Two significant indicators of human development and social progress are education and health. Access to adequate health facilities and quality education are key to breaking more people out of the poverty cycle. However, services, facilities, human resourcing, as well as research and development in these two issue areas, remain underfunded, especially in the developing world. Kenya was recently rated a middle-income country. We must ensure that sectors such as education and health attract adequate investment to sustain our middle-income status and drive further growth.

How this is reflected in our strategy: Green infrastructure and community investment

With an increasing global realization of how the private sector can contribute to meeting social development objectives, it is critical that the Group plays a part in promoting access to adequate educational and health services in the communities within which we operate. We continue to review our CSI investment while maintaining our focus on providing access to education and life skills.

It is also in our interest as members of this society and as a commercially driven company interested in long-term profits to ensure that the projects we finance promote sustainable development over the long term. We have aspirations to claim the space as the leading financier of renewable energy and other green infrastructure projects in Kenya.

Risk management report

Introduction

The effective management of risk is fundamental to the business activities of the Group.

Risks are controlled at individual exposure level, as well, as in aggregate within and across all business lines and risk types.

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

Risk management framework

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

- governance committees at a Board and management level
- governance documents such as standards, frameworks and policies which set out the requirements for the identification, assessment, measurement, monitoring, managing and reporting of risks, for effective oversight of compliance and effective management of capital. Governance policies are approved by the relevant Board sub-committee.

GOVERNANCE STANDARD POLICIES AND PROCEDURE DOCUMENTS

BOARD RISK GOVERNANCE COMMITEES

- Board Risk Committee (BRC)
- Board Credit Committee (BCC)
- Board Audit Committee (BAC)

OVERSIGHT

Board Risk Commitee (working closely with the Audit Commitee) provides oversight of the risk and system of risk management

INTERNAL AUDIT

3rd line of defence

ASSURANCE

Internal Audit provides independent assurance on the effectiveness and adequacy of the system of risk management and internal control

MANAGEMENT RISK COMMITTEES

- Risk Management Committee (RMC)
- Credit Risk Management Committee (CRMC)
- Stress testing & risk appetite forum

2nd line of defence

DELEGATED AUTHORITY/ACTION

Executive management has responsibility for all material risk types that have been delegated by either BRC or BCC to assist the Board sub-committees fulfilling their mandates

BUSINESS UNITS

1st line of defence

DAY-TO-DAY RISK MANAGEMENT

Business Units implement strategies and policies, manage and report performance and risk

Roles

Board of Directors

The Bank's Board of Directors has ultimate responsibility for risk management, which 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 five committees: the BRC, BAC and BCC, the RMC and the 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 main Board through the committee chairmen.

The Bank's Board risk management committees provide independent oversight of risk, compliance and capital management across the Bank:

- Determining the bank's risk appetite as set out in the risk appetite framework and risk appetite statement (ras)
- Monitoring the current and future risk profile of the bank to confirm that it is managed within risk appetite
- Evaluating the results of stress tests and providing oversight of the adequacy and effectiveness of the bank's risk governance framework
- Approving governance standards, frameworks and policies in terms of the risk governance framework
- Reviewing reports on the implementation of an it governance framework and updates on significant it investments
- Evaluating and approving significant outsourcing arrangements
- Promoting a risk awareness culture within the bank
- 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

The internal audit function provides an independent assessment of the adequacy and effectiveness of the overall risk management framework and risk governance structures.

Internal audit unit operates under a mandate from the BAC and has the authority to determine the scope and extent of work to be performed. Internal audit's primary objective is the provision of assurance to the audit committee on the quality of controls in the Bank's operational activities.

It assists the executive management teams in meeting their business objectives by examining the Bank's activities, assessing the risks involved and evaluating the adequacy and effectiveness of processes, systems and controls to manage these risks.

A risk-based audit approach has been adopted by the Bank. Material or significant control weaknesses and planned management remedial actions are reported to the BAC. These issues are tracked to ensure that agreed remedial actions have been implemented. Overdue issues are reported to the BAC on a quarterly basis.

Management committees

Executive management has responsibility for all material risk types that have been delegated by either BRC or BCC to assist the Board sub-committees 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.

Risk management approach

Three lines of defence model

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 (IA).

Third line of defence

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.

The Bank's approach to risk appetite and stress testing

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

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 profile to accommodate market, client or portfolio requirements (active).

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.

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).

Process

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

- The approach to setting risk appetite triggers and risk tolerance limits
- Responsibilities for monitoring risk profile
- 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 dimensions

Each RAS is made up of RAS dimensions. These dimensions may be either qualitative or quantitative and include stressed earnings, liquidity and regulatory capital.

The quantitative dimensions are translated into portfolio limits for example, concentrations, credit loss ratios and VaR, and operational limits, for example, facilities by borrower or counterparty.

Approach to stress testing

The Bank's stress-testing governance framework sets out the responsibilities for and approach to stress-testing activities. Stress tests are conducted at business line and legal entity level. The output supports a number of business processes, including:

- The internal capital adequacy assessment process (icaap)
- The strategic planning and budgeting process
- Capital planning and management
- The setting of risk appetite and risk tolerance
- The assessment of the impact of stress conditions on the current and forward risk profile
- The development of risk mitigation or contingency plans across a range of stressed conditions

Stress testing is conducted across all major risk types using a number of common scenarios. Bank wide stress testing is augmented by portfolio-specific stress testing and sensitivity analyses to identify the drivers of the Bank's risk profile. Stress testing is an integral component of the overall governance and risk management framework of the Bank.

Risk areas in banking activities

The management of all risks significant to the Bank and the general banking industry in Kenya are discussed below:

Credit risk

Risk description

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 clients and market counterparties.

Risk examples

- 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.
- 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 or type of security, or geography, or a maturity.

Mitigation

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

- Maintaining a strong culture of responsible lending and a robust risk policy and control framework.
- Identifying, assessing and measuring credit risk clearly and accurately from the level of individual facility up to the total portfolio.
- Defining, implementing and continually re-evaluating our risk appetite under actual and stressed conditions to effectively align to changes in the market environment.
- Monitoring the Bank's credit risk against the set limits. The approved concentration risk appetite limits (counterparty group, industry, market, product, financial instrument or type of security, or geography, or a maturity) are used to monitor the credit concentration risk.
- Ensuring that there is expert scrutiny and independent approval of the credit models.
- Ensuring there is independent review and approval of credit risks and their mitigation.

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

The key credit portfolio quality indicators during 2015 are summarised below:

Key Credit Risk Indicators	2015	2014
Credit loss ratio %		
PBB	1.36	1.65
CIB	0.46	0.13
Provision coverage ratio:		
Specific debt provision %	1.18	1.22
General debt provision %	1.08	0.98
Non-performing loans ratio %	4.41	3.35

Refer to the financial statements on page 96 to 108 which highlights the credit risk impact on the Bank, in the current year.

Operational risk

Risk description

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank recognises that operational risk is inherent in all areas of its business. It is not an objective to eliminate all exposure to operational risk as this would be neither commercially viable nor possible. 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.

Risk examples

- Execution, Delivery, and Process Management – Includes data entry errors, accounting errors, failed regulatory reporting and negligent loss of client assets.
- Business disruption and systems failures – includes utility disruptions, software failures, hardware failures and infrastructure outages.
- External fraud - perpetrated by individuals outside the organisation and covers activities such as theft, deception and computer hacking.
- Internal fraud - occurs when a member of staff dishonestly makes false representation or wrongfully fails to disclose information or abuses a position of trust.
- Clients, products, and business practice – Includes market manipulation, improper trading, product defects and account churning.
- Employment practices and workplace safety - discrimination, workers compensation, employee health and safety.
- Damage to physical assets – Includes fire, natural disasters, terror and vandalism

Mitigation

The Operational Risk framework is based on the following core operational risk components:

1. Risk identification

This framework facilitates the identification of risks and the management thereof across each business and operational function. The framework is based on the following elements:

- Mission Critical Processes in line with the provisions of Basel II business lines.
- Cause categories
- Event Categories and
- Effect categories.

2. Assessment and measurement

Both quantitative and qualitative components are used in assessing and measuring operational risk as follows:

Risk and control self-assessments:

Each business unit and enabling function is required to analyse their business activities and critical processes to identify the key operational risks to which they are exposed 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, they are required to define action plans to reduce the level of risk. The assessments are facilitated, monitored and challenged by the operational risk function. To achieve this, the Risk and control self-assessments (RCSAs) embeds 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 to be improved.

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 Standard Bank Group enhances the identification and assessment of risk exposures and provides additional information for RCSAs, scenarios, indicators and for benchmarking purposes.

3. Management and treatment of operational risk

The Bank's approach to managing operational risk is to adopt 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 maximizing 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 (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: Those risks that cannot be avoided.

4. Monitoring

An independent operational risk function performs a monitoring and assurance role and objectively assesses how adequate the operational risk framework and related operational risk policies and operating standards are being implemented across the bank. In addition, the bank operates and maintains a comprehensive internal audit programme on the entire Bank's operations.

5. Reporting

Operational risk reports are produced on both a regular and an event-driven basis. The reports include a profile of the key risks to business unit's achievement of their business objectives, relevant control issues and operational risk incidents. Specific reports are prepared on a regular basis for the relevant business unit and risk committees.

6. Business continuity management

The Bank's ability to protect life, assets, and resources and ensure continued services to customers in the event of a disruption is critical to its sustained financial success.

Business continuity management (BCM) is a process that identifies potential operational disruptions and provides a basis for planning for the mitigation of the negative impact from such disruptions. In addition it promotes operational resilience and ensures an effective response that safeguards the interests of the Bank and its stakeholders.

Contingency and recovery plans for core services, key systems and priority business activities have been developed and are revisited as part of existing management processes to ensure that continuity strategies and plans remain relevant.

The Bank's business continuity capabilities are evaluated by testing business continuity plans and conducting crisis simulations.

Compliance Risk

Risk description

This is the risk of legal or regulatory sanctions, financial loss or damage to reputation that the Bank may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards of good practice that are applicable to its business activities. This includes the exposure to new laws as well as changes in interpretations of existing laws by appropriate authorities.

Risk examples

Financial crime: The Bank defines financial crime control as the prevention, detection and response to all financial crime in order to mitigate economic loss, reputational risk and regulatory sanction. Financial crime includes fraud, bribery and corruption and misconduct by staff, customers, suppliers, business partners and stakeholders.

Money laundering and terrorist financial control: Legislation pertaining to money laundering and terrorist financing control imposes significant requirements in terms of customer due diligence, record keeping, staff training and the obligation to detect, prevent and report suspected money laundering and terrorist financing.

Occupational health and safety: The health and safety of all employees, clients and other stakeholders. Any risks to the health and safety of employees resulting from hazards in the workplace or potential exposure to occupational illness are managed by the occupational health and safety team.

Environmental and Social Risks: E&S risks in our loan book, arising from clients activities.

Mitigation

Compliance is an independent core risk management activity, which also has unrestricted access to the Chief Executive and the Chairman of the Board Risk Committee, thereby ensuring the function's independence.

The Bank's approach to managing compliance risk is proactive and premised on internationally accepted principles of compliance risk management. The Bank is subject to extensive supervisory and regulatory regimes, and while the executive management remains responsible for overseeing the management of the Bank's compliance risk, SBG compliance actively engages with management and the compliance officers within subsidiaries to proactively support the generation of legal, ethical and profitable business.

The Bank operates a centralised compliance risk management structure run by a fully equipped specialised unit that grants oversight on all compliance related matters. The compliance unit supports business in complying with current and emerging regulatory developments, including money laundering and terrorist financing control, sanctions management, identifying and managing conflicts of interest and market abuse and mitigating reputational risks.

Employees including their senior management are made aware of their statutory compliance responsibilities through on-going training and awareness initiatives.

Mitigation examples:

Financial crime control: The Bank's financial crime control unit is mandated by the BAC to provide financial crime control capabilities which support the Bank in minimising the overall impact of financial crime. This ensures the safety of our people and assets as well as trust from our stakeholders. The Bank maintains a zero tolerance approach towards fraud and dishonesty. The Financial Crime Control team as with the other functions within operational risk maintains close working with other risk functions, specifically compliance, legal risk and credit risk and with other functions such as information technology, human resources and finance. Anti - money laundering training is mandatory for all staff and the Bank has in place the necessary processes and systems to comply with "The Proceeds of Crime and Anti-Money Laundering Act 2009" and "The Prevention of Terrorism Act 2012." In January 2014 the Financial Reporting Centre rolled out an Annual Compliance Return to determine compliance with Proceeds of Crime and Anti-Money Laundering Regulations. The Bank is in compliance with the Act.

Health and Safety: The Bank aims to effectively identify, reduce or control accidents or injuries to employees, contractors and clients. The framework ensures compliance with current legislation 'Occupational Safety and Health Act No. 15 of 2007.' and that occupational health and safety procedures are closely linked to the operational needs of the business. Training of health and safety officers and employee awareness is an on-going endeavour. There were no workmen's compensation claims lodged in 2015.

E&S risk management: A cornerstone of our sustainability and credit risk approach is to ascertain the environmental and social risk of the transactions that we are involved with. This creates a position from which negative impacts of lending activities on the environment and people are avoided, minimized, mitigated and/or compensated for appropriately.

All relevant members of staff must apply relevant environmental and social risk and opportunity assessment tools across our financing activities. We ensure risks are properly addressed and that material breaches are reported; and give effect to the environmental and social criteria stipulated by providers of capital. Teams must follow the following procedures:

(i) Annually update their environmental, social and occupational health and safety legal registers;

(ii) Ensure that where appropriate environmental and social risk mitigation clauses are integrated into contracts; and

(iii) Monitor compliance with policy and procedures.

Legal risk

Risk description

Legal risk is defined as exposure to the adverse consequences judgements or private settlements, including punitive damages resulting from inaccurately drafted contracts, their execution, the absence of written agreements or inadequate agreements. This includes exceeding authority as contained in the contract.

Risk examples

Legal risk is the risk of losses, claims, damages, litigation, penalties, lost opportunities, damaged reputation or any other diminution in enterprise value (legal losses) attributable wholly or partly to the application of any law or legal principle. Non-exhaustive examples of legal losses are those arising from:

- Penalties, fines, imprisonment or invalidity of contracts due to breach of common laws, statutes or regulations contractual rights (such as netting, set-off and security provided) not being enforceable as intended or at all
- Contractual liabilities being incurred in excess of the quantum intended
- Contractual terms having unforeseen or unintended insolvency, tax or regulatory consequences

- Cross-border transactions being subjected to conflicting laws in competing jurisdictions
- Intangible assets (such as trade names, trade-marks, copyrights and trade secrets) being unlawfully exploited
- Direct and/or consequential damages becoming payable for breach of contract, breach of statute (such as arise from a finding of anti-competitive collusion or price fixing) or breach of a general duty of care

Mitigation

The Bank has established processes and controls to manage its legal risk as failure to manage risks effectively could result in legal proceedings impacting the Bank adversely, both financially and reputational.

Taxation risk

Risk description

Taxation risk is the possibility of suffering loss, financial or otherwise, as a result of the misapplication of tax systems (whether in legislative systems, rulings or practices) applicable to the entire spectrum of taxes and other fiscal imposts to which the Bank is subject.

The Bank fulfills its responsibilities under tax law in relation to compliance, planning and client service matters. Tax law includes all responsibilities, which the Bank may have in relation to company taxes, personal taxes, capital gains taxes, indirect taxes and tax administration.

Risk examples

- Incorrect application of tax processes by bank staff involved transaction processing.
- Bank staff concluding contracts without understanding of the attendant tax consequences.
- System failure or errors to collect taxes as intended at the development stage.
- Uncertainty in the interpretation of legislation.

Mitigation

The framework to achieve compliance with the Bank's tax policy comprises four elements:

- Identification and management of tax risk
- Human resources policies, including an optimal mix of staffing and outsourcing
- Skills development, including methods to maintain and improve managerial and technical competency
- Communication of information affecting tax within the Bank.

Good corporate governance in the tax context requires that each of these elements is in place, as the absence of any one would seriously undermine the others.

Compliance with this policy is aimed at ensuring that the Bank pays neither more nor less tax than tax law requires.

Reputational risk

Risk description

Reputational risk results from damage to the Bank's image which may impair its ability to retain and generate business through the loss of trust and confidence or a breakdown in business relationships. Safeguarding the Bank's reputation is of paramount importance to its continued success and is the responsibility of every member of staff.

Risk examples

Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events. CfC Stanbic Bank's strong reputation is dependent upon the way in which it conducts its business but it can also be affected by the way in which its clients, to whom it provides financial services, conduct themselves.

Mitigation

Management of all operating activities is required to establish a strong internal control structure to minimise the risk of operational and financial failure and to ensure that a full assessment of reputational implications is made before strategic decisions are taken. The Bank sets clear standards and policies on all major aspects of business and these standards and policies are integral to the Bank's system of internal control and are communicated though procedures, manuals and appropriate staff training.

Each business unit or enabling function executive is responsible for identifying, assessing and determining all reputational risks that may arise within their respective areas of business. The impact of such risks is considered alongside financial or other impacts.

Should a risk event occur, the Bank's crisis management processes are designed to minimise the reputational impact of the event. Crisis management teams are in place both at executive and business line level to ensure the effective management of any such events. This includes ensuring the Bank's perspective is fairly represented in the media.

Reputational risks are considered and assessed by the Board, the Bank's RMC and executive management.

Business risk

Risk description

Business risk is the risk of loss due to operating revenues not covering operating costs and is usually caused by the following:

- Inflexible cost structures
- Market-driven pressures, such as decreased demand, increased competition or cost increases
- Bank -specific causes, such as a poor choice of strategy, reputational damage or the decision to absorb costs or losses to preserve reputation.

Risk examples

Competitors, changing customer behavior and inappropriate due diligence.

Mitigation

Business risk is governed by the Bank's executive committee, which is ultimately responsible for managing the costs and revenues of the Bank.

The Bank mitigates business risk in a number of ways including:

- Extensive due diligence during the investment appraisal process is performed, in particular for new acquisitions and joint ventures;
- The business lines have a new product process through which the risks and mitigating controls for new and amended products and services are evaluated;
- Stakeholder management to ensure favourable outcomes from external factors beyond the Bank's control.
- Consistently monitoring the profitability of product lines and customer segments;
- Maintaining tight control over the Bank's cost base, including the management of cost-to-income ratio. This allows for early intervention and management action to reduce costs where necessary;
- Being alert and responsive to changes in market forces, exploiting potentially favourable changes and managing the downside risk due to unfavourable changes; and
- A strong focus in the Bank's budgeting process on achieving revenue growth while containing cost growth.
- Contingency plans are built into the budget that allow for costs to be significantly reduced in the event that expected revenue generation does not materialise.
- The Bank continually aims to increase the ratio of variable costs to fixed costs, allowing for more flexibility to proactively manage cost during an economic downturn

Strategic risk

Risk description

Strategic risk is the risk that the Bank's future business plans and strategies may be inadequate to prevent financial loss or protect the Bank's competitive position and shareholder returns.

Risk examples

Profitability versus risk appetite: Given the turbulent economic environment, managing profitability within risk appetite is becoming increasingly challenging, especially with additional regulatory scrutiny regarding the Bank's capital holdings and liquidity requirements. Customer demand and the competitor environment are placing pressure on the Bank for innovation and customer service. To maintain profit margins and retain customers, the Bank may need to participate in more ventures requiring a higher investment. This will require the Bank to clearly define our risk appetite, ensuring the alignment of decision-making and risk.

Implementation challenges: Achieving our strategic goals requires effective execution – effective planning and integration, appropriate infrastructure and clear understanding of products and service offerings. Clarity in this regard is essential to build appropriate distribution and systems infrastructure for operations, cascade policies and controls and meet regulatory requirements. Being able to track that the integration of the strategies are in line with risk appetite and that the related business decisions positively impact our competitive position and business returns is often hard to monitor.

Pressure on innovation and disruptive thinking: Innovation is fundamental for a business to stay ahead and allows the Bank to meet its strategic objectives, be relevant to its markets and attract and retain top and critical talent. The challenge for the Bank is to create an environment where innovation is encouraged to drive change for simpler and better solutions to enhance key capabilities and embed it into the Bank's culture, whilst balancing the risk associated with this.

Innovation serves as an incubator for new capability development as it is always challenging established toolkits and management approaches. It requires the engagement of new and diversified skill sets, where individuals require a broad understanding of business, strategy and the risk profile of the situation while being empowered to act within risk appetite to foster change. The Bank faces the challenge of creating the right environment for employees while meeting risk and regulatory requirements.

Mitigation

The Bank's business plans and strategies are discussed and approved by executive management and the Board.

Market risk

Risk description

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.

1. 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 financial operational risk, price testing reports and profit and loss decomposition reports.

For the purpose of identification, market risk has been categorised as follows:

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

ii. 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

iii. 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.

2. 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.).

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 modeling, and gap analysis. Models are independently validated prior to implementation and are subject to formal periodic review.

General Measurement Definitions:

a) Value at Risk ("VaR") is the loss with a given probability defined as the confidence level, over a given period of time.
b) 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 1year and 5 years).
c) Expected Tail Loss ("ETL") is the average of returns that exceed VaR (also known as expected shortfall).

3. Management of market risk

The Bank manages market risk through a specification of risk appetite in form of market risk limits. It uses a suite of risk measurement 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.

a) 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 backtesting 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 Standardized Approach for calculating market risk capital. The standardized method uses a "building block" approach, with the capital charge for each risk category calculated separately.

Market risk Qualifying Assets includes interest rate risk assets in the trading book and foreign currency 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.

b) 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.

4. Derivative instruments and structured transactions

a) 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.

b) Structured Transactions: Structured transactions are specialized 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.

TRANSPARENCY AND ACCOUNTABILITY

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Corporate information

Chairman:	Fred N. Ojiambo, MBS, SC
Acting Chief Executive of CfC Stanbic Holdings Limited:	Gregory R. Brackenridge*
Chief Executive of CfC Stanbic Bank Limited:	Philip Odera (Appointed: 2 March 2015) Gregory R. Brackenridge* (Resigned: 2 March 2015)
Regional Head Corporate & Investment Banking:	Michael Blades***
Non-Executive Directors:	Kitili Mbathi (Resigned as Chief Executive on 29 January 2016) Edward W. Njoroge Rose W. Kimotho Charles K. Muchene Ruth T. Ngobi Peter N. Gethi Christopher J. Blandford – Newson*** Gayling R. May** (Resigned: 21 May 2015) Jane Babsa-Nzibo (Resigned: 21 May 2015)

* South African
** British
*** South African & British

Company Secretary:	Lillian N. Mbindyo P.O. Box 72833 00200 Nairobi
Auditor:	PricewaterhouseCoopers PwC Tower Waiyaki Way/Chiromo Road P O Box 43963 00100 Nairobi
Registered Office:	CfC Stanbic Centre Chiromo Road P O Box 72833 00200 Nairobi
Principal Bankers:	CfC Stanbic Bank Limited Chiromo Road P O Box 30550 00100 Nairobi GPO

Board of Directors

FRED N. OJIAMBO, MBS, SC /66

Chairman

Appointed 2010

Mr Fred N Ojiambo was appointed as a Non-Executive Director of CfC Stanbic Holdings on 9 April 2010 and as Chairman of the Board on 28 May 2010. Mr Ojiambo is also the Chairman of the Board of CfC Stanbic Bank Limited. Mr Ojiambo is a lawyer and holds a Bachelor of Laws, (LLB) (Hons) Degree from the University of Nairobi and 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.

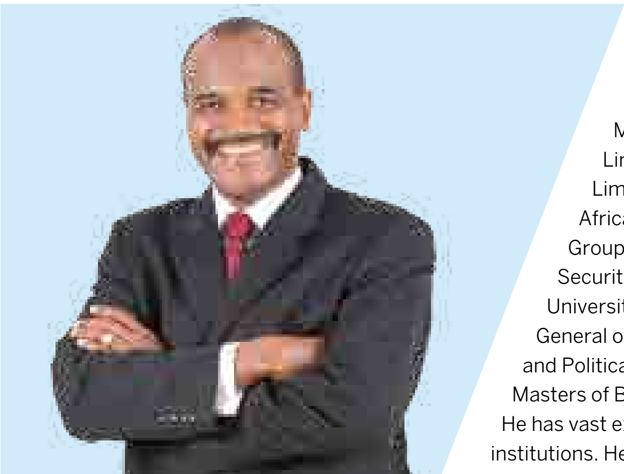
GREGORY R. BRACKENRIDGE /58

Acting Chief Executive

Appointed 2010

Mr Greg Brackenridge was appointed as a Non-Executive Director of the Company on 9 April 2010. He was appointed the Regional Chief Executive, East Africa, for the Standard Bank Group on 15 May 2015 having previously served the Bank as the Chief Executive from 5 March 2010 until 15 March 2015. He is currently the Acting Chief Executive of the Company since 29 February 2016.

Mr Brackenridge is the Regional Chief Executive, East Africa, for the Standard Bank Group responsible for operations in Ethiopia, Kenya, Malawi, 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. He is an Associate of the Institute of Bankers.



KITILI MBATHI /57

Non-Executive Director

Appointed 2008

Mr Kitili Mbathi has served as a Non-Executive Director of CfC Stanbic Holdings Limited since 2008 and was the Regional Chief Executive of the CfC Stanbic Bank 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 CfC Stanbic Holdings 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 and Planning – Government of Kenya.

CHRISTOPHER J. BLANDFORD - NEWSON /51

Non-Executive Director

Appointed 2014

Mr Christpher Newson was appointed to the Board of CfC Stanbic Holdings on 26th June 2014 as a Non-Executive Director. He is also a Director on the Board of CfC Stanbic Bank. Mr Newson is a Chartered Accountant and was the Chief Executive of Standard Bank Africa until September, 2015. He has over 23 years 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.

MICHAEL A. BLADES /49

Regional Head, Corporate & Investment Banking

Appointed 2013

Mr Michael Blades was appointed as a Non-Executive Director of CfC Stanbic Holdings Ltd in 2013. Mr Blades is the Regional Head of Corporate and Investment Banking (CIB), East Africa for Standard Bank Group and an Executive Director on the Board of CfC Stanbic Bank. Based in Nairobi, Kenya, he heads all of Standard Bank's CIB activities in Kenya, Uganda, Tanzania, Ethiopia and South Sudan. A qualified Economist, Mr Blades has worked in various positions in the Corporate and Investment Banking Business Unit of Standard Bank Group for over 20 years, most recently as the Head of International Business Development and Corporate Banking Coverage in China.

CHARLES K. MUCHENE /58

Chairman, Board Audit Committee

Appointed 2011

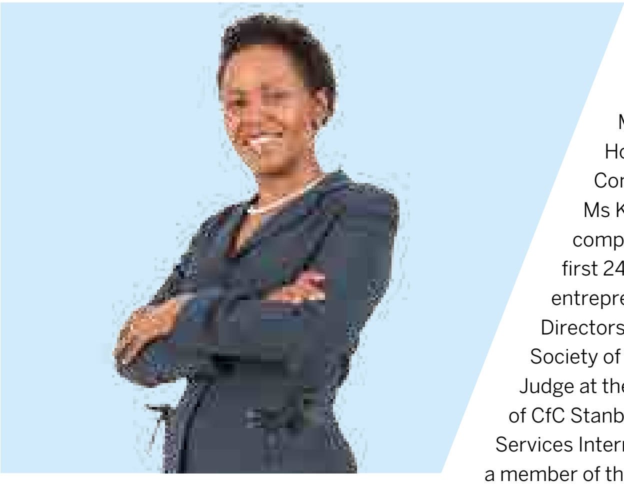
Mr Charles K Muchene was appointed to the Board as a non-executive director of CfC Stanbic Holdings Limited and CfC Stanbic Bank Limited in February 2011. Previously the Country Senior Partner for PricewaterhouseCoopers, he is now a practising business advisor providing board-level advice to select clients. He also serves as a non-executive director on a number of other boards including East Africa Breweries Limited, AIG Kenya Limited and a number of private companies. He holds a Bachelor of Commerce degree from the University of Nairobi, is a Fellow of the Institute of Certified Public Accountants of Kenya, a Member of the Institute of Certified Public Secretaries of Kenya and a member of the Institute of Directors.

EDWARD W. NJOROGE, CBS /63

Non-Executive Director

Appointed 2010

Mr Edward W Njoroge was appointed as a Non-Executive Director of CfC Stanbic Holdings Ltd on 9 April, 2012. 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 REAL Insurance Company Limited, Aquatech Industries Limited, Nerifa Holdings Limited, and ABCON. He is also the Chairman of the Nairobi Securities Exchange, Telkom Kenya and Aureos East Africa Fund.

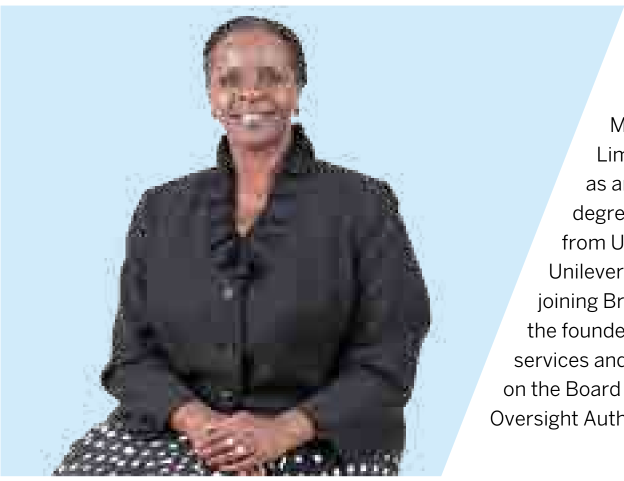


ROSE KIMOTHO, MBS /60

Non-Executive Director

Appointed 2010

Ms Rose W Kimotho was appointed as a Non-Executive Director of CfC Stanbic Holdings in 2010. 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 both 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 CfC Stanbic Holdings Limited, she serves on the Boards CfC Stanbic Bank, 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. 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 /55

Non-Executive Director

Appointed 2011

Ms Ruth T Ngobi is a Non-Executive Director of the Board of CfC Stanbic Holdings Limited. 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 in law 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 CfC Stanbic Bank, as well as a Board member of the Public Procurement Oversight Authority.

PETER NDERITU GETHI /50

Non-Executive Director

Appointed 2013

Mr Peter Gethi was appointed to the Boards of CfC Stanbic Holdings Limited and CfC Stanbic Bank in the year 2013 as a Non-Executive Director. He is a qualified Consultant Agronomist and brings to the Board of the Bank a wealth of agribusiness and management experience, expected to help the Bank achieve its strategic goals. 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 Nebange Ltd.

LILLIAN N. MBINDYO

Company Secretary

Ms Lillian N Mbindyo holds Bachelor of Laws degree and Master of Laws degree from University of Warwick, as well as a Master of Business Administration from Warwick Business School. Ms Mbindyo is an advocate of the High Court of Kenya and a Certified Public Secretary. Prior to joining CfC Stanbic Bank, she worked as the Head of Compliance and Legal at the Nairobi Securities Exchange and thereafter as the Head of Legal and Compliance at SBG Securities Limited. Ms Mbindyo has over eleven years work experience and currently serves as the Company Secretary of CfC Stanbic Holdings Limited, CfC Stanbic Bank Limited, SBG Securities Limited, Stanbic Insurance Agency Limited, CfC Financial Services Nominees Limited and CfC Stanbic Nominees Limited.

Corporate governance report

Standard Bank Group Limited: an overview

The Standard Bank Group understands that good corporate governance is fundamental to earning the trust of our stakeholders, itself critical to sustaining the Organisation's success while preserving shareholder value. In line with this philosophy, the Board is committed towards adopting and implementing sound governance practices.

The Standard Bank Group's governance framework enables the Board to fulfil its role of providing oversight and strategic counsel in consonance with responsibility while ensuring conformity with regulatory requirements and acceptable risk tolerance parameters. CfC Stanbic Holdings Limited, as a member of the Standard Bank Group, is guided by these principles in its governance framework.

CfC Stanbic Holdings Limited: an overview

The CfC Stanbic Holdings Limited (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. Whilst the Group continues to nurture a strong culture of governance and responsible risk management in line with Standard Bank Group's 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.

Codes and regulations

The Group complies with all applicable legislation, regulations, standards and codes, with the Board continually monitoring regulatory compliance.

Shareholders' responsibilities

The shareholders' role is to appoint the Company's Board of Directors and the external auditor. This role is extended to 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 members of the Board 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 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.

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 relation to 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.

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. The Committee also considers appropriate demographic and gender diversity in its assessment.

Suitable candidates are submitted to the Board for consideration and appointment in terms of the Company's Articles of Association, under which 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 and the Capital Markets Act of the Republic of Kenya and the regulations of the Reserve Bank of the Republic of South Africa.

Since the last Annual General Meeting, the Board did not appoint any new member to the Company's Board of Directors.

Mr Gayling R. May and Ms Jane Babsa-Nzibo, both, retired from the Board after the Annual General Meeting held on 21 May 2015.

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 tailored to the new director's specific requirements implemented.

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 on-going basis.

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. The Chairman may provide further constructive feedback separately to each director through a letter, from the results of the peer evaluations, regarding their contribution to the Board.

Going concern

The Board has reviewed the facts and assumptions on which it relied and based on these, will continue to view the Company as a going concern for the foreseeable future.

Remuneration

CfC Stanbic Holdings Limited remunerates its executive and non-executive directors at levels that are fair and reasonable in a competitive market, taking into account the skills, knowledge, and experience required in the Board.

The amount paid to directors are included in Note 37 which represents the total remuneration paid to executive and non-executive directors for the year under review.

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. These areas of focus are subject to annual revision, as the country's socio-economic needs change.

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. 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 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.

Attendance at Board meetings during the year under review is set out in the following table:

NAME	FEB 25	MAY 22	AUG 11	NOV 26
FN Ojiambo, MBS, SC (Chairman)	P	P	P	P
GR Brackenridge	P	P	P	P
K Mbathi	P	P	P	P
MA Blades	P	P	P	P
EW Njoroge	P	P	P	P
J Babsa-Nzibo	P	N/A	N/A	N/A
G R May	P	P	N/A	N/A
RW Kimotho	P	P	P	P
RT Ngobi	P	P	P	P
CK Muchene	P	P	P	P
PN Gethi	P	P	P	P
CJ Blandford- Newson	P	AP	P	P

P = Present; AP = Absent with Apology
N/A = was not a Director / Member

Report of the Board Audit Committee

This report is provided by the Board Audit Committee (the Committee), in respect of the 2015 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 as shown herein below in 2015:

Directors' BAC attendance in 2015

NAME	FEB 23	AUG 10
CK Muchene (Chairman)	P	P
J Babsa-Nzibo	P	N/A
G R May	P	N/A
RT Ngobi	N/A	P
K Mbathi	N/A	P

P = Present; AP = Absent with Apology
N/A = was not a Member

Execution of functions

The Committee has executed its duties and responsibilities during the financial year in accordance with its mandate as it relates to the Company's accounting, internal auditing, internal control and financial reporting practices.

During the year, amongst other matters, the Committee considered the following:

a) In respect of the external auditors and the external audit:

- Approved the reappointment of PricewaterhouseCoopers (PwC) as external auditors for the financial year ended 31 December 2015, in accordance with all applicable legal requirements
- Approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable
- Reviewed the audit process and evaluated the effectiveness of the audit
- Obtained assurance from the external auditors that their independence was not impaired
- confirmed that no significant irregularities were identified and reported by the external auditors
- Considered reports from subsidiary audit committees

b) In respect of the financial statements:

- Confirmed the going concern basis for the preparation of the interim and annual financial statements
- Examined and reviewed the interim and annual financial statements prior to submission and approval by the Board
- Ensured that the annual financial statements fairly represented the financial position of the Company at the end of the financial year, as well as the results of operations and cash flows for the financial year and considered the basis on which the Company was determined to be a going concern
- Ensured that the annual financial statements conform with IFRS
- Considered accounting treatments, significant unusual transactions and accounting judgements
- Considered the adequacy and effectiveness of the accounting policies adopted by the Group and all proposed changes in accounting policies and practices and changes thereto
- Reviewed the effectiveness of financial management and the quality of internal accounting control systems and reports produced by Management; Reviewed and discussed the external auditors' audit report
- Considered and made recommendations to the Board on the interim and final dividend payments to shareholders.

c) In respect of internal control, internal audit and financial crime control:

- Reviewed and approved the annual internal audit charter and audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its mandate
- Considered reports of the internal auditors on the Group's systems of internal control, including internal financial controls, and maintenance of effective internal control systems
- Reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to such findings by Management
- Assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory
- Received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof
- Discussed significant financial crime matters and control weaknesses identified
- Over the course of the year, met twice separately with the Head of Internal Audit and the External Auditors in formal meetings
- Reviewed any significant legal and tax matters that could have a material impact on the financial statements.

Based on the above, the Committee formed the opinion that, as at 31 December 2015, there were no material breakdowns in internal control, including internal financial controls, resulting in any material loss to the Group.

Independence of the External Auditors

The Committee is satisfied that PricewaterhouseCoopers are independent of the Group. This conclusion was arrived at, inter alia, after taking into account the following factors:

- the representations made by PricewaterhouseCoopers to the BAC
- the auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the Group
- the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditors
- the auditors' independence was not prejudiced as a result of any previous appointment as auditor

The Board Audit Committee has reviewed the annual report and recommended it to the Board for approval.

On behalf of the Board Audit Committee

Charles Muchene
Chairman, Board Audit Committee
2 March 2016

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2015, in accordance to section 653 of the Kenyan Companies Act, which disclose the state of affairs of the CfC Stanbic Holdings Ltd (the company) and its subsidiaries (the Group).

Principal activities

The Group is engaged in the business of banking, stock broking and bancassurance and is licensed under the Banking Act, Capital Markets Act and Insurance Act. The Company is listed on the Nairobi Securities Exchange.

Results and dividends

Profit for the year of KShs 4,905,734,000 (2014: KShs 5,686,661,000) has been added to retained earnings.

During the year, an interim dividend of KShs 0.75 (2014: KShs 0.95) per ordinary share amounting to KShs 296 million (2014: KShs 376 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 5.40 (2014: 5.20) per ordinary share equivalent to a total sum of KShs 2,135 million (2014: 2,056 million). The total dividend for the year, therefore, will be KShs 6.15 (2014: KShs 6.15) for every one ordinary share amounting to KShs 2,431 million (2014: KShs 2,431 million).

Share capital

The total number of authorised shares as at 31 December 2015 was 473,684,211 (2014: 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 56.

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.

Auditor

PricewaterhouseCoopers has indicated its willingness to continue in office in accordance with Section 721(2) of the Kenyan Companies Act (Cap. 486).

Approval of financial statements

The financial statements were approved by the Board of Directors on 2 March 2016.

BY ORDER OF THE BOARD

Lillian N. Mbindyo
Company Secretary
2 March 2016

Statement of Directors' responsibilities

The Kenyan Companies Act requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of its profit or loss for that year. It is also requires the Directors to ensure that the Company and Group maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and Group. The directors are also responsible for safeguarding the assets of the Company and Group.

The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. 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 and applying appropriate accounting policies; and

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

The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Company and Group at 31 December 2015 and of the Company and Group's 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.

Nothing has come to the attention of the Directors to indicate that the Company and Group will not remain a going concern for at least the next twelve months from the date of this statement.

The financial statements were approved by the Board of Directors on 2 March 2016 and signed on its behalf by:

Fred N. Ojiambo, MBS, SC
Chairman

Gregory R. Brackenridge
Acting Chief Executive

Report of the Independent Auditor to the members of CfC Stanbic Holdings Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of CfC Stanbic Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), as set out on pages 68 to 161. These financial statements comprise the consolidated statement of financial position at 31 December 2015, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, together with the statement of financial position of the Company standing alone as at 31 December 2015 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and the statement of cash flows of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial position of the Group and of the Company at 31 December 2015 and of the profit and cash flows of the Group and company for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

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

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- in our opinion proper books of account have been kept by the Group and Company, so far as appears from our examination of those books; and
- the Group's and Company's statement of financial position and statement of profit or loss are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Peter Ngahu – P/No 1458.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi
2 March 2016

ANNUAL FINANCIAL STATEMENTS

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Consolidated and company statement of profit or loss

		For the year ended 31 December			
		Group		Company	
	Note	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Interest income	6	14,667,896	11,642,457	66,378	27,644
Interest expense	7	(5,364,849)	(3,180,512)	-	-
Net interest income		**9,303,047**	**8,461,945**	**66,378**	**27,644**
Credit impairment charges on loans and advances	22(d)	(907,305)	(702,822)	-	-
Net interest income after credit impairment charges		**8,395,742**	**7,759,123**	**66,378**	**27,644**
Fees and commission revenue	8	3,392,725	3,554,510	-	-
Fees and commission expense	9	(323,723)	(246,863)	-	-
Net fee and commission revenue		**3,069,002**	**3,307,647**	**-**	**-**
Trading revenue	10	4,306,531	4,779,322	-	-
Other income	11	265,695	321,584	2,365,764	1,093,765
Other operating income		**4,572,226**	**5,100,906**	**2,365,764**	**1,093,765**
Total income		**16,036,970**	**16,167,676**	**2,432,142**	**1,121,409**
Employee benefits	12	(5,035,142)	(4,472,141)	-	-
Depreciation and amortisation expense	14	(503,832)	(556,912)	-	-
Other expenses	13	(3,138,582)	(3,438,377)	(27,316)	(25,799)
Total operating, administration and general expenses		**(8,677,556)**	**(8,467,430)**	**(27,316)**	**(25,799)**
Profit before income tax		**7,359,414**	**7,700,246**	**2,404,826**	**1,095,610**
Income tax expense	15	(2,453,680)	(2,013,585)	(23,204)	(45)
Profit for the year		4,905,734	5,686,661	2,381,622	1,095,565
Profit attributable to:					
Equity holders of the parent		4,905,734	5,686,661	2,381,622	1,095,565
Profit for the year		**4,905,734**	**5,686,661**	**2,381,622**	**1,095,565**
Earnings per share basic and diluted (KShs)	**16**	**12.41**	**14.38**	**6.02**	**2.77**

The notes set out on pages 74 to 161 form an integral part of these financial statements.

Consolidated and company statement of other comprehensive income

	For the year ended 31 December			
	Group		Company	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Profit for the year	**4,905,734**	**5,686,661**	**2,381,622**	**1,095,565**
Other comprehensive income for the year				
Items that may be subsequently reclassified to profit or loss				
Foreign currency translation differences for foreign operations	(1,029,308)	(61,538)	-	-
Fair value changes on available-for-sale instruments	2,087	(202,908)	-	-
Deferred income tax credit on fair valuation of available - for - sale financial assets	(70,719)	2,948	-	-
Other comprehensive income for the year, net of income tax	**(1,097,940)**	**(261,498)**	**-**	**-**
Total comprehensive income for the year	**3,807,794**	**5,425,163**	**2,381,622**	**1,095,565**
Total comprehensive income attributable to:				
Equity holders of the parent	3,807,794	5,425,163	2,381,622	1,095,565
Total comprehensive income for the year	**3,807,794**	**5,425,163**	**2,381,622**	**1,095,565**

The notes set out on pages 74 to 161 form an integral part of these financial statements.

Consolidated and company statement of financial position

	Note	Group 2015 KShs'000	Group 2014 KShs'000	Company 2015 KShs'000	Company 2014 KShs'000
		Group		Company	
		As at 31 December		As at 31 December	
Assets					
Cash, banks and balances with Central Bank of Kenya	18	11,350,098	9,555,580	108,840	56,911
Financial investments	20	45,262,609	49,283,320	-	-
Available-for-sale pledged assets	19	3,439,383	2,884,293	-	-
Derivative assets	30	4,377,196	1,960,415	-	-
Loans and advances to banks	22(a)	23,181,591	12,862,672	-	-
Loans and advances to customers	22(b)	104,981,566	88,347,438	-	-
Other assets and prepayments	23	2,709,300	2,417,387	1,651	8,041
Investment in subsidiaries	24	-	-	18,175,338	18,175,338
Property and equipment	25	2,244,902	2,348,229	-	-
Prepaid operating lease	26	56,854	59,807	-	-
Other intangible assets	27	754,370	490,565	-	-
Intangible assets - goodwill	28	9,349,759	9,349,759	-	-
Current income tax asset	34 (a)	382,965	4,294	-	-
Deferred tax asset	34 (c)	361,322	1,435,226	-	-
Total assets		**208,451,915**	**180,998,985**	**18,285,829**	**18,240,290**
Liabilities and equity					
Liabilities					
Derivative liabilities	30	3,361,440	2,232,264	-	-
Financial liabilities at fair value through profit or loss	21	521,973	-	-	-
Deposits from banks	31	47,424,577	33,570,267	-	-
Deposits from customers	31	106,246,235	95,838,876	-	-
Other liabilities and accrued expenses	33	5,961,263	5,948,968	40,071	31,220
Borrowings	32	6,482,063	6,513,417	-	-
Balances due to group companies	37	-	-	3,198	1,833
Current income tax liability	34 (b)	89,535	-	5,910	45
Total liabilities		**170,087,086**	**144,103,792**	**49,179**	**33,098**
Equity					
Ordinary share capital	29	1,976,608	1,976,608	1,976,608	1,976,608
Ordinary share premium	29	16,897,389	16,897,389	16,897,389	16,897,389
Other reserves	40	(790,252)	330,248	-	-
Retained earnings		18,146,346	15,635,275	(2,772,085)	(2,722,478)
Proposed dividend	17	2,134,738	2,055,673	2,134,738	2,055,673
Total equity attributable to equity holders of the parent		**38,364,829**	**36,895,193**	**18,236,650**	**18,207,192**
					ff
Total equity and liabilities		**208,451,915**	**180,998,985**	**18,285,829**	**18,240,290**

The notes set out on pages 74 to 161 form an integral part of these financial statements.

The financial statements on pages 68 to 161 were approved for issue by the Board of Directors on 2 March 2016 and signed on its behalf by:

Fred N. Ojiambo, MBS, SC
Chairman

Gregory R. Brackenridge
Acting Chief Executive

Lillian N. Mbindyo
Company Secretary

Consolidated statement of changes in equity

		Attributable to equity holders					
For the year ended 31 December 2015	**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 2015		**1,976,608**	**16,897,389**	**330,248**	**15,635,275**	**2,055,673**	**36,895,193**
Profit for the year		-	-	-	4,905,734	-	4,905,734
Other comprehensive income, net of tax		-	-	(1,097,940)	-	-	(1,097,940)
Transfer to statutory credit risk reserve		-	-	66,048	(66,048)	-	-
Transactions with owners, recorded directly in equity Contributions by and distributions to owners of the Group							
Dividends to equity holders - dividend paid	17	-	-	-	(296,491)	(2,055,673)	(2,352,164)
Proposed dividend	17	-	-	-	(2,134,738)	2,134,738	-
Transfer of vested share option from share based reserve		-	-	(102,614)	102,614	-	-
Share based payment reserve	41(a)	-	-	14,006	-	-	14,006
Total transactions with owners		**-**	**-**	**(88,608)**	**(2,328,615)**	**79,065**	**(2,338,158)**
At 31 December 2015		**1,976,608**	**16,897,389**	**(790,252)**	**18,146,346**	**2,134,738**	**38,364,829**

		Attributable to equity holders					
For the year ended 31 December 2014	**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 2014		**1,976,608**	**16,897,389**	**444,709**	**12,506,196**	**600,889**	**32,425,791**
Profit for the year		-	-	-	5,686,661	-	5,686,661
Other comprehensive income, net of tax		-	-	(264,794)	3,295	-	(261,499)
Transfer to statutory credit risk reserve				129,648	(129,648)		-
Total comprehensive income for the year		-	-	(135,146)	5,560,308	-	5,425,162
Transactions with owners, recorded directly in equity Contributions by and distributions to owners of the Group							
Dividends to equity holders - dividend paid	17	-	-	-	(375,556)	(600,889)	(976,445)
Dividends to equity holders-proposed dividend	17	-	-	-	(2,055,673)	2,055,673	-
Share based payment reserve	41(a)	-	-	20,685	-	-	20,685
Total transactions with owners				**20,685**	**(2,431,229)**	**1,454,784**	**(955,760)**
At 31 December 2014		**1,976,608**	**16,897,389**	**330,248**	**15,635,275**	**2,055,673**	**36,895,193**

The notes set out on pages 74 to 161 form an integral part of these financial statements.

Company statement of changes in equity

		Attributable to equity holders				
For the year ended 31 December 2015	**Note**	**Share Capital KShs'000**	**Share Premium KShs'000**	**Retained Earnings KShs'000**	**Proposed Dividend KShs'000**	**Total Equity KShs'000**
At 1 January 2015		**1,976,608**	**16,897,389**	**(2,722,478)**	**2,055,673**	**18,207,192**
Profit for the year		-	-	**2,381,622**	-	**2,381,622**
Other Comprehensive income, net of tax		-	-	-	-	-
Contribution and distributions to owners						
Dividends to equity holders - dividend paid	17	-	-	(296,491)	(2,055,673)	(2,352,164)
Dividends to equity holders - proposed dividend	17	-	-	(2,134,738)	2,134,738	-
Total contributions by and distributions to owners		-	-	**(2,431,229)**	**79,065**	**(2,352,164)**
At 31 December 2015		**1,976,608**	**16,897,389**	**(2,772,085)**	**2,134,738**	**18,236,650**
For the year ended 31 December 2014						
At 1 January 2014		**1,976,608**	**16,897,389**	**(1,386,816)**	**600,889**	**18,088,070**
Profit for the year		-	-	1,095,565	-	1,095,565
Other Comprehensive income, net of tax		-	-	-	-	-
Contribution and distributions to owners						
Dividends to equity holders - dividend paid	17	-	-	(375,554)	(600,889)	(976,443)
Dividends to equity holders - proposed dividend	17	-	-	(2,055,673)	2,055,673	-
Total contributions by and distributions to owners		-	-	**(2,431,227)**	**1,454,784**	**(976,443)**
At 31 December 2014		**1,976,608**	**16,897,389**	**(2,722,478)**	**2,055,673**	**18,207,192**

The notes set out on pages 74 to 161 form an integral part of these financial statements.

Consolidated and company statement of cash flows

		Group		Company	
		For the year ended 31 December			
	Note	2015 KShs '000	2014 KShs '000	2015 KShs '000	2014 KShs '000
Cash flows generated from operating activities	**35 (a)**	**6,615,386**	**8,774,316**	**2,404,826**	**1,095,610**
Income tax paid	34 (b)	(1,766,959)	(2,724,750)	(17,339)	-
Net cash generated from operating activities before changes in operating assets		**4,848,427**	**6,049,566**	**2,387,487**	**1,095,610**
Loans and advances to customers		(16,634,128)	(19,213,946)	-	-
Loans and advances to banks		115,685	(5,685)	-	-
Financial assets-fair value through profit or loss		6,071,271	(6,215,398)	-	-
Financial assets-available-for-sale		(358,255)	(4,371,222)	-	-
Deposits held for regulatory purpose		(887,400)	(267,378)	-	-
Other assets and prepayments		(291,976)	(64,796)	6,390	(4,646)
Deposits from customers		9,867,671	1,111,037	-	-
Deposits from banks		17,856,455	7,502,897	-	-
Other liabilities and accrued expenses		12,259	(2,734,753)	10,215	(150,515)
Trading liabilities		521,973	-	-	-
Changes in operating assets and liabilities		**16,273,555**	**(24,259,244)**	**16,605**	**(155,161)**
Net cash generated from/ (used in) operating activities		**21,121,982**	**(18,209,678)**	**2,404,092**	**940,449**
Additions to property and equipment	25	(501,881)	(461,422)	-	-
Additions to intangible assets	27	(342,427)	(6,500)	-	-
Proceeds from the sale of equipment		517	7,325	-	-
Cash used in investing activities		**(843,789)**	**(460,597)**	**-**	**-**
Dividends paid to equity holders of parent		(2,352,164)	(976,445)	(2,352,164)	(976,445)
Subordinated debt issued		-	4,012,563	-	-
Subordinated debt redeemed		(31,354)	(3,346,898)	-	-
Cash used in financing activities		**(2,383,518)**	**(310,780)**	**(2,352,164)**	**(976,445)**
Net increase / (decrease) in cash and cash equivalents		17,894,675	(18,981,055)	51,928	(35,996)
Effect of exchange rate fluctuations		(915,905)	(65,586)	-	-
Cash and cash equivalents at 1 January		22,610,152	41,656,793	56,911	92,907
Cash and cash equivalents at 31 December	**35 (b)**	**39,588,922**	**22,610,152**	**108,839**	**56,911**

The notes set out on pages 74 to 161 form an integral part of these financial statements.

Notes

1 General information

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

CfC Stanbic 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 Summary of significant accounting policies

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

a. Basis of preparation

CfC Stanbic Holdings Ltd (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) 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

The accounting policies are consistent with those adopted in the previous year, except for the following:

(i) New and amended standards early adopted by the Company and the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015 and have a material impact on the Group:

Amendment to IAS 1 Presentation of Financial Statements (IAS 1) effective 1 January 2016

The amendment to IAS 1 clarifies that materiality applies to the whole set of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendment further explains that professional judgement should be used in determining where and in what order information should be presented in the financial statements. During the year the Group reviewed its financial statements to identify disclosures that were considered to be immaterial as well as to consider ways of better presenting financial information. The revised standards did not have any effect on the Group's reported earnings or financial statement position and had no material impact on the accounting policies.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. The following standards and amendments set out below, are expected to have a significant effect on the financial statements of the Group;

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss (P/L). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the

Notes (continued)

2 Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

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

recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is in the process of determining IFRS 9 full impact.

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

- 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 balance sheet.

  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 done in terms of IAS 17.

  In addition, the standard requires 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 standard is effective for annual periods beginning on or after 1 January 2019. The impact on the annual financial statements has not yet been fully determined.

- IFRS 11, 'Joint arrangements'. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment has no impact on the Group operations.

- IAS 16, 'Property, plant and equipment', and IAS 41, 'Agriculture',. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendment has no impact on the Group's operations.

- IAS 27, 'Separate financial statements'. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendment has no material impact on the Group operations.

- IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures'. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendment has no impact on the Group operations.

Notes (continued)

2 Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

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

Annual improvements 2014. These set of amendments, effective 1 January 2016, impacts 4 standards:

- IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 19, 'Employee benefits' regarding discount rates.
- IAS 34, 'Interim financial reporting' regarding disclosure of information

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

b) Consolidation

The consolidated financial statements incorporate the financial statements of CfC Stanbic Holdings Limited and its subsidiaries; CfC Stanbic Bank Limited, CfC Stanbic Nominees Limited, Stanbic Insurance Agency Limited, SBG Securities Limited and CfC Financial Services Nominees Limited. The financial statements have been made up to 31 December 2015.

(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 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 with the Group's accounting policies.

(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 remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the etained 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

c) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

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). The consolidated financial statements are presented in 'Kenyan Shillings (KShs), which is the CfC Stanbic Holdings Limited's presentation currency rounded to the nearest thousand.

(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 that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in statement of profit or loss within other income or other expenses.

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 (none of which has the currency of a hyperinflationary economy) 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.

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 Officer (CEO) 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 (with the exception of 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

e) Revenue and expenditure (continued)

Net interest income (continued)

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.

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.

Notes (continued)

2 Summary of significant accounting policies (continued)

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 inve tments with 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.

The assets in this category had a total carrying value of KShs 39,588,922,000 at the financial reporting date of 31 December 2015 (2014: KShs 22,610,152,000).

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

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

a. Held-to-maturity

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

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 remeasured at each reporting date. All gains and losses, including interest and dividends arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue with the exception of derivatives that are designated and effective as hedging instruments (refer to 'Derivative financial instruments and hedge accounting' within this accounting policy for further details).

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 remeasured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (interest expense) for all debt financial assets (financial liabilities) and in other revenue within non-interest revenue for all equity instruments.

Notes (continued)

2 Summary of significant accounting policies (continued)

g) Financial instruments (continued)

(d) Available-for-sale

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

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

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

Interest income, calculated using the effective interest method, is recognised in profit or loss. Dividends received on debt (equity) available-for-sale instruments are recognised in interest income (other revenue) within profit or loss when the 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 the purpose of selling it in the near term. Financial assets that would not otherwise have met the definition of loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances. In addition, the 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.

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 loan or group of loans is impaired. A loan or group of loans is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the loan or group of loans that can be estimated reliably.

Criteria that are used by the 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 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

g) Financial instruments (continued)

The Group first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant.

Non-performing loans include those loans for which the Group has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

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

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

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

Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss trigger events and the date on which the Group identifies the losses).

Groups of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

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

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

(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.

Notes (continued)

2 Summary of significant accounting policies (continued)

g) Financial instruments (continued)

(v) Offsetting financial instruments (continued)

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.

(a) Derivatives that qualify for hedge accounting

When derivatives are designated in a hedge relationship, the Group designates them as either:

- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedges)
- hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecast transaction, or a highly probable forecast intragroup transaction in the consolidated annual financial statements (cash flow hedges), or

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The Group documents, at the inception of the hedge relationship, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. The Group also documents its assessment, both at the inception of the hedge and on an on-going basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items

(b) Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same line item in profit or loss as the related hedged item. Any hedge ineffectiveness is recognised in profit or loss as trading revenue

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The adjustment to the carrying amount of a hedged item measured at amortised cost, for which the effective interest method is used, is amortised to profit or loss as part of the hedged item's recalculated effective interest rate over the period to maturity.

(c) Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss as trading revenue.

(d) Derivatives that qualify for hedge accounting

When derivatives are designated in a hedge relationship, the Group designates them as either:

- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedges)
- hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecast transaction, or a highly probable forecast intragroup transaction in the consolidated annual financial statements (cash flow hedges), or

2 Summary of significant accounting policies (continued)

g) Financial instruments (continued)

(d) Derivatives that qualify for hedge accounting (continued)

- Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The Group documents, at the inception of the hedge relationship, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. The Group also documents its assessment, both at the inception of the hedge and on an on-going basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items.

There were no derivatives that qualified for hedge accounting in 2015 (2014: Nil).

(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.

(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 (including commodities)

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

g) Financial instruments (continued)

(x) Sale and repurchase agreements and lending of securities (including commodities) (continued)

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) 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 28 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.

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, which does not exceed three 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

h) Intangible assets (continued)

Other intangible assets (continued)

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, not exceeding 20 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.

i) 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. 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.

j) 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

j) Impairment of non-financial assets (continued)

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.

k) 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 clients 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.

l) 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.

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 in the financial statements but are disclosed in the notes to the financial statements unless they are remote.

Notes (continued)

2 Summary of significant accounting policies (continued)

m) 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 all its employees also contribute to the National Social Security Fund, which 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.

n) 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.

(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.

Notes (continued)

2 Summary of significant accounting policies (continued)

n) Current and deferred income tax (continued)

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.

o) 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.

p) Dividends on ordinary shares

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

q) 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.

r) 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.

s) Comparative figures

Where necessary, comparative figures within notes have been restated 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 on a monthly basis. 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. Where the net present value of estimated cash flows to differ by +/-1%, the impairment loss is to be estimated at KShs 29,091,000 higher or KShs 29,091,000 lower (2014: KShs 20,157,000 higher or KShs 20,157,000 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 annually 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 28.

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.

4. Segmental reporting

The Group is currently 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 Officer (CEO) with the assistance of the Group's Executive Committee (EXCO) and the Asset and Liability Committee (ALCO). Management considers the business from client turnover perspective.

The Group has therefore segmented its business as Personal & Business Banking (PBB), Corporate and Investment Banking (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 operates one branch in the Republic of South Sudan.

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 ATMs, Internet, and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.
- Wealth Management & Advising.

Notes (continued)

4 Segmental reporting (continued)

Corporate and Investment Banking (CIB)

CIB provides commercial and investment financial services to larger corporates, financial institutions and international counter parties. 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.

Major customers

The Group does not have any one major customer that contributes more than 10% of its revenues. However the Group has one major customer whose deposits contribute 8% (2014: 6%) of total deposits as at December 2015.The interest expense paid to this customer is reported under the Corporate and Investment Banking segment.

Results by business units

Statement of profit or loss	Total Group 2015 KShs'000	Total Group 2014 KShs'000	CIB 2015 KShs'000	CIB 2014 KShs'000	PBB 2015 KShs'000	PBB 2014 KShs'000
Interest income	14,667,896	11,642,457	8,756,339	6,918,617	5,911,557	4,723,840
Interest expense	(5,364,849)	(3,180,512)	(3,659,579)	(2,269,415)	(1,705,270)	(911,097)
Net interest income	**9,303,047**	**8,461,945**	**5,096,760**	**4,649,202**	**4,206,287**	**3,812,743**
Impairment (losses)/credits on loans and advances	(907,305)	(702,822)	(240,239)	(60,729)	(667,066)	(642,093)
Net interest income after loan impairment charges	**8,395,742**	**7,759,123**	**4,856,521**	**4,588,473**	**3,539,221**	**3,170,650**
Fees and commission income	3,392,725	3,554,511	1,704,498	1,646,545	1,688,227	1,907,966
Fees and commission expense	(323,723)	(246,864)	(111,767)	(3,215)	(211,956)	(243,649)
Net fees and commission income	**3,069,002**	**3,307,647**	**1,592,731**	**1,643,330**	**1,476,271**	**1,664,317**
Trading income	4,306,531	4,779,322	3,980,514	4,779,322	326,017	-
Net other operating income	265,695	321,584	132,549	103,569	133,146	218,015
Net trading and other income	**4,572,226**	**5,100,906**	**4,113,063**	**4,882,891**	**459,163**	**218,015**
Employee benefits	(5,035,142)	(4,472,141)	(2,350,916)	(2,029,581)	(2,684,226)	(2,442,560)
Depreciation and amortisation expense	(503,832)	(556,912)	(191,916)	(220,141)	(311,916)	(336,771)
Other expenses	(3,138,582)	(3,438,377)	(1,543,706)	(1,969,391)	(1,594,876)	(1,468,986)
Profit before tax	**7,359,414**	**7,700,246**	**6,475,777**	**6,895,581**	**883,637**	**804,665**
Income tax expense	(2,453,680)	(2,013,585)	(2,160,402)	(1,791,415)	(293,278)	(222,170)
Profit for the year	**4,905,734**	**5,686,661**	**4,315,375**	**5,104,166**	**590,359**	**582,495**

Notes (continued)

4 Segmental reporting (continued)

Results by business units (continued)

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

Statement of financial position	Total Group 2015 KShs'000	Total Group 2014 KShs'000	CIB 2015 KShs'000	CIB 2014 KShs'000	PBB 2015 KShs'000	PBB 2014 KShs'000
Assets						
Cash and balances with Central Bank of Kenya	11,350,098	9,555,580	10,322,589	8,697,931	1,027,509	857,649
Financial assets	48,701,992	52,167,614	48,701,992	52,149,864	-	17,750
Derivative assets	4,377,196	1,960,415	4,377,196	1,960,415	-	-
Loans and advances	128,163,157	101,210,109	78,676,781	57,984,570	49,486,376	43,225,539
Property, equipment and intangibles	3,056,126	2,898,601	1,147,278	1,186,217	1,908,848	1,712,384
Goodwill	9,349,759	9,349,759	9,349,759	9,349,759	-	-
Deferred income tax	361,322	1,435,226	264,412	545,230	96,910	889,996
Current income tax	382,965	4,294	258,684	(30,019)	124,281	34,313
Other receivables and prepayments	2,709,300	2,417,387	1,003,105	293,219	1,706,195	2,124,168
Total assets	**208,451,915**	**180,998,985**	**154,101,796**	**132,137,186**	**54,350,119**	**48,861,799**
Liabilities						
Deposits	153,670,812	129,409,143	100,052,866	84,611,477	53,617,946	44,797,666
Current income tax	89,535	-	66,228	(2,358)	23,307	2,358
Trading liabilities	521,973	-	521,973	-	-	-
Derivative liabilities	3,361,440	2,232,264	3,361,440	2,232,264	-	-
Borrowings	6,482,063	6,513,417	4,145,719	4,215,066	2,336,344	2,298,351
Other liabilities and accrued expenses	5,961,263	5,948,971	3,754,482	2,624,555	2,206,781	3,324,416
Total liabilities	**170,087,086**	**144,103,795**	**111,902,708**	**93,681,004**	**58,184,378**	**50,422,791**
Shareholders' equity	**38,364,829**	**36,895,190**	**28,182,316**	**28,172,562**	**10,182,513**	**8,722,628**
Funding	-	-	14,016,773	10,283,620	(14,016,773)	(10,283,620)
Total equity and liabilities	**208,451,915**	**180,998,985**	**154,101,797**	**132,137,186**	**54,350,118**	**48,861,799**
Other information						
Additions to property and equipment	501,881	461,422	139,667	156,998	362,214	304,424
Additions to intangible assets	342,425	6,500	75,930	2,238	266,495	4,262

Notes (continued)

4 Segmental reporting (continued)

Results by geographical area (continued)

Statement of profit or loss	Total 2015 KShs'000	Total 2014 KShs'000	South Sudan 2015 KShs'000	South Sudan 2014 KShs'000	Kenya 2015 KShs'000	Kenya 2014 KShs'000
Interest income	14,667,896	11,642,456	12,265	10,077	14,655,631	11,632,379
Interest expense	(5,364,849)	(3,180,512)	-	-	(5,364,849)	(3,180,512)
Net interest income	**9,303,047**	**8,461,944**	**12,265**	**10,077**	**9,290,782**	**8,451,867**
Impairment losses on loans and advances	(907,305)	(702,822)	-	-	(907,305)	(702,822)
Net interest income after loan impairment charges	**8,395,742**	**7,759,122**	**12,265**	**10,077**	**8,383,477**	**7,749,045**
Fees and commission income	3,392,725	3,586,823	270,739	499,039	3,121,986	3,087,784
Fees and commission expense	(323,723)	(279,176)	(2,842)	(11,798)	(320,881)	(267,378)
Net fees and commission income	**3,069,002**	**3,307,647**	**267,897**	**487,241**	**2,801,105**	**2,820,406**
Trading income	4,306,531	4,779,321	768,347	877,397	3,538,184	3,901,924
Net other operating income	265,695	321,583	120,202	16	145,493	321,567
Net trading and other income	**4,572,226**	**5,100,904**	**888,549**	**877,413**	**3,683,677**	**4,223,491**
Employee benefits	(5,035,142)	(4,472,141)	(328,280)	(286,264)	(4,706,862)	(4,185,877)
Depreciation and amortisation expense	(503,832)	(556,912)	(42,113)	(33,093)	(461,719)	(523,819)
Other expenses	(3,138,582)	(3,438,375)	(333,180)	(495,904)	(2,805,402)	(2,942,471)
Profit before tax	**7,359,414**	**7,700,245**	**465,138**	**559,470**	**6,894,276**	**7,140,775**
Income tax expense	(2,453,680)	(2,013,585)	(89,148)	(88,571)	(2,364,532)	(1,925,014)
Profit for the year	**4,905,734**	**5,686,661**	**375,990**	**470,899**	**4,529,744**	**5,215,761**

Statement of financial position	Total 2015 KShs'000	Total 2014 KShs'000	South Sudan 2015 KShs'000	South Sudan 2014 KShs'000	Kenya 2015 KShs'000	Kenya 2014 KShs'000
Assets						
Cash and balances with Central Bank of Kenya	18,286,126	17,563,801	7,703,815	8,348,361	10582,311	9,215,440
Financial assets	48,701,992	52,167,613	58,752	242,743	48,643,240	51,924,870
Derivative assets	4,377,196	1,960,415	-	-	4,377,196	1,960,415
Loans and advances	124,381,139	96,542,734	2,495,611	2,957,700	121,885,528	93,585,034
Investment in subsidiary	-	-	-	-	-	-
Property, equipment and intangibles	3,056,126	2,898,601	51,676	245,532	3,004,450	2,653,069
Goodwill	9,349,759	9,349,759	-	-	9,349,759	9,349,759
Deferred income tax	361,324	1,435,489	3,033	636	358,291	1,434,853
Current income tax	382,965	72,548	-	37,954	382,965	34,594
Other receivables and prepayments	4,332,139	4,657,686	27,783	171,855	4,304,356	4,485,831
Total assets	**213,228,766**	**186,648,646**	**10,340,670**	**12,004,781**	**202,888,096**	**174,643,865**
Liabilities						
Deposits	156,836,039	132,749,988	7,811,039	8,046,134	149,025,000	124,703,854
Current income tax	89,535	68,254	80,305	-	9,230	68,254
Trading liabilities	521,973	-	-	-	521,973	-
Derivative liabilities	3,361,440	2,232,264	-	-	3,361,440	2,232,264
Borrowings	6,482,063	6,513,417	-	-	6,482,063	6,513,417
Other liabilities and accrued expenses	7,572,887	8,189,533	1,795,503	2,655,031	5,777,384	5,534,502
Total liabilities	**174,863,937**	**149,753,456**	**9,686,847**	**10,701,165**	**165,177,090**	**139,052,291**
Shareholders' equity	**38,364,829**	**36,895,190**	**653,823**	**1,303,617**	**37,711,006**	**35,591,574**
Total equity and liabilities	**213,228,766**	**186,648,646**	**10,340,670**	**12,004,782**	**202,888,096**	**176,643,865**
Other information						
Additions to property and equipment	501,881	461,423	4,466	126,497	497,415	334,926
Additions to intangible assets	342,425	6,500	703	-	341,722	6,500

Notes (continued)

4 Segmental reporting (continued)

Results by geographical area (continued)

Reconciliation of reportable assets and liabilities

Assets	2015 KShs'000	2014 KShs'000
Total assets for reportable segments	213,228,766	186,648,646
Elimination of inter-branch balances with South Sudan	(4,776,849)	(5,649,661)
Entity's assets	**208,451,917**	**180,998,985**
Liabilities		
Total liabilities for reportable segments	213,228,766	186,648,646
Elimination of inter-branch balances with South Sudan	(4,776,849)	(5,649,661)
Entity's liabilities	**208,451,917**	**180,998,985**

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. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

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.
- 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.

Notes (continued)

5. Financial risk management (continued)

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.

	2015 KShs'000	2014 KShs'000
Total borrowings	-	-
Total equity	18,236,650	18,207,192
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 Authority, 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.

Capital management - Group

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, of the respective subsidiary
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

SBG Securities Limited is a fully owned subsidiary of the Group and is required by the regulator, Capital Markets Authority (CMA) to maintain a core capital of KShs 250 million for the brokerage business.

The Group is significantly made up of CfC Stanbic Bank, which is a fully owned subsidiary. The Bank is regulated by the Central Bank of Kenya. The Bank monitors the adequacy of its capital using ratios established by the Central Bank of Kenya (CBK), which ratios are broadly in line with those for the Bank for International Settlements (BIS). These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

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

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

The Bank is required at all times to maintain:

- A regulatory capital of KShs 1 billion as at 31 December 2015.
- A core capital (tier 1) of not less than 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% of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 14.5% of its total risk adjusted 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.

Effective 1 January 2015 the Central Bank of Kenya prescribed that Banks should hold a capital conservation buffer of 2.5% over and above minimum ratios set in 2014 to enable it withstand future periods of stress. This brings the minimum core capital to risk weighted assets and total capital to risk weighted assets requirements from 8% in 2014 to 10.5% in 2015 and 12% in 2014 to 14.5% in 2015, respectively. The bank has complied with these requirements

Bank's regulatory capital

	2015 KShs'000	**2014 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	(1,094,225)	(68,403)
Retained earnings	20,119,010	17,520,145
Total Tier 1 capital (Core capital)	**25,880,973**	**24,307,930**
Tier 2 capital		
Regulatory credit risk reserve	195,697	129,649
Qualifying subordinate liabilities	4,274,558	4,812,270
Total Tier 2 capital	**4,470,255**	**4,941,919**
Total capital (Tier 1 + Tier 2)	**30,351,228**	**29,249,849**
Risk - weighted assets		
Operational risk	28,772,589	25,239,097
Market risk	10,530,868	13,218,970
Credit risk on-statement of financial position	107,210,903	86,866,067
Credit risk off-statement of financial position	15,769,803	13,410,401
Total risk - weighted assets	**162,284,163**	**138,734,535**
Capital adequacy ratios		
Core capital / total deposit liabilities	23.50%	23.70%
Minimum statutory ratio	8.00%	8.00%
Core capital / total risk - weighted assets	15.90%	17.52%
Minimum statutory ratio	10.50%	10.50%
Total capital / total risk - weighted assets	18.70%	21.08%
Minimum statutory ratio	14.50%	14.50%

Notes (continued)

5. Financial risk management (continued)

b) Credit risk

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

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

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

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

Governance committees

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

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

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

General approach to managing credit risk.

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

The Group manages credit risk through:

- maintaining strong culture of responsible lending and a robust risk policy and control framework
- identifying, assessing and measuring credit risk clearly and accurately across the Group, from the level of individual facilities up to the total portfolio
- defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions
- monitoring the Group's credit risk relative to limits
- 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 Groups 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.

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

Management reporting

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

- Monthly BCRC Report
- Quarterly Board Audit Report
- Quarterly Board Risk Report
- Regulatory returns
- Half-year results
- Annual financial statements

These reports are distributed to SBG 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 Groups at a counter-party level, the Group reflects three components:

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

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

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

Probability of default

The Group uses a 25-point master rating scale to quantify the credit risk for each borrower as illustrated in the table on page 45. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable portfolio. The Group distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making and in managing credit risk exposures.

Loss given default

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

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

<table>
<tr><th colspan="6">Relationship between the bank master rating and external ratings</th></tr>
<tr><th>Core Banking system rating scale</th><th>Moody's Investor Services</th><th>Standard & Poor's</th><th>Fitch</th><th>Grading</th><th>Credit Quality</th></tr>
<tr><td>1-4</td><td>Aaa, Aa1, Aa2, Aa3</td><td>AAA, AA+, AA, AA-</td><td>AAA, AA+, AA, AA-</td><td rowspan="3">Investment Grade</td><td rowspan="4">Normal Monitoring</td></tr>
<tr><td>5-7</td><td>A1, A2, A3</td><td>A+, A, A-</td><td>A +, A, A-</td></tr>
<tr><td>8-12</td><td>Baa1, Baa2, Baa3</td><td>BBB+, BBB, BBB-</td><td>BBB+, BBB, BBB-</td></tr>
<tr><td>13-21</td><td>Ba1, Ba2, Ba3
B1, B2, B3</td><td>BB+, BB, BB-, B+
B, B-,</td><td>BB+, BB, BB-
B+, B, B-</td><td rowspan="2">Sub-investment Grade</td></tr>
<tr><td>22-25</td><td>Caa1, Caa2
Caa3, Ca</td><td>CCC+, CCC, CCC-</td><td>CCC+, CCC, CCC-</td><td>Closing Monitoring</td></tr>
<tr><td>Default</td><td>C</td><td>D</td><td>D</td><td>D</td><td>D</td></tr>
</table>

Risk limit control and mitigation policies

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

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

The exposure to any one borrower including banks and brokers is further restricted by 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 Group portfolios)

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

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

(i) Credit tailored to customer profile (continued)

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

To this end CIB uses software developed by third party vendors, which is widely used by the banking industry globally in its credit management process. Expected default frequencies are an important tool in the formal credit assessment process of both new and existing business, and also form the basis for monitoring changes in counterparty credit quality on a day to day basis. Expected default frequencies will continue to be a vital component of credit risk management as the 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 Group 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 Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(iv) Derivative

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.

(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:

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

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 page 101 shows the financial effect that collateral has on the Group's maximum exposure to credit risk. The table includes collateral that management takes into consideration in the management of the Group's exposures to credit risk. All on- and off-balance sheet exposures that are exposed to credit risk, including non-performing loans, have been included.

Collateral includes:

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

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

In the retail portfolio, 79% (2014: 56%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures in the 50% to 100% collateral coverage category is 71% (2014: 80%).

Of the Group's total exposure, 42% (2014: 60%) 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 2015	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Collateral coverage - Total Greater than 0% to 50%	Greater than 50% to 100%	Greater than 100%
Asset class								
Corporate	96,591,565	3,932,693	92,658,872	-	92,658,872	5,666,386	81,892,739	5,099,747
Sovereign	53,111,448	53,111,448	-	-	-	-	-	-
Group	23,114,332	23,114,332	-	-	-	-	-	-
Retail	51,477,882	10,606,843	40,871,039	-	40,871,039	2,280,152	36,538,751	2,052,137
-Retail mortgage	18,032,916	-	18,032,916	-	18,032,916	-	18,032,916	-
-Other retail	33,444,968	10,606,843	22,838,125	-	22,838,125	2,280,153	18,505,835	2,052,137
Total	**224,295,229**	**90,765,316**	**133,529,913**	**-**	**133,529,913**	**7,946,538**	**118,431,490**	**7,151,884**
Add: Financial assets not exposed to credit risk	10,799,100							
Add: Coins and Group notes	9,632,761							
Add: Other financial assets	1,166,339							
Less: Impairments for loans and advances	(2,430,402)							
Less: Unrecognised off balance sheet items	(37,362,184)							
Total exposure	**195,301,743**							
Reconciliation to balance sheet								
Cash and balances with central banks	11,350,098							
Derivative assets	4,377,196							
Financial investments	29,012,415							
Trading assets	16,250,195							
Pledged assets	3,439,383							
Other financial assets	2,709,299							
Net loans and advances	128,163,157							
Total on – balance sheet exposure	**195,301,743**							

31 December 2014	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Collateral coverage - Total Greater than 0% to 50%	Greater than 50% to 100%	Greater than 100%
Asset class								
Corporate	76,046,850	4,399,105	71,647,745	-	71,647,745	2,372,023	27,535,732	41,739,990
Sovereign	59,263,744	59,263,744	-	-	-	-	-	-
Group	12,965,465	12,965,465	-	-	-	-	-	-
Retail	48,665,462	7,389,667	41,275,795	-	41,275,795	10,596,454	10,566,097	20,113,244
-Retail mortgage	14,491,750	-	14,491,750	-	14,491,750	-	6,862,303	7,629,447
-Other retail	34,173,712	7,389,667	26,784,045	-	26,784,045	10,596,454	3,703,794	12,483,797
Total	**196,941,521**	**84,017,981**	**112,923,540**	**-**	**112,923,540**	**12,968,477**	**38,101,829**	**61,853,234**
Add: Financial assets not exposed to credit risk	3,427,360							
Add: Coins and Group notes	1,945,768							
Add: Other financial assets	1,481,592							
Less: Impairments for loans and advances	(1,991,978)							
Less: Unrecognised off balance sheet items	(31,065,798)							
Total exposure	**167,311,105**							
Reconciliation to balance sheet								
Cash and balances with central banks	9,555,580							
Derivative assets	1,960,415							
Financial investments	25,446,393							
Trading assets	23,836,927							
Pledged assets	2,884,293							
Other financial assets	2,417,387							
Net loans and advances	101,210,110							
Total on – balance sheet exposure	**167,311,105**							

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:

	2015 KShs'000	2014 KShs'000
Nature of assets		
Residential property	47,600	12,500
Other	178,780	490,965
	226,380	**503,465**

It is the Group's policy to dispose of repossessed properties on the open market, at fair market value. The proceeds are used to reduce or repay the outstanding claim. In general, the 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;

	2015 KShs'000	2014 KShs'000
Personal and Business Banking		
Instalment sales and finance leases	407,790	534,607
Other loans and advances	533,184	289,494
Corporate and Investment Banking		
	-	-
	940,974	**824,101**

(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. 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 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.

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

(vii) Impairment and provisioning policy (continued)

Criteria for classification of loans and advances

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).

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.

Non-performing loans

Non-performing loans are those loans for which:

- the Group 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 4 (viii). The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both the loan and advances portfolio and debt securities based on the following:

- 54% of the total maximum exposure is derived from loans and advances to customers (2014: 53%); 25% represents investments in debt securities (2014: 31%).
- 78% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2014: 88%);
- 96% of the loans and advances portfolio are considered to be neither past due nor impaired (2014: 96%); and
- 99% of all the debt securities, which the Bank has invested in, are issued by the Central Bank of Kenya (2014: 99%).

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 2015			Performing loans				
			Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans
	Total Loans and Advances to Customers (Net of IIS)	Balance sheet impairments for performing loans	Normal monitoring	Close monitoring	Early arrears	Non-performing	Sub-standard
	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000
	N=A+B+C+L-M		A	B	C	D	E
Personal & Business Banking	**51,119,213**	**589,025**	**36,471,461**	**5,992,222**	**6,167,723**	**-**	**1,903,928**
Mortgage lending	17,891,656	102,202	12,705,282	2,846,400	1,644,624	-	832,832
Instalment sales and finance leases	10,952,446	211,999	7,070,353	388,864	2,737,022	-	513,542
Card debtors	286,220	-	227,248		49,298	-	-
Other Loans and Advances	21,988,891	274,824	16,468,578	2,756,958	1,736,779	-	557,554
Overdrafts	763,607	13,209	354,844	183,780	212,204	-	562
Term Loans	9,854,983	159,659	8,345,010	320,153	682,982	-	64,787
Business Term Loans and Overdrafts	11,370,301	101,956	7,768,724	2,253,025	841,593	-	492,205
Corporate & Investment Banking	**56,292,754**	**570,224**	**36,676,994**	**4,176,834**	**13,756,292**	**124,542**	**1,920,102**
Corporate loans	56,292,754	570,224	36,676,994	4,176,834	13,756,292	124,542	1,920,102
Gross loans and advances	**107,411,967**	**1,159,249**	**73,148,455**	**10,169,056**	**19,924,015**	**124,542**	**3,824,030**
Percentage of total book (%)	**100%**	**1.08%**	**68.10%**	**9.47%**	**18.55%**	**0.12%**	**3.56%**
Less:							
Balance sheet impairment for performing loans and advances	(1,159,249)						
Balance sheet impairment for non-performing loans and advances	(1,271,153)						
Net loan advances to customers	**104,981,565**						

Notes (continued)

Non-Performing loans									
Specifically impaired loans									
Non-performing loans									
Doubtful	Loss	Total	Securities and expected recoveries on specifically impaired loans	Net after securities and expected recoveries on specifically impaired loans	Balance sheet impairments for non-performing specifically impaired loans	Gross Specific Impairment Coverage	Total non-performing loans	Non-performing loans	Interest in Suspense LCY'000
2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 %	2015 KShs'000	2015 %	2015 KShs'000
F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
261,532	620,175	2,785,635	1,404,643	1,380,992	1,083,164	44	2,686,177	4.9	297,828
-	3,778	836,610	576,617	259,993	118,733	14.2	836,610	4.7	141,260
251,918	47,857	813,317	367,120	446,197	389,087	47.8	813,317	7.4	57,110
-	9,674	9,674	262	9,412	9,412	97.3	9,674	3.4	-
9,614	558,866	1,126,034	460,644	665,390	565,932	50.3	1,026,576	4.7	99,458
1,887	10,866	13,315	(5,882)	19,197	18,661	140.2	13,315	1.7	536
3,067	493,355	561,209	49,515	511,694	457,323	81.5	561,209	5.7	54,371
4,660	54,645	551,510	417,011	134,499	89,948	16.3	551,510	4.9	44,551
28,115	-	1,948,217	1,370,103	578,114	187,989	9.6	2,072,759	3.7	390,125
28,115	**-**	**1,948,217**	**1,370,103**	**578,114**	**187,989**	**9.6**	**2,072,759**	**3.7**	**390,125**
289,647	620,175	4,733,852	2,774,746	1,959,106	1,271,153	26.9	4,758,936	4.4	687,953
0.27%	**0.58%**	**4.41%**	**2.58%**	**1.82%**	**1.18%**		**4.43%**		**0.64%**

Notes (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

(viii) Credit quality (continued)

Year ended 31 December 2014		Performing loans				
		Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans
	Total Loans and Advances to Customers (Net of IIS)	Normal monitoring	Close monitoring	Early arrears	Non-performing	Sub-standard
	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000
	N=A+B+C+L-M	A	B	C	D	E
Personal and Business Grouping	**44,699,473**	**37,287,645**	**1,077,271**	**4,699,413**	**-**	**886,407**
- Mortgage lending	14,491,506	12,693,138	47,079	1,367,878	-	380,943
- Instalment sales and finance leases	10,191,281	7,686,620	328,970	1,762,946	-	255,776
- Card debtors	291,292	231,195	-	50,712	-	-
- Other loans and advances	19,725,393	16,676,693	701,222	1,517,877	-	249,688
Corporate and Investment Grouping	**45,639,943**	**38,626,541**	**3,080,981**	**2,543,834**	**-**	**1,343,880**
- Corporate lending	45,639,943	38,626,541	3,080,981	2,543,834	-	1,343,880
Total recognised loans and advances to customers	**90,339,416**	**75,914,187**	**4,158,252**	**7,243,247**	**-**	**2,230,287**
Percentage of total loans and advances (%)		**84.03%**	**4.60%**	**8.02%**	**0.00%**	**2.47%**
Less;						
Balance sheet impairment for performing loans	(888,912)					
Balance sheet impairments for non-performing specifically impaired loans	(1,103,066)					
Net loans and advances to customers	**88,347,438**					

Notes (continued)

Non-Performing loans									
Specifically impaired loans									
NPL* NET OF IIS**									
Doubtful	Loss	Total	Securities and expected recoveries on specifically impaired loans	Net after securities and expected recoveries on specifically impaired loans	Balance sheet impairments for non-performing specifically impaired loans	Gross Specific Impairment Coverage	Total non-performing loans	Non-performing loans	Interest in Suspense LCY'000
2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 KShs'000	2015 %	2015 KShs'000	2015 %	2015 KShs'000
F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
140,401	608,335	1,635,143	682,031	953,112	908,113	58%	1,635,144	4%	241,772
-	2,468	383,411	333,643	49,768	4,768	13%	383,411	3%	95,707
135,546	21,423	412,745	134,000	278,745	278,745	68%	412,745	4%	52,128
-	9,386	9,386	3,773	5,613	5,613	60%	9,386	3%	-
4,855	575,058	829,601	210,615	618,987	618,987	75%	829,602	4%	93,937
44,707	-	1,388,587	1,238,634	149,953	149,953	11%	1,388,587	3%	104,570
44,707	-	1,388,587	1,238,634	149,953	149,953	11%	1,388,587	3%	104,570
185,108	608,335	3,023,734	1,920,665	1,103,065	1,058,066	36%	3,023,730	3%	346,342
0.20%	0.67%	3.35%	2.13%	1.22%	1.22%		3.35%		0.38%

*NPL – Non-Performing loans

**IIS – Interest in suspense

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 2015	Less than 30 days 2015 KShs'000	31 to 60 days 2015 KShs'000	61 to 90 days 2015 KShs'000	91 to 180 days 2015 KShs'000	More than 180 days 2015 KShs'000	Total 2015 KShs'000
Personal and Business Banking	**4,184,395**	**1,368,090**	**615,238**	**-**	**-**	**6,167,723**
Mortgage lending	1,045,668	347,436	251,522	-	-	1,644,626
Instalment sales and finance leases	1,776,396	730,076	230,550	-	-	2,737,022
Other loans and advances	1,362,331	290,578	133,166	-	-	1,786,075
						-
Corporate and Investment Banking	**13,034,037**	**309,417**	**412,838**	**-**	**124,542**	**13,880,834**
Corporate lending	13,034,037	309,417	412,838	-	124,542	13,880,834
Total recognised financial instruments	**17,218,432**	**1,677,507**	**1,028,076**		**124,542**	**20,048,557**
31 December 2014						
Personal and Business Banking	**2,089,094**	**762,805**	**329,636**	**-**	**-**	**3,181,535**
Mortgage lending	964,683	315,647	87,548	-	-	1,367,878
Instalment sales and finance leases	1,103,675	434,481	224,789	-	-	1,762,945
Other loans and advances	20,736	12,677	17,299	-	-	50,712
Corporate and Investment Banking	**1,627,082**	**533,573**	**383,179**	-	-	**2,543,834**
Corporate lending	1,627,082	533,573	383,179	-	-	2,543,834
Total recognised financial instruments	**3,716,176**	**1,296,378**	**712,815**	**-**	**-**	**5,725,369**

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.).

Notes (continued)

5. Financial risk management (continued)

c) Market risk (continued)

(iii) Management of market risk

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

(iv) Reporting of market risk

Market Risk has reporting procedures that highlight for attention within Market Risk or by management all forms of exposures i.e. limit breaches or other reports that will periodically be required to submit to different stakeholders e.g. Local ALCO, Local Board, 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 Group 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 Standardized Approach for calculating market risk capital. The standardized method uses a "building block" approach, with the capital charge for each risk category calculated separately.

Market risk Qualifying Assets includes interest rate risk assets in the trading book and foreign currency and commodities risk assets throughout the Group. Specific Risk refers to potentially adverse movement in the price of an individual loan/debt owing to factors related to the individual issuers. Specific risk does not affect foreign exchange and commodities related instruments. This is because changes in FX rates and commodities prices are completely dependent on general market movements.

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.

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 VaR (SVaR) limits require prior approval from ALCO. The market risk functions have the authority to set limits at a lower level.

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

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

Notes (continued)

5. Financial risk management (continued)

c) Market risk (continued)

(a) VaR and SVaR

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

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

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

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

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

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

Limitations of historical VaR are acknowledged globally and include:

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

VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

(b) Stop-loss triggers

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

(c) Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical and hypothetical simulations. Daily losses experienced during the year ended 31 December 2015 did not exceed the maximum tolerable losses as represented by the Group's stress scenario limits.

(d) Back-testing

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

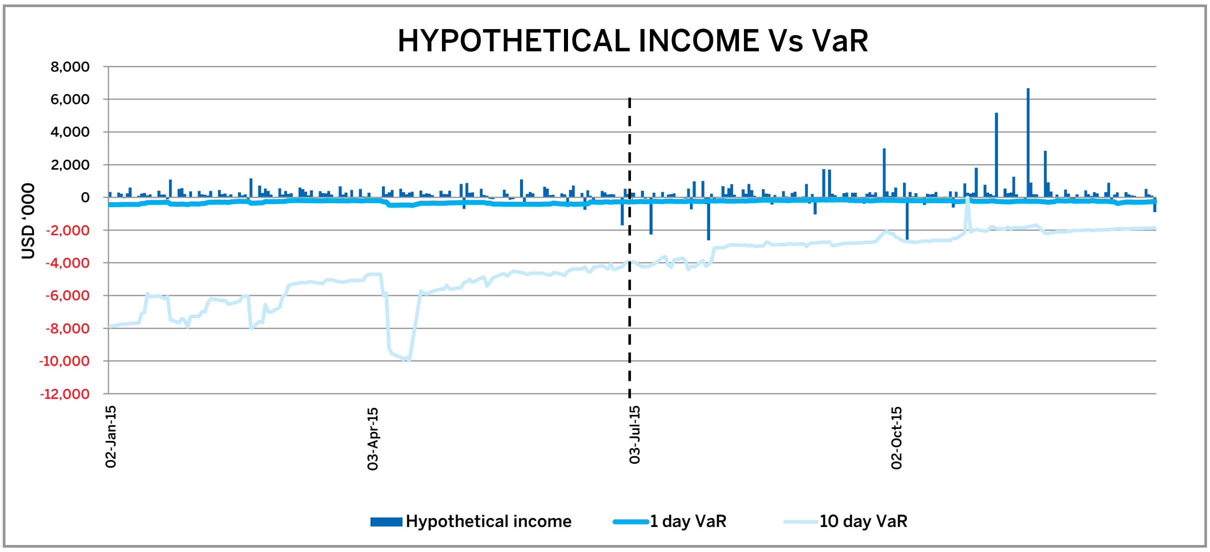
Refer to the graph below for the results of the Group's back-testing during 2014. The decreased volatility in VaR of May and consequent increase from July reflects market volatility following uncertainty around government funding and history of the government front loading off its borrowing within the first half of the financial year coupled by Global and Emerging markets risk off scenarios.

We categorize a VaR model as green, amber or red and assign regulatory capital multipliers based on this categorization. A green model is consistent with a satisfactory VaR model and is achieved for models that have thirteen or less back-testing exceptions in a 12-month period. All the Group's approved models were assigned green status for the year ended 31 December 2015 (2014: green).

Notes (continued)

5. Financial risk management (continued)

c) Market risk (continued)



(e) Specific business unit and product controls

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

(f) Trading book portfolio characteristics

VaR for the year under review

Trading book market risk exposures arise mainly from residual exposures from client transactions and limited trading for the Group's own account. In general, the Group's trading desks have run low levels of market risk throughout the year ended 31 December 2015.

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

Desk Name	Maximum	Minimum	Average	31-Dec-2015	31-Dec-2014
Bank wide	48,354	12,165	26,682	21,059	27,818
FX Trading	11,654	1,636	4,600	4,498	3,232
Consolidated Interest Rate Trading	49,376	11,654	26,886	20,855	27,882
Money Markets Trading	29,033	11,450	17,890	20,855	13,950
Fixed Income Trading	24,842	0	8,178	0	14,647
Credit Trading	818	307	511	409	724
Derivatives	-	-	-	-	-

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

Desk Name	Maximum	Minimum	Average	31-Dec-2014	31-Dec-2013
Bank wide	65,504	27,248	42,954	27,818	28,384
FX Trading	7,414	1,883	3,123	3,232	2,876
Consolidated Interest Rate Trading	60,389	23,799	39,270	27,882	29,083
Money Markets Trading	47,227	13,724	28,153	13,950	20,146
Fixed Income Trading	22,731	308	10,103	14,647	13,747
Credit Trading	869	-	498	724	9
Derivatives	63	-	27	-	35

Notes (continued)

5. Financial risk management (continued)

c) Market risk (continued)

VaR for the year under review (continued)

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

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

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

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

Desk Name	Maximum	Minimum	Average	31-Dec-2014	31-Dec-2013
Bank wide	1,690,189	415,419	1,213,947	1,322,903	1,318,621
FX Trading	134,312	6,862	65,341	86,270	36,155
Consolidated Interest Rate Trading	1,692,987	430,337	1,222,484	1,358,199	1,332,325
Money Markets Trading	984,784	384,115	617,280	675,152	616,074
Fixed Income Trading	976,673	21,998	621,100	663,357	715,741
Credit Trading	39,034	371	17,028	19,698	674
Derivatives	1,113	45	534	45	406

(f) Trading book portfolio characteristics

Desk Name	LCY*	EUR	GBP	USD	ZAR	Other FCY**	Total FCY	31 December 2015	31 December 2014
Money Markets Trading	2,502	(1,111)	(349)	(4,642)	-	-	(6,102)	(3,600)	(11,985)
Fixed Income Trading	12	-	-	9	-	-	9	21	(22,794)
Credit Trading	(310)	-	-	3	-	-	3	(307)	(615)
Derivatives	0	-	-	-	-	-	-	0	-
FX Trading	298	(127)	8	(107)	-	-	(226)	72	75
Total Trading	**2,502**	**(1,238)**	**(341)**	**(4,737)**	**-**	**-**	**(6,316)**	**(3,814)**	**(35,319)**
Money Markets Banking	(17,033)	-	-	-	-	-	-	(17,033)	(26,981)
Treasury Capital Management	3	-	-	-	-	-	-	3	(168)
Total Banking	**(17,030)**	**-**	**-**	**-**	**-**	**-**	**-**	**(17,030)**	**(27,149)**
All Desks (Combined)	**(14,528)**	**(1,238)**	**(341)**	**(4,737)**	**-**	**-**	**(6,316)**	**(20,844)**	**(62,468)**

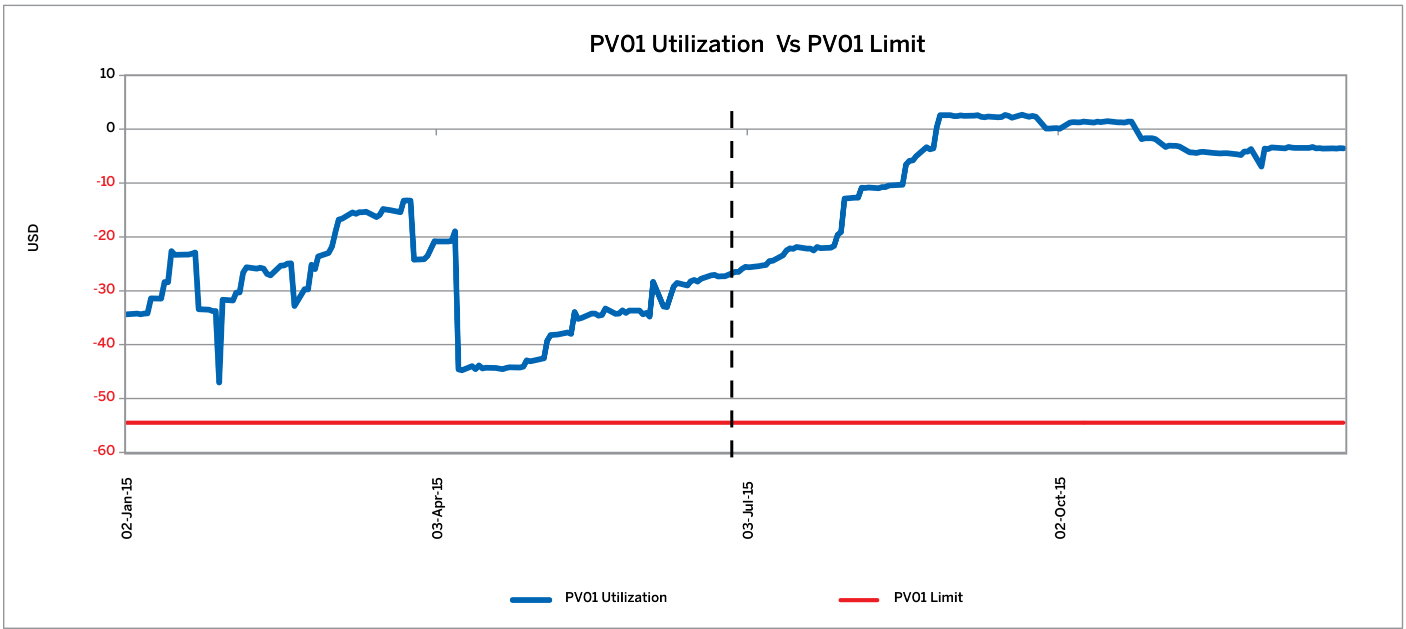
*LCY – Local currency
**FCY – Foreign currency

Notes (continued)

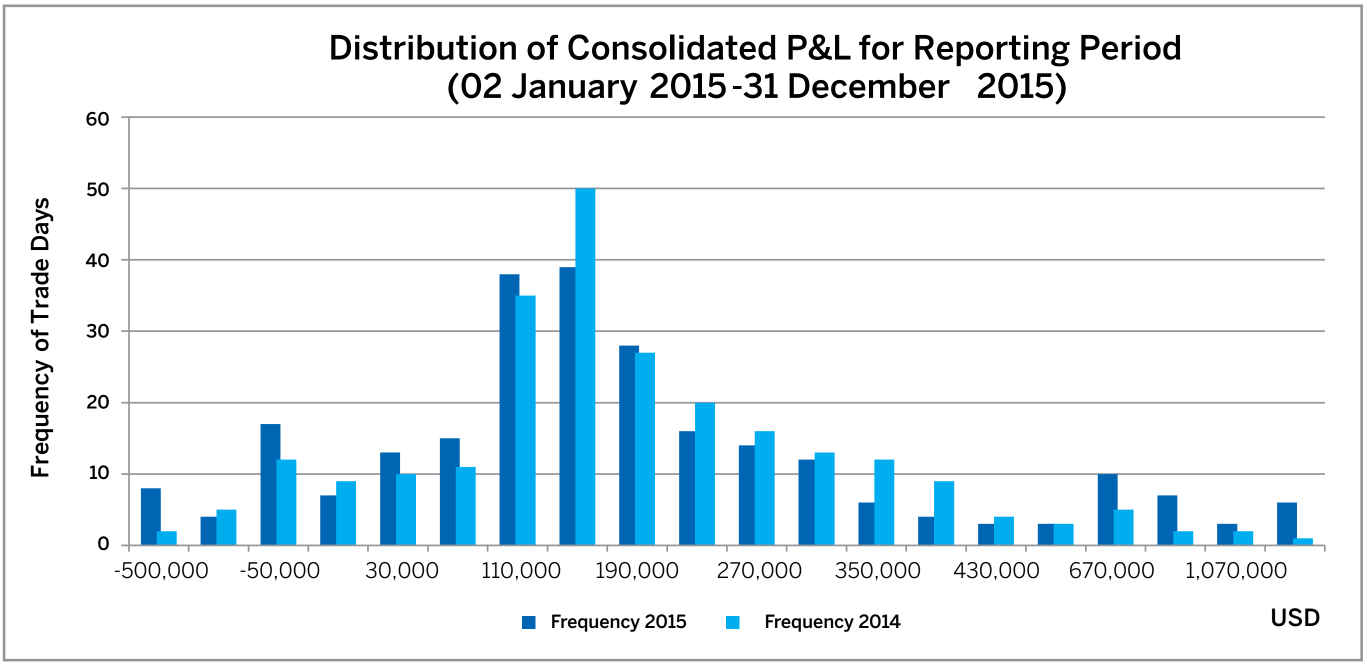
5. Financial risk management (continued)

c) Market risk (continued)

(f) Trading book portfolio characteristics (continued)



Analysis of trading profit



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

For the year ended 31 December 2015, trading profit was positive for 217 out of 252 days. (2014: 239 out of 248 days)

Notes (continued)

5. Financial risk management (continued)

c) Market risk (continued)

(g) Foreign exchange risk

Definition

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

Approach to managing foreign currency risk

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

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)

(g) Foreign exchange risk

The table below summarises the Group's exposure to foreign exchange risk at 31 December 2015.

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

At 31 December 2014	USD	GBP	Euro	Others	Total
Assets					
Cash and Group balances	9,409	661	658	6,130	16,858
Loans and advances	38,243	356	4,015	34	42,648
Financial investments assets	-	-	-	243	243
Other assets and prepayments	3,167	1	632	687	4,487
Total financial assets	**50,819**	**1,018**	**5,305**	**7,094**	**64,236**
Liabilities					
Balances due to banking institutions and group companies	19,985	827	185	449	21,446
Customer deposits	33,923	1,468	2,728	5,086	43,205
Other liabilities and accrued expenses	17,747	23	677	1,884	20,331
Total financial liabilities	**71,655**	**2,318**	**3,590**	**7,419**	**84,982**
Net on balance sheet financial position	**(20,836)**	**(1,300)**	**1,715**	**(325)**	**(20,746)**
Off balance sheet net notional position	22,171	1,363	(1,613)	(66)	21,855
Overall net position	**1,335**	**63**	**102**	**(391)**	**1,109**

Notes (continued)

5. Financial risk management (continued)

(g) Foreign exchange risk (continued)

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

Year ended 31 December 2015 Currency	Increase in currency rate in % 2015	Effect on profit before tax 2015 KShs'000	Effect on profit after tax 2015 KShs'000	Decrease in currency rate in % 2015	Effect on profit before tax 2015 KShs'000	Effect on profit after tax 2015 KShs'000
USD	1.09%	7,338	5,137	1.03%	(6,891)	(4,824)
GBP	1.47%	632	443	2.32%	(997)	(698)
EUR	2.74%	(180)	(126)	3.82%	250	175

Year ended 31 December 2014 Currency	Increase in currency rate in % 2014	Effect on profit before tax 2014 KShs'000	Effect on profit after tax 2014 KShs'000	Decrease in currency rate in % 2014	Effect on profit before tax 2014 KShs'000	Effect on profit after tax 2014 KShs'000
USD	0.45%	(6,007)	(4,205)	0.58%	7,742	5,419
GBP	0.90%	(557)	(390)	1.05%	650	455
EUR	1.11%	(1,122)	(786)	1.28%	1,294	906

d) Interest rate risk

Interest rate risk in the Banking book (IRBB)

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 Group's income or underlying economic value.
- **Basis risk:** hedge price not moving in line with the price of the hedged position. Examples include bonds/swap basis, futures/ underlying basis.
- **Optionality risk:** options embedded in Group asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract.
- **Endowment risk:** exposure arising from the net differential between interest rate insensitive assets such as non-earning assets, interest rate insensitive liabilities such as non-paying liabilities, and equity.

Approach to managing IRRBB

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

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

Notes (continued)

5. Financial risk management (continued)

(g) Foreign exchange risk (continued)

d) Interest rate risk

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.

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

Currency	Increase in basis points 2015 KShs'000	Sensitivity of net interest income 2015 KShs'000	Sensitivity of other comprehensive income 2015 KShs'000	Decrease in basis points 2015 KShs'000	Sensitivity of net interest income 2015 KShs'000	Sensitivity of other comprehensive income 2015 KShs'000
KShs	350	614,403	(354,811)	300	(626,615)	304,124
Others*	100	(423)	-	100	(1,586)	-

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

Notes (continued)

5. Financial risk management (continued)

e) Liquidity risk (company)

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 CfC Stanbic Holdings Limited (Company only) is shown in the following table.

31 December 2015	Up to 1 month KShs'000	1 – 6 months KShs'000	6 – 12 months KShs'000	Total KShs'000
Cash and bank balances	8,840	100,000	-	108,840
Other receivables and prepayments	42	208	1,401	1,651
Total assets	**8,882**	**100,208**	**1,401**	**110,491**
Other liabilities and accrued expenses	-	(40,070)	-	(40.070)
Balances due to group companies	-	-	(3,198)	(3,198)
Total liabilities	**-**	**(40,070)**	**(3,198)**	**(43,268)**
Net liquidity gap	**8,882**	**60,138**	**(1,797)**	**67,223**

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 balance sheet, a diversified funding base and prudent term funding requirements.
- Contingent liquidity risk management: monitoring and managing early warning liquidity indicators while establishing and maintaining contingency funding plans, undertaking regular liquidity stress testing and scenario analysis, and setting liquidity buffers in accordance with anticipated stress events

Governance committees

The primary governance committee overseeing this risk is the 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.

Notes (continued)

5. Financial risk management (continued)

Approach to managing liquidity risk

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

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

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

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

b) **Foreign currency liquidity management;**

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

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

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

d) **Preserving a diversified funding base;**

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

e) **Undertaking regular liquidity stress testing;**

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

f) **Maintaining adequate liquidity contingency plans or liquidity buffer;**

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

g) **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.

h) **Preserving a diversified funding base;**

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

i) **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.

j) **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.

Notes (continued)

5. Financial risk management (continued)

e) Liquidity risk (continued)

Approach to managing liquidity risk (continued)

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

	2015 %	2014 %
At 31 December	73.7	41.4
Average for the year	54.4	47.5
Maximum for the year	74.1	60.3
Minimum for the year	36.1	40.7

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.

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 2015 KShs'000	Gross nominal inflow/(outflow) 2015 KShs'000	Redeemable on demand 2015 KShs'000	Maturing within 1 month 2015 KShs'000	Maturing after 1 month but within 6 months 2015 KShs'000	Maturing after 6 months but within 12 months 2015 KShs'000	Maturing after 12 months but within 5 years 2015 KShs'000	Maturing After 5 years 2015 KShs'000
Non- derivative financial assets								
Cash and balances to banks	**11,350,098**	**11,350,098**	11,350,098	-	-	-	-	-
Financial assets held for trading	**16,251,044**	**16,725,301**	-	-	8,035,571	6,368,002	2,321,587	141
Pledged assets - available -for-sale	**3,439,383**	**3,961,032**	-	-	487,005	1,681,155	1,792,872	-
Financial assets - available-for-sale	**28,947,969**	**31,056,446**	-	3,248,750	16,740,460	7,022,453	1,685,006	2,359,776
Loans and advances to banks	**23,181,591**	**23,181,591**	10,671,838	12,509,753	-	-	-	-
Loans and advances to customers	**104,981,566**	**149,083,609**	22,670,917	4,938,685	20,103,386	12,696,293	52,983,658	35,690,671
Other assets	**2,709,300**	**2,709,300**	2,709,300	-	-	-	-	-
	190,860,951	**238,067,377**	**47,402,153**	**20,697,188**	**45,366,422**	**27,767,903**	**58,783,123**	**38,050,588**
Derivative assets:	**4,377,196**	**-**	-	-	-	-	-	-
- Inflows	**-**	**1,909,870**	-	332,264	1,033,097	503,841	38,004	2,665
- Outflows	**-**	**(235,147)**	-	(989)	(40,299)	(28,180)	(165,599)	(81)
	4,377,196	**1,674,723**	**-**	**331,275**	**992,798**	**475,661**	**(127,595)**	**2,584**
Non- derivative financial liabilities								
Deposits from banks	**(47,424,576)**	**(52,280,892)**		(80,750)	(3,646,759)	(22,883,779)	(21,650,824)	(4,018,779)
Deposits from customers	**(107,032,889)**	**(108,444,210)**	(62,349,334)	(26,955,982)	(8,467,818)	(9,397,904)	(1,273,171)	-
Trading liabilities	**(521,973)**	**(585,000)**	-	(585,000)	-	-	-	-
Borrowings	**(6,482,063)**	**(9,783,306)**	-	-	(413,260)	(2,785,113)	(2,326,438)	(4,258,493)
Other liabilities	**(5,961,263)**	**(5,961,263)**	(5,961,263)	-	-	-	-	-
Contingent liabilities	**(37,362,184)**	**(37,362,184)**	(9,957,460)-	(3,321,072)	(10,943,432)	(6,564,897)	(4,910,399)	(1,664,922)
Capital commitments	**(208,424)**	**(208,424)**	-	(208,424)	-	-	-	-
Operating leases	**(5,118,541)**	**-**	-	-	-	(445,575)	(1,237,280)	(3,435,686)
	(210,111,913)	**(214,625,279)**	**(68,310,597)**	**(31,151,228)**	**(23,471,269)**	**(42,077,268)**	**(31,398,112)**	**(13,377,880)**
Derivative liabilities:	**(3,361,440)**							
- Inflows		**896,493**	-	107,514	535,408	232,671	18,235	2,665
- Outflows		**(920,251)**	-	(103,692)	(298,232)	(282,614)	(235,632)	(81)
	(3,361,440)	**(23,758)**	**-**	**3,822**	**237,176**	**(49,943)**	**(217,397)**	**2,584**

Notes (continued)

5. Financial risk management (continued)

	Carrying Value 2014 KShs'000	Gross Nominal inflow/(outflow) 2014 KShs'000	Redeemable on demand 2014 KShs'000	Maturing within 1 month 2014 KShs'000	Maturing after 1 month but within 6 months 2014 KShs'000	Maturing after 6 months but within 12 months 2014 KShs'000	Maturing after 12 months but within 5 years 2014 KShs'000	Maturing After 5 years 2014 KShs'000
Non- derivative financial assets								
Cash and balances to Groups	**9,555,580**	**9,596,901**	9,538,477	-	58,424	-	-	-
Trading assets	**23,836,927**	**34,972,293**	-	1,913,270	3,127,712	10,667,817	11,753,508	7,509,987
Pledged assets	**2,884,293**	**3,222,832**	-	-	338,640	2,532,880	351,312	-
Financial investments	**25,446,393**	**28,230,604**	-	1,899,825	2,891,943	17,015,090	3,901,482	2,522,263
Loans and advances to Groups	**12,862,672**	**12,886,812**	11,479,498	1,292,286	-	115,028	-	-
Loans and advances to customers	**88,347,438**	**139,348,607**	24,750,996	6,702,613	13,677,254	9,095,690	49,837,363	35,284,691
Other assets	**2,417,387**	**2,581,855**	2,581,855	-	-	-	-	-
	165,350,690	**230,839,904**	**48,350,826**	**11,807,994**	**20,093,973**	**39,426,505**	**65,843,665**	**45,316,941**
Derivative Assets:	**1,960,415**							
- Inflows	**-**	**529,205**	-	39,408	91,970	220,544	173,087	4,196
- Outflows	**-**	**(283,739)**	-	(12,341)	(33,555)	(147,010)	(90,771)	(62)
	1,960,415	**245,466**	**-**	**27,067**	**58,415**	**73,534**	**82,316**	**4,134**
Non- derivative financial liabilities								
Deposits from Groups	**(33,570,266)**	**(37,634,629)**	(5,161,831)	(271,565)	(1,391,183)	(10,260,942)	(20,549,108)	-
Deposits from customers	**(96,838,876)**	**(97,760,321)**	(75,091,989)	-	(15,798,374)	(3,282,446)	(3,587,512)	-
Trading Liabilities	**-**	**-**	-	-	-	-	-	-
Borrowings	**(6,513,417)**	**(11,783,316)**	-	(174,232)	(259,000)	(433,232)	(5,880,852)	(5,036,000)
Other liabilities	**(5,948,968)**	**(5,948,971)**	(5,948,971)	-	-	-	-	-
Contingent liabilities	**31,065,787**	**(31,065,787)**	(31,065,787)	-	-	-	-	-
Capital commitments	**581,935**	**(581,935)**	(581,935)	-	-	-	-	-
Operating leases	**2,153,187**	**(2,153,187)**	-	-	-	(392,576)	(1,184,025)	(576,586)
	(109,070,618)	**(186,928,146)**	**(117,850,513)**	**(445,797)**	**(17,448,557)**	**(14,369,196)**	**(31,201,497)**	**(5,612,586)**
Derivative Liabilities:	**(2,232,264)**							
- Inflows	**-**	**33,587**	-	10,191	3	23,379	14	-
- Outflows	**-**	(1,194,504)		(79,721)	(382,336)	(411,390)	(316,863)	(4,194)
	(2,232,264)	**(1,160,917)**	**-**	**(69,530)**	**(382,333)**	**(388,011)**	**(316,849)**	**(4,194)**

Notes (continued)

5. Financial risk management (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 cashflows. 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 7R disclosure requirements. The gross amounts of financial asset and financial liabilities and their net amounts disclosed in the table below have been measured in the statement of financial position on the following bases:

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

	Gross amount of recognised financial assets 2015 KShs'000	Gross amounts of recognised financial liabilities offset in statement of financial position 2015 KShs'000	Net amounts of financial assets presented in the statement of financial position 2015 KShs'000	Financial instruments, financial collateral and cash collateral received 2015 KShs'000	Net amount 2015 KShs'000
Assets					
Loans and advances	104,981,565	-	104,981,565	5,208,794	99,772,771
Derivative assets	4,377,196	-	4,377,196	-	4,377,196
	109,358,761	**-**	**109,358,761**	**5,208,794**	**104,149,967**

	Gross amount of recognised financial liabilities 2015 KShs'000	Gross amounts of recognised financial assets offset in statement of financial position 2015 KShs'000	Net amounts of financial assets presented in the statement of financial position 2015 KShs'000	Financial instruments, financial collateral and cash collateral pledged 2015 KShs'000	Net amount 2015 KShs'000
Liabilities					
Deposits	107,032,889	-	107,032,889	5,208,794	101,824,095
Derivative liabilities	3,361,440	-	3,361,440	-	3,361,440
	110,394,329	**-**	**110,394,329**	**5,208,794**	**105,185,535**

Notes (continued)

5. Financial risk management (continued)

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

	Gross amount of recognised financial assets 2014 KShs'000	Gross amounts of recognised financial liabilities offset in statement of financial position 2014 KShs'000	Net amounts of financial assets presented in the statement of financial position 2014 KShs'000	Financial instruments, financial collateral and cash collateral received 2014 KShs'000	Net amount 2014 KShs'000
Assets					
Loans and advances	88,347,438	-	88,347,438	3,502,061	91,849,499
Derivative assets	1,960,415	-	1,960,415	-	1,960,415
	90,307,853	**-**	**90,307,853**	**3,502,061**	**93,809,914**

	Gross amount of recognised financial liabilities 2014 KShs'000	Gross amounts of recognised financial assets offset in statement of financial position 2014 KShs'000	Net amounts of financial assets presented in the statement of financial position 2014 KShs'000	Financial instruments, financial collateral and cash collateral pledged 2014 KShs'000	Net amount 2014 KShs'000
Liabilities					
Deposits	(96,830,280)	-	(96,830,280)	(3,502,061)	(100,332,341)
Derivative liabilities	(2,232,264)	-	(2,232,264)	-	(2,232,264)
	(99,062,544)	**-**	**(99,062,544)**	**(3,502,061)**	**(102,564,605)**

The ISDA* and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or Groupruptcy 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 Groupruptcy, 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.

Notes (continued)

6. Interest income

	Group		Company	
	2015 KShs' 000	2014 KShs' 000	2015 KShs' 000	2014 KShs' 000
Interest on loans, advances and short-term funds	10,423,507	8,521,996	-	-
Interest on government securities available-for-sale	2,842,722	2,845,086	-	-
Placements and other bank balances	1,401,667	273,443	66,378	27,644
Other	-	1,932	-	-
	14,667,896	**11,642,457**	**66,378**	**27,644**

Interest income excludes interest on impaired loans and advances which has been recognised as interest in suspense on the statement of financial position (see Note 22(e)).

7. Interest expense

	Group		Company	
	2015 KShs'000	2014 KShs' 000	2015 KShs' 000	2014 KShs'000
Current accounts	5,967	113,684	-	-
Savings and term deposit accounts	3,173,015	2,071,390	-	-
Deposits and placements from other banks	1,347,454	463,682	-	-
Interest on borrowed funds	838,413	531,756	-	-
	5,364,849	**3,180,512**	**-**	**-**

8. Fees and commission revenue

Account transaction fees	1,160,418	1,131,138	-	-
Knowledge based fees and commission	810,405	829,109	-	-
Electronic banking fees	227,231	186,263	-	-
Foreign service fees	244,275	335,806	-	-
Documentation and administration fees	175,346	363,612	-	-
Other	775,050	708,582	-	-
	3,392,725	**3,554,510**	**-**	**-**

Other fee and commission revenue includes brokerage commissions and commission charged on the various products offered by the Group.

9. Fees and commission expense

	Group		Company	
	2015 KShs'000	2014 KShs' 000	2015 KShs' 000	2014 KShs'000
Card based commission	59,232	81,352	-	-
Knowledge based fees and commission	125,125	57,320	-	-
Other bank - related fees and commission	139,366	108,191	-	-
	323,723	**246,863**	**-**	**-**

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

Notes (continued)

10. Trading revenue

	Group		Company	
	2015 KShs'000	2014 KShs' 000	2015 KShs' 000	2014 KShs'000
Foreign exchange	3,098,093	2,811,026	-	-
Net gain on sale of trading investments	140,769	194,557	-	-
Interest income - Debt securities at fair value through profit or loss	1,067,669	1,773,739	-	-
	4,306,531	**4,779,322**	**-**	**-**

11. Other income

Gain on disposal of property and equipment	-	2,278	-	-
Dividend income	3,390	7,881	2,365,600	1,093,765
Other income	262,305	311,425	164	-
	265,695	**321,584**	**2,365,764**	**1,093,765**

12. Employee benefits expense

Salaries and allowances	4,703,835	4,185,321	-	-
Retirement benefit costs	331,307	286,820	-	-
	5,035,142	**4,472,141**	**-**	**-**

Included in retirement benefit costs are;				
Defined contribution scheme	325,668	281,456	-	-
National Social Security Fund	5,639	5,364	-	-
	331,307	**286,820**	**-**	**-**

Notes (continued)

13. Other expenses

	Group		Company	
	2015 KShs' 000	2014 KShs'000	2015 KShs' 000	2014 KShs'000
Audit fees	17,244	16,409	1,924	1,954
Directors' fees	25,083	24,175	6,535	7,630
Premises costs	617,715	603,110	-	-
Information technology and communication	400,110	937,538	-	-
Professional fees	395,153	597,798	767	586
Marketing and advertising costs	232,574	133,699	6,103	4,920
Security expenses	127,706	120,172	-	-
Travel and entertainment costs	207,017	191,408	-	-
Stationery and printing costs	53,225	61,872	-	1,743
Insurance costs	103,829	102,780	-	-
Administration and membership fees	45,307	40,892	4,976	6,346
Group charges	42,388	156,138	493	431
Deposit Protection Scheme contribution	163,724	153,366	-	-
Absorbed VAT	410,034	228,387		
Other operating costs	297,473	70,633	6,518	2,189
	3,138,582	**3,438,377**	**27,316**	**25,799**

Other operating costs mainly relate to training expenses incurred in the ordinary course of business.

14. Depreciation and amortisation expense

	Group		Company	
	2015 KShs' 000	2014 KShs'000	2015 KShs' 000	2014 KShs'000
Amortisation – intangible assets (Note 27)	156,800	276,416	-	-
Depreciation of property and equipment(Note 25)	344,078	277,542	-	-
Amortisation of prepaid operating lease (Note 26)	2,954	2,954	-	-
	503,832	**556,912**	**-**	**-**

Notes (continued)

15. Income tax expense

	Group		Company	
	2015 KShs' 000	2014 KShs'000	2015 KShs' 000	2014 KShs'000
Current income tax (Note 34(b))	1,449,945	2,496,850	23,204	45
Deferred income tax charge/(credit) (Note 34(c))	1,003,735	(483,265)	-	-
	2,453,680	**2,013,585**	**23,204**	**45**

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

	Group		Company	
	2015 KShs' 000	2014 KShs'000	2015 KShs' 000	2014 KShs'000
Profit before income tax	**7,359,414**	**7,700,246**	**2,404,826**	**1,095,610**
Tax at statutory tax rate of 30% (2014:30%)	2,207,824	2,310,074	721,448	328,683
Tax effect of:				
· Income not subjected to tax	58,015	(303,402)	(709,680)	(328,149)
· Expenses not deductible for tax purposes	96,624	200,165	11,436	7,549
· Utilised tax loss	-	(8,038)	-	(8,038)
· Previous year's current tax under provision	(2,159)	(34,162)	-	-
· Previous year's deferred income tax under provision	(4,483)	(151,052)	-	-
· Effect of tax paid in other jurisdictions	97,859	-	-	
Income tax expense	**2,453,680**	**2,013,585**	**23,204**	**45**

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	
	2015 KShs' 000	2014 KShs'000	2015 KShs' 000	2014 KShs'000
Earnings for the purposes of basic earnings per share (KShs'000)	4,905,734	5,686,661	2,381,622	1,095,565
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	**12.41**	**14.38**	**6.02**	**2.77**

There were no potentially dilutive shares as at 31 December 2015 or 31 December 2014. Therefore, diluted earnings per share are the same as basic earnings per share.

Notes (continued)

17. Dividend per share

	Group		Company	
	2015 KShs' 000	2014 KShs'000	2015 KShs' 000	2014 KShs'000
The calculation of dividends per share is based on:				
Dividends for the year attributable to ordinary shareholders				
Interim dividend paid (KShs'000)	296,491	375,556	296,491	375,556
Final dividend proposed (KShs'000)	2,134,738	2,055,673	1,897,544	2,055,673
	2,431,229	**2,431,229**	**2,194,035**	**2,431,229**
Number of ordinary shares at issue date (thousands)	395,322	395,322	395,322	395,322
Dividends per share – KShs	**6.15**	**6.15**	**5.55**	**6.15**

At the annual general meeting to be held on 10 June 2016, a final dividend in respect of the year ended 31 December 2015 of KShs 5.40 (2014: KShs 5.20) per share amounting to a total of KShs 2,134,738,000 (2014: KShs 2,055,673,000) is to be proposed. These financial statements do not reflect this dividend payable, the proposed dividend has however been transferred to a separate category of equity.

During the year an interim dividend of KShs 0.75 (2014: KShs 0.95) per share, amounting to a total of KShs 296,491,000 (2014: KShs 375,556,000) was paid. The total dividend for the year is therefore KShs 6.15 (2014: KShs 6.15) per share, amounting to a total of KShs 2,431,229,000 (2014: KShs 2,431,229,000).

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, bank balances and balances with Central Bank of Kenya

	Group		Company	
	2015 KShs' 000	2014 KShs'000	2015 KShs' 000	2014 KShs'000
Cash and Group balances	2,696,227	1,987,658	108,840	56,911
Balances with Central Bank	8,653,871	7,567,922	-	-
	11,350,098	**9,555,580**	**108,840**	**56,911**

The Group is required to maintain a prescribed minimum cash reserve including cash in hand and balances with Central Bank of Kenya. The minimum cash reserve is non-interest earning and is based on the value of deposits as adjusted for by Central Bank of Kenya requirements. At 31 December 2015, the cash reserve requirement was 5.25% of the eligible deposits (2014: 5.25%). The cash reserve requirement balance for the year ended 31 December 2015 is KShs 5,603,547,000 (2014: KShs 4,716,147,000).

19. Available-for-sale pledged assets

	Group	
	2015 KShs'000	2014 KShs'000
Debt securities - pledged as collateral	**3,439,383**	**2,884,293**
Maturity analysis;		
Maturing after 1 month but within 6 months	1,638,184	-
Maturing after 6 months but within 12 months	1,801,199	2,609,932
Maturing after 12 months but within 5 years	-	-
Maturing after 5 years	-	274,361
	3,439,383	**2,884,293**

Dated pledged assets had a redemption value at 31 December 2015 of KShs 3,270,000,000 (2014: KShs 2,770,000,000).

The assets pledged by the Group are strictly for the purpose of providing collateral for counter-party. To the extent that the counter-party is permitted to sell and/or re-pledge the assets, they are classified on the statement of financial position as pledged assets. The pledged assets are debt securities issued by the Government of Kenya.

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

20. Financial investments

	Group	
	2015 KShs'000	2014 KShs'000
Financial assets – fair value through profit or loss (Note 20(a))	16,250,195	24,015,281
Financial assets - available-for-sale (Note 20(b))	28,947,969	25,250,149
Financial assets – at amortised cost (Note 20(c))	64,445	17,890
	45,262,609	**49,283,320**

(a) Financial assets – fair value through profit or loss

	2015	2014
Listed securities-trading	**16,250,195**	**24,015,281**
Maturity Analysis		
Maturing within 12 months	14,124,797	5,972,156
Maturing after 12 months	2,125,398	17,864,771
Undated securities	-	178,354
	16,250,195	**24,015,281**

The maturities represent periods to contractual redemption of trading assets recorded. Dated trading assets had a redemption value at 31 December 2015 of KShs 16,915,433,000 (2014: KShs 23,605,000,000). The weighted average effective interest yield on debt securities held for trading at 31 December 2015 was 13.47% (2014: 12.37%).

Notes (continued)

21. Financial investments (continued)

(b) Financial assets - available-for-sale

	Group	
Classification	**2015 KShs'000**	**2014 KShs'000**
Listed	28,947,969	25,250,149
Unlisted	-	-
	28,947,969	**25,250,149**
Comprising:		
Government bonds	6,434,015	5,517,112
Treasury bills	22,513,954	19,733,037
	28,947,969	**25,250,149**
Maturity analysis		
Maturing within 12 months	27,286,925	21,169,396
Maturing after 12 months	1,661,044	4,080,753
	28,947,969	**25,250,149**

Dated financial investment securities had a redemption value at 31 December 2015 of KShs 29,823,000,000 (2014: KShs 26,380,414,000).

The weighted average effective interest yield on available-for-sale investment securities at 31 December 2015 was 12.31% (2014: 11.37%). A fair value loss of KShs 121,528,000 (2014: Loss of KShs 604,017,000 has been recognised in the statement of other comprehensive income on page 8. A realised loss of KShs 228,971,000 (2014: Gain of KShs 401,109,000) has been transferred to the statement of profit or loss.

(c) Financial assets – at amortised cost

	Group	
	2015 KShs'000	**2014 KShs'000**
Listed		-
Unlisted	64,446	17,890
Comprising:		
Corporate bonds	5,296	8,890
Government securities	59,150	-
Commercial paper	-	9,000
	64,446	**17,890**
Maturity analysis		
Maturing after 12 months	**64,446**	**17,890**

Notes (continued)

21. Financial liabilities- trading liabilities

	Group	
	2015	2014
	KShs'000	KShs'000
Trading liabilities – designated at fair value through profit or loss	521,973	-
Maturity analysis		
Maturing after 1 month but within 6 months	521,973	-

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	
	2015	2014
	KShs '000	KShs '000
Balances with banks	16,245,564	4,854,451
Balances with Bank of South Sudan	6,936,027	8,008,221
	23,181,591	**12,862,672**

(b) Loans and advances to customers

Net loans and advances	Group	
	2015	2014
	KShs '000	KShs '000
Mortgage lending	12,926,721	12,445,155
Instalment sale (Note 22(h))	11,947,118	11,247,487
Overdraft and other demand lending	23,167,699	24,572,345
Term lending	59,084,210	41,783,137
Card lending	286,220	291,292
Gross loans and advances to customers	**107,411,968**	**90,339,416**
Allowances for impairments		
Impairment for non-performing loans	(1,271,153)	(1,103,066)
Impairment for performing loans	(1,159,249)	(888,912)
Credit impairment allowances	**(2,430,402)**	**(1,991,978)**
Net loans and advances	**104,981,566**	**88,347,438**
Maturity analysis:		
Redeemable on demand	21,383,716	23,480,591
Maturing within 1 month	3,343,504	893,743
Maturing after 1 month but within 6 months	13,577,063	9,691,238
Maturing after 6 months but within 12 months	5,460,166	1,857,566
Maturing after 12 months but within 5 years	32,577,385	21,309,288
Maturing after 5 years	28,639,732	31,115,012
Net loans and advances	**104,981,566**	**88,347,438**

Notes (continued)

22 . Loans and advances (continued)

(b) Loans and advances to customers (continued)

The weighted average effective interest rate on loans and advances to customers as at 31 December 2015 was 11.87% (2014: 10.76%). The Bank extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment sales and overdrafts.

(c) Impairment reserve

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

Year ended 31 December 2014	Non-performing loans	Portfolio impairment	Group Total
	KShs'000	KShs'000	KShs'000
At 1 January 2014	955,995	944,044	1,900,039
Amounts written off during the year as uncollectable	(709,224)	-	(709,224)
Amounts recovered during the year	(441,734)	-	(441,734)
Provision for loans impairment	1,298,029	(55,132)	1,242,897
At 31 December 2014	**1,103,066**	**888,912**	**1,991,978**

(d) Loan impairment charge

	Group	
	2015 KShs'000	2014 KShs'000
Loans impairment for non-performing loans	1,237,063	1,298,029
Loans impairment for performing loans	270,337	(55,132)
Amounts recovered during the year	(506,657)	(441,734)
Recoveries of amounts previously written off	(93,438)	(98,341)
Net loans impairment charge on loans and advances	**907,305**	**702,822**

(e) Impaired loans and advances

Impaired loans and advances	4,858,394	3,023,730
Provision for impairment losses (Note 22 (c))	(1,271,153)	(1,103,066)
Recoverable amount of impaired loans and advances	**3,587,241**	**1,920,664**
Interest in suspense	**687,954**	**346,342**

The directors are of the opinion that the net amount of impaired loans and advances is recoverable in full.

Notes (continued)

22. Loans and advances (continued)

(a) Industry analysis

	Group			
	2015		2014	
	KShs'000	%	KShs'000	%
Agriculture	15,865,976	15%	12,665,224	14%
Electricity and water	3,068,322	3%	1,339,010	2%
Manufacturing	19,630,417	19%	13,186,069	15%
Building and construction	1,590,273	2%	1,450,950	2%
Wholesale, retail trade and restaurants	23,444,691	22%	23,065,200	26%
Transport and communication	5,686,427	5%	5,031,094	6%
Finance and insurance	3,708,618	4%	2,087,208	2%
Real estate and business service	6,820,535	6%	5,219,801	6%
Other activities and social service	25,166,306	24%	24,302,882	27%
	104,981,565	**100%**	**88,347,438**	**100%**

(g) Segmental analysis of non-performing loans and advances – industry

	2015		2014	
	KShs'000	%	KShs'000	%
Agriculture	1,690,648	35%	1,090,831	36%
Manufacturing	10,579	-	7,203	-
Building and construction	128,527	3%	112,078	4%
Wholesale, retail trade and restaurants	722,510	15%	336,801	11%
Transport and communication	289,031	6%	71,976	2%
Finance and insurance	211,551	4%	30	-
Real estate and business service	308,076.	6%	341,636	11%
Other activities and social service	1,497,472	31%	1,063,175	36%
	4,858,394	**100%**	**3,023,730**	**100%**

Notes (continued)

22. Loans and advances (continued)

(h) Instalment sales and finance lease

Loans and advances to customers include finance lease receivables, which are analysed below:

	2015 KShs'000	2014 KShs'000
Gross investment in finance leases:		
Not later than 1 year	654,212	1,192,394
Later than 1 year and not later than 5 years	10,854,666	9,839,753
Later than 5 years	438,276	225,284
	11,947,154	**11,257,431**
Unearned finance charge	(36)	(9,943)
Net investment in finance leases	**11,947,118**	**11,247,488**

The amount of finance lease receivable included above is KShs 12,380,000 (2014: KShs 157,046,000).

Impairment provisions of KShs 392,013,000 (2014: KShs 228,056,000) for instalment sale and finance lease receivables are included in the impairment for non-performing loans.

i) Loans to employees

	2015 KShs'000	2014 KShs'000
At start of year	3,674,792	3,218,623
New loans issued	938,332	1,540,874
Interest on loan	185,718	220,419
Loan repayments	(1,088,796)	(1,305,124)
At end of year	**3,710,046**	**3,674,792**

Notes (continued)

23. Other assets and prepayments

	Group		Company	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Uncleaned effects	1,600,390	1,773,147	-	-
Trade receivables and prepayments	347,100	439,415	500	500
Others	761,810	204,825	1,151	7,541
	2,709,300	**2,417,387**	**1,651**	**8,041**

24. Investment in subsidiaries

			Company	
Company	**Beneficial ownership**	**Country of Incorporation**	**2015 KShs'000**	**2014 KShs'000**
CfC Stanbic Bank Limited	100%	Kenya	18,009,808	18,009,808
SBG Securities Limited	100%	Kenya	165,530	165,530
			18,175,338	**18,175,338**

25. Property and equipment

(a) Group

Year ended 31 December 2015 **Cost**	**Land and premises KShs'000**	**Equipment furniture & fittings KShs'000**	**Motor vehicles KShs'000**	**Work in progress**	**Total KShs'000**
At 1 January 2015	385,493	3,017,782	162,810	346,869	3,912,954
Additions	-	399,056	33,969	68,856	501,881
Disposals	-	(1,003)	-	-	(1,003)
Work in progress transfers	-	104,733	-	(104,733)	-
WIP transfer to intangible assets		-	-	(78,180)	(78,180)
Foreign exchange difference	-	(106,529)	(11,933)	(123,268)	(241,730)
Impairment in 2015	-	(7,373)	-	(18,211)	(25,584)
At 31 December 2015	**385,493**	**3,406,666**	**184,846**	**91,333**	**4,068,338**
Depreciation					
At 1 January 2015	(67,777)	(1,362,912)	(134,036)	-	(1,564,725)
Charge for the year	(12,713)	(306,881)	(24,484)	-	(344,078)
Disposals	-	328	-	-	328
Foreign exchange difference	-	75,914	9,125	-	85,039
At 31 December 2015	**(80,490)**	**(1,593,551)**	**(149,395)**	**-**	**(1,823,436)**
Net book value at 31 December 2015	**305,003**	**1,813,115**	**35,451**	**91,333**	**2,244,902**

Notes (continued)

25. Property and equipment (continued)

(a) Group (continued)

Year ended 31 December 2014 Cost	Land and premises KShs'000	Equipment furniture & fittings KShs'000	Motor vehicles KShs'000	Work in progress	Total KShs'000
At 1 January 2014	385,493	2,740,356	168,901	178,428	3,473,178
Additions	-	164,915	-	296,507	461,422
Disposals	-	(7,252)	(5,284)	-	(12,536)
Work in progress	-	124,568	-	(124,568)	-
Foreign currency translation difference	-	(4,805)	(807)	(2,950)	(8,562)
Impairment in 2014	-	-		(548)	(548)
At 31 December 2014	**385,493**	**3,017,782**	**162,810**	**346,869**	**3,912,954**
Depreciation					
At 1 January 2014	(63,978)	(1,118,145)	(115,870)	-	(1,297,993)
Charge for the year	(3,799)	(249,899)	(23,844)	-	(277,542)
Disposals	-	2,189	5,284	-	7,473
Foreign currency translation difference	-	2,943	394	-	3,337
At 31 December 2014	**(67,777)**	**(1,362,912)**	**(134,036)**	**-**	**(1,564,725)**
Net book value at 31 December 2014	**317,716**	**1,654,868**	**28,775**	**346,869**	**2,348,229**

(b) Company

	2015 Computer Equipment KShs '000	2014 Computer Equipment 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	**-**	**-**

As at 31 December 2015 and 31 December 2014, there were no items of property and equipment pledged by the Group and Company to secure liabilities.

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 in the Group and the Company is non-current.

Notes (continued)

26. Prepaid operating lease

	Group	
	2015	2014
Cost	KShs'000	KShs'000
At 1 January	85,499	85,499
At 31 December	85,499	85,499
Amortisation		
At 1 January	(25,692)	(22,738)
Charge for the year	(2,954)	(2,954)
At 31 December	(28,646)	(25,692)
Net book value at 31 December	**56,854**	**59,807**

This relates to the leasehold 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.

27. Other intangible assets – Group

Year ended 31 December 2015	Work in		Other	
	progress	Software	intangible assets	Total
Cost	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2015	-	1,581,353	1,099,059	**2,680,412**
Additions	9,780	332,647	-	**342,427**
Transfer from property and equipment	78,180	-	-	**78,180**
Work in progress transfers	(38,988)	38,988	-	**-**
Foreign exchange differences	-	-	-	**-**
At 31 December	**48,972**	**1,952,988**	**1,099,059**	**3,101,019**
Amortisation				
At 1 January 2015	-	(1,471,784)	(718,065)	**(2,189,849)**
Charge for the year	-	(111,533)	(45,267)	**(156,800)**
At 31 December 2015	**-**	**(1,583,317)**	**(763,332)**	**(2,346,649)**
Net book value at 31 December 2015	**48,972**	**369,671**	**335,727**	**754,370**

Notes (continued)

27. Other intangible assets – Group (continued)

Year ended 31 December 2014	Software	Other intangible assets	Total
Cost	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2014	1,573,662	1,099,059	**2,672,721**
Additions	6,500	-	**6,500**
Foreign exchange difference	1,193	-	**1,193**
At 31 December	**1,581,355**	**1,099,059**	**2,680,414**
Amortisation			
At 1 January 2014	(1,240,634)	(672,798)	**(1,913,432)**
Charge for the year	(231,150)	(45,267)	**(276,417)**
At 31 December 2014	**(1,471,784)**	**(718,065)**	**(2,189,849)**
Net book value at 31 December 2014	**109,571**	**380,994**	**490,565**

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

As at 31 December 2015, the intangible assets had a remaining useful life of 5 years.

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

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

28. Intangible assets - goodwill

	Group		Company	
Cost	**2015 KShs '000**	**2014 KShs '000**	**2015 KShs '000**	**2014 KShs '000**
At 1 January and 31st December	**9,349,759**	**9,349,759**	**-**	**-**

Goodwill relating to CfC Stanbic Holdings Limited was tested for impairment on 31 December 2015. The recoverable amount was determined to be the value in use. Unless indicated otherwise, the value in use in 2015 was determined in a manner consistent with that used in 2014. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use. 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 10.4% (2014: 8.8%). The pre-tax discount rate used was based on an assessment of the risks applicable to the specific entity and country in which it operates. The cost of equity discount rate calculated for the forecast years was 17.6% per annum (2014: 17.6%). 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. These variables are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash-generating units. 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.

Notes (continued)

28. Intangible assets – goodwill (continued)

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. All the goodwill has been allocated to Corporate Investment Banking (CIB) CGU.

29. Ordinary share capital and share premium

Authorised share capital

	2015		2014	
	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

Issued share capital

	2015		2014	
	Number of Shares (thousands)	Share Capital KShs '000	Number of Shares (thousands)	Share Capital KShs '000
Balance as at 1 January and 31 December	395,322	1,976,608	395,322	1,976,608
Unissued shares	78,362	391,813	78,362	391,813

Ordinary share premium

	2015 KShs'000	2014 KShs'000
At 1 January and 31 December	16,897,389	16,897,389

Notes (continued)

30. Derivative assets and liabilities

	2015			2014		
		Fair values			Fair values	
	Notional contract amount	Assets	Liabilities	Notional contract amount	Assets	Liabilities
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Foreign exchange derivatives						
Currency forwards	27,166,604	806,252	344,391	19,528,134	157,321	495,278
Currency swaps	29,290,760	474,439	169,212	17,184,268	92,088	25,980
Currency options	15,591,707	489,350	240,593	6,468,325	301,544	301,544
Total over-the-counter derivatives	**72,049,071**	**1,770,041**	**754,196**	**43,180,727**	**550,953**	**822,802**
Interest rate derivatives						
Cross currency interest rate swaps	38,796,546	2,188,147	2,188,236	-	462,596	462,596
Interest rate swaps	-	419,008	419,008	36,138,477	946,866	946,866
Total over-the-counter derivatives	38,796,546	2,607,155	2,607,244	36,138,477	1,409,462	1,409,462
Total derivative assets held for trading	**110,845,617**	**4,377,196**	**3,361,440**	**79,319,204**	**1,960,415**	**2,232,264**
Current	64,485,198	1,571,689	670,595	38,319,237	300,217	579,637
Non-current	46,360,419	2,805,507	2,690,845	40,999,967	1,660,199	1,652,627

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)

31. Deposits and current accounts from banks and customers

Deposit products include cheque accounts, savings accounts, call and notice deposits, fixed deposits and negotiable certificates of deposit.

	Group	
	2015 KShs'000	2014 KShs'000
Deposits from Banks	**47,424,577**	**33,570,267**
Deposits from customers	**106,246,235**	**95,838,876**
Current accounts	61,561,945	60,671,939
Call deposits	6,108,105	6,406,739
Savings accounts	11,165,430	7,271,383
Term deposits	27,410,755	21,488,815
Total deposits	**153,670,812**	**129,409,143**

Maturity analysis of deposits from customers

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

	Group	
	2015 KShs'000	2014 KShs'000
Repayable on demand	79,044,162	74,100,584
Maturing within 1 month	9,565,257	-
Maturing after 1 month but within 6 months	5,770,504	15,430,440
Maturing after 6 months but within 12 months	1,559,251	3,069,262
Maturing after 12 months	10,307,061	3,238,590
	106,246,235	**95,838,876**

Deposit products include cheque accounts, savings accounts, call deposits, and fixed deposits. The weighted average effective interest rate on customer deposits as at 31 December 2015 was 4.03% (2014: 2.74%)

	Group			
	2015		2014	
	KShs'000	%	KShs'000	%
Central government	10,103,071	10%	8,380,513	8.7%
Non-financial public enterprises	1,561,691	1%	3,140,036	3.3%
Non-bank financial institutions	382,622	-	230,554	0.2%
Insurance companies	933,221	1%	582,091	0.6%
Hire purchase companies	93	-	43	-
Private enterprises	84,704,136	80%	82,104,764	85.7%
Non-profit institutions and individuals	8,561,401	8%	1,400,875	1.5%
	106,246,235	**100%**	**95,838,876**	**100%**

Notes (continued)

32. Borrowings

At 31 December 2015

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

At 31 December 2014

	Notional value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	2,402,093	2,402,916	12.50%	07 July 2009	07 July 2016
CfC Stanbic Bond	97,907	97,938	182 day T-bill+175 bps	07 July 2009	07 July 2016
CfC Stanbic Bond	4,000,000	4,012,563	12.95%	15 December 2014	8 December 2021
Total	**6,500,000**	**6,513,417**			

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

Interest expense incurred in the above borrowings was KShs 838,412,000 (2014: KShs 531,753,000). The weighted average effective interest rate on borrowings as at 31 December 2015 was 12.51% (2014: 9.33%).

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)

33. Other liabilities and accrued expenses

(a) Other liabilities and accrued expenses

	Group		Company	
	2015 KShs'000	**2014 KShs'000**	**2015 KShs'000**	**2014 KShs'000**
Accruals	2,343,910	3,010,104	20,157	17,109
Deferred bonus scheme (Note 33(b))	183,564	196,304	-	-
Un-presented bank drafts	93,367	156,410	-	-
Margin on guarantees and letters of credit	1,036,146	469,742	-	-
Items in transit	79,813	269,645	-	-
Sundry creditors	2,224,463	1,846,763	19,914	14,111
	5,961,263	**5,948,968**	**40,071**	**31,220**

(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 183,564,000 at 31 December 2015 (2014: KShs 196,304,000) and the amount charged for the year was KShs 95,468,000 (2014: KShs 127,707,000).

	Units	
Reconciliation	**2015**	**2014**
Units outstanding at beginning of the year	255,987	201,528
Granted	128,753	156,629
Exercised	(121,730)	(80,323)
Lapsed	(16,056)	(17,445)
Transfers	-	(4,402)
Units outstanding at end of the year	**246,954**	**255,987**

Notes (continued)

33. Other liabilities and accrued expenses (continued)

(b) Deferred bonus scheme (DBS) (continued)

	2015	2014
Weighted average fair value at grant date (ZAR)	156.96	126.87
Expected life (years)	2.51	2.51
Risk-free interest rate (%)	5.54	5.54

34. (a) Current income tax asset/(liability)

	Group		Company	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
At January	(33,615)	(117,085)	-	-
Exchange difference on translation	10	(264)	-	-
Current income tax charge (Note 15)	(1,333,050)	(2,428,407)	-	-
Income tax paid	1,749,620	2,512,141	-	-
Current income tax payable/(recoverable)	**382,965**	**(33,615)**	**-**	**-**

The amount above relates to current income tax recoverable from the tax authorities and is current.

(b) Current income tax asset/ (liability)

	Group		Company	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
As at 1 January	37,909	(114,604)	(45)	-
Exchange difference on translation	(27,888)	8,347	-	-
Current tax charge (Note 15)	(116,895)	(68,443)	(23,204)	(45)
Income tax paid	17,339	212,609	17,339	-
As at 31 December	**(89,535)**	**37,909**	**(5,910)**	**(45)**

The amount above relates to current income tax liability payable to the tax authorities as at year end. The Group and Company tax positions are current. The group has operations in South Sudan which is in a net tax payable position. The tax is payable to the Government of South Sudan.

(c) Deferred income tax asset

	Group		Company	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
At start of year	1,435,226	949,013	-	-
Credit to statement of profit or loss (Note 15)	(1,003,735)	483,265	-	-
Credit/(charge) to other comprehensive income	(70,719)	2,948	-	-
Exchange difference on translation	550	-	-	-
At end of year	**361,322**	**1,435,226**	**-**	**-**

Notes (continued)

34. (c) Deferred income tax asset (continued)

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 2015	1.1.2015 KShs'000	(Charge)/ Credited to statement of profit or loss KShs'000	Charge to statement of other comprehensive income KShs'000	31.12.2015 KShs'000
Arising from:				
Property and equipment	(36,392)	(17,055)	-	(53 447)
Fair value gains on AFS instruments	107,719	(383,052)	(70,719)	(346,051)
Portfolio impairment	345,565	120,325	-	465 890
Leasing	319,763	(298,276)	-	21 487
Other provisions	814,440	(254,326)	-	560 114
Group intangible assets	(115,988)	13,582	-	(102,406)
Unrealised gain on South Sudan retained earnings conversion	-	(181,054)	-	(181,054)
Foreign currency exchange differences	119	(3,329)	-	(3,210)
Net deferred asset	**1,435,226**	**(1,003,735)**	**(70,719)**	**361,322**

Year ended 31 December 2014	1.1.2014 KShs'000	Credited to statement of profit or loss KShs'000	Credited to statement of other comprehensive income KShs'000	31.12.2014 KShs'000
Arising from:				
Property and equipment	(78,145)	41,753	-	(36,392)
Fair value gains on AFS instruments	(47,218)	151,989	2,948	107,719
Portfolio impairment	300,665	44,900	-	345,565
Leasing	145,461	174,302	-	319,763
Other provisions	757,818	56,622	-	814,440
Group intangible assets	(129,568)	13,580	-	(115,988)
Foreign currency exchange differences	-	119	-	119
Net deferred asset	**949,013**	**483,265**	**2,948**	**1,435,226**

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

Notes (continued)

35. Notes to the cash flow statement

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

	Group		Company	
	2015 KShs'000	**2014 KShs'000**	**2015 KShs'000**	**2014 KShs'000**
Net income before income tax	7,359,414	7,700,246	2,404,826	1,095,610
Adjusted for:				
- Depreciation - property and equipment (Note 25)	344,078	277,541	-	-
- Amortisation of intangible assets (Note 27)	156,800	276,416	-	-
- Amortisation of prepaid operating lease (Note 26)	2,954	2,954	-	-
- Impairment - property and equipment (Note 25)	25,584	548	-	-
- Change in fair value of derivatives	(1,287,605)	498,188	-	-
- Share based payment reserve	14,004	20,685	-	-
- Loss/(Gain) on disposal of property and equipment	157	(2,262)	-	-
Cash flow from operating activities	**6,615,386**	**8,774,316**	**2,404,826**	**1,095,610**

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

	Group		Company	
	2015 KShs'000	**2014 KShs'000**	**2015 KShs'000**	**2014 KShs'000**
Unrestricted cash and balances with CBK	5,746,551	4,839,433	-	-
Treasury bills	12,777,274	10,602,683	-	-
Loans and advances to Groups	23,181,591	12,746,987	108,840	56,911
Amounts due to other Groups	(2,116,494)	(5,578,951)	-	-
Cash and cash equivalent at the end of the year	**39,588,922**	**22,610,152**	**108,840**	**56,911**

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

Notes (continued)

36. 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 on a monthly basis to the market risk committee and ALCO.

Level hierarchy

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

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

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

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

Significant unobservable inputs

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

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

Notes (continued)

36. 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:

	Note	Level 1 KShs'000	Level 2 KShs'000	Total KShs'000
At 31 December 2015				
Assets				
Financial assets - held for trading	20	-	16,250,195	16,250,195
Financial assets - available-for-sale	20	-	28,947,969	28,947,969
Pledged assets - available-for-sale	19	-	3,439,383	3,439,383
Derivative assets	30	-	4,377,196	4,377,196
		-	**53,014,743**	**53,014,743**
Comprising:				
Held-for-trading		-	20,627,391	20,627,391
Available-for-sale		-	32,387,352	32,387,352
		-	**53,014,743**	**53,014,743**
Liabilities				
Trading liabilities		-	521,973	521,973
Derivative liabilities	30	-	3,361,440	3,361,440
		-	**3,883,413**	**3,883,413**
Comprising:				
Held-for-trading		**-**	**3,883,413**	**3,883,413**

Notes (continued)

36. Fair value of financial instruments (continued)

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

	Note	Level 1 KShs'000	Level 2 KShs'000	Total KShs'000
At 31 December 2014				
Assets				
Trading assets	20	178,354	23,836,927	24,015,281
Other-financial investments	20	-	25,268,039	25,268,039
Available-for-sale pledged assets	19	-	2,884,293	2,884,293
		178,354	**51,989,259**	**52,167,613**
Comprising:				
Held-for-trading		178,354	23,836,927	24,015,281
Available-for-sale		-	28,152,332	28,152,332
		178,354	**51,989,259**	**52,167,613**
Derivative assets	30	-	1,960,415	1,960,415
		-	**1,960,415**	**1,960,415**
Comprising:				
Held-for-trading		-	1,960,415	1,960,415
		-	**1,960,415**	**1,960,415**
Liabilities				
Derivative liabilities	30	-	2,232,264	2,232,264
		-	**2,232,264**	**2,232,264**
Comprising:				
Designated at fair value through profit or loss		**-**	**2,232,264**	**2,232,264**

There were no financial assets measured at fair value in level 3 as at 31 December 2015 and 31 December 2014.

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

Notes (continued)

36. 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 bank's 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)

36. 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 2015.

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 2015					
Assets					
Cash and balances with CBK	11,350,098	-	-	11,350,098	11,350,098
Loans and advances to banks	10,671,838	-	15,600,084	26,271,922	23,181,591
Loans and advances to customers	-	-	113,740,365	113,740,365	104,981,565
	22,021,936	**-**	**129,340,449**	**151,362,385**	**139,513,254**
Liabilities					
Deposits from banks	-	-	(44,113,497)	(44,113,497)	(47,424,577)
Deposits from customers	(62,349,335)	-	(35,285,467)	(97,634,802)	(106,246,235)
Subordinated debt	-	(8,657,793)	-	(8,657,793)	(6,482,063)
	(62,349,335)	**(8,657,793)**	**(79,398,964)**	**(150,406,092)**	**(112,728,298)**

Notes (continued)

36. Fair value of financial instruments (continued)

(b) Financial instruments not measured at fair value

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 31 December 2014					
Assets					
Cash and balances with CBK	9,555,580	-	-	9,555,580	9,555,580
Loans and advances to banks	11,479,499	-	1,272,676	12,752,174	12,862,672
Loans and advances to customers	24,572,641	-	63,774,797	88,347,438	88,347,438
	45,607,720	**-**	**65,047,473**	**110,655,192**	**110,765,690**
Liabilities					
Deposits from banks	(5,161,831)	-	(27,290,066)	(32,451,897)	(33,570,267)
Deposits from customers	(75,091,989)	-	(19,800,729)	(94,892,718)	(95,838,876)
Subordinated debt	-	(7,309,874)	-	(7,309,874)	(6,513,417)
	(80,253,820)	**(7,309,874)**	**(47,090,795)**	**(134,654,489)**	**(135,922,560)**

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

Notes (continued)

37. Related party transactions

CfC Stanbic Holdings Limited 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 CfC Stanbic Holdings Limited 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 rated in line with the market. The relevant balances are as shown below:

a) Loans due from group banks

	2015 KShs'000	2014 KShs'000
Stanbic Bank Uganda Limited	99,260	50,828
Stanbic Bank Tanzania Limited	27,145	28,365
Standard Bank (Mauritius) Limited	2	-
Standard Bank of South Africa Limited	6,723,822	2,146,508
Standard Bank Isle of Man	-	452,626
	6,850,229	**2,678,327**
Interest income earned on the above is:	**5,141**	**3,008**

b) Deposits due to group banks

	2015 KShs'000	2014 KShs'000
Standard Bank of South Africa Limited	143,793	67,690
Standard Bank London Holdings Plc	-	389,338
Standard Bank Namibia Limited	460	1,314
Stanbic Bank Uganda Limited	463,722	575,393
Stanbic Bank Zambia Limited	22	14
Stanbic Bank Zimbabwe Limited	139	136
Stanbic Bank Botswana Limited	844	568
Standard Bank (Mauritius) Limited	1,674,994	64,890
Stanbic Bank Malawi Limited	759	22
Standard Bank Isle of Man	12,118,331	13,591,222
Stanbic Bank Tanzania Limited	5,290	239,842
Standard Bank PLC	404,912	54,732
Standard Bank Swaziland	25	21
Stanbic Bank Ghana	158	-
	14,813,449	**14,985,182**
Interest expense incurred on the above is:	**509,999**	**306,431**

The weighted average effective interest rate on amounts due from group companies as at 31 December 2015 is 0.28% (2014 – 0.17%) and on amounts due to group companies was 1.70% (2014 0.50%).

c) Company **Amounts due to group companies**	**2015 KShs'000**	**2014 KShs'000**
CfC Stanbic Bank Ltd	3,198	1,833

Notes (continued)

37. Related party transactions (continued)

d) Deposits due to group companies non-bank

	2015 KShs'000	2014 KShs'000
Heritage	195,073	134,957
STANLIB Kenya Limited	88,236	63,595
Liberty Life	123,636	53,611
	406,945	**252,163**

e) Key management compensation

Key management personnel include: the members of the CfC Stanbic Holdings Limited board of directors and prescribed officers effective for 2015 and 2014. Non-executive directors are included in the definition of key management personnel as required by IAS 24 Related Party Disclosures. The definition of key management includes the close family members of key management personnel and any entity over which key management exercise control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by that person in their dealings with the 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 Bank as indicated in note 37 (f) and 37 (g);

f) Loans and advances

Included in loans and advances are amounts advanced to certain companies in which directors are involved either as shareholders or directors (associated companies). In addition, there are contingent liabilities including guarantees and letters of credit, which have been issued to associated companies. The balances as at 31 December 2015 and 31 December 2014 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:

	2015 KShs'000	2014 KShs'000
At start of year	39,107	53,647
New loans issued	31,685	37,711
Accrued interest	2,800	596
Loan repayments	(39,776)	(52,847)
At end of year	**33,816**	**39,107**

Loans include mortgage loans, instalment sale and finance leases and credit cards. No specific credit impairments have been recognised in respect of loans granted to key management (2013: KShs nil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

Notes (continued)

37. Related party transactions (continued)

g) Key management compensation

	2015 KShs '000	2014 KShs '000
Salaries and other short-term employment benefits	**453,354**	**392,693**
Directors' remuneration		
Fees for services as directors	6,535	7,630
Other emoluments (included in key management compensation above);	105,617	80,571
Post-employment pension	2,292	-
Share-based payments	18,956	7,637

h) Other receivable due from related companies

CfC Life Assurance Limited	1,515	962
The Heritage Insurance Company Limited	1,281	798
CfC Stanbic Holdings Limited	3,401	1,670
Stanbic Bank Uganda Limited	7,581	2,919
Stanbic Bank Tanzania Limited	301,336	300,830
Standard Bank Mauritius Limited	-	22
Standard Bank of South Africa Limited	535,154	364,452
Stanbic Bank Zambia Limited	704	109
Stanbic Bank Malawi Limited	139	-
Standard Bank s.a.r.l. (Mozambique)	10	10
Stanbic Bank Lesotho	-	(183)
Standard Bank London Holdings Plc	-	754
STANLIB Kenya Limited	22,286	91,077
Standard Bank Swaziland Limited	425	-
Standard Bank RDC s.a.r.l	26	-
Standard Bank de Angola S.A.	513	-
Stanbic Insurance Agency Limited	11,345	-
Standard Advisory London Limited	241	-
	885,958	**763,420**
Provisions on regional costs balances	(281,379)	(280,502)
	604,578	**482,918**

Notes (continued)

37. Related party transactions (continued)

i) Other payables due to related companies

	2015 KShs'000	2014 KShs'000
Standard Bank Malawi Limited	1,079	-
Standard Bank of South Africa Limited	949,220	888,297
Stanbic Bank Uganda Limited	50	-
SBG Securities Limited	2,609	-
Stanbic Insurance Agency Limited	34,151	-
	987,109	**888,297**

There is no interest accruing for these outstanding liabilities

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

	2015 KShs'000	2014 KShs'000
Standard Bank South Africa		
Franchise fees	458,200	426,384
Information technology	86,869	200,608
Other operating costs	508	33,806
	545,577	**660,798**

Notes (continued)

38. Contingent liabilities - Group

Commitments were with respect to:	2015 KShs '000	2014 KShs'000
Irrevocable letters of credit and acceptances	5,439,722	9,340,525
Revocable unutilised facilities	9,957,460	7,806,485
Guarantees	21,965,002	13,918,776
	37,362,184	**31,065,786**

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

	2015		2014	
	KShs'000	**%**	**KShs'000**	**%**
Agriculture	1,468,841	4%	2,021,583	7%
Manufacturing	5,585,725	15%	10,099,055	33%
Construction	2,854,395	8%	323,410	1%
Energy	1,168,491	3%	1,032,960	3%
Transport and communication	1,891,545	5%	1,178,322	4%
Distribution/wholesale	10,889,978	29%	11,665,236	38%
Financial Services	11,899,498	32%	3,499,572	11%
Tourism	8,753	0%	11,306	-
Other activities and social service	1,594,958	4%	1,234,342	4%
	37,362,184	**100%**	**31,065,786**	**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 eventuating, that the bank has adequate insurance programmes and provisions in place to meet such claims.

Notes (continued)

39. Other reserves

		Group	
	Note	2015 KShs '000	2014 KShs '000
Statutory reserve		(6,381)	(72,429)
Fair value reserve		150,161	218,793
Foreign currency translation reserve		(1,099,023)	(69,715)
Share based payment reserve	41	42,393	131,001
Revaluation reserve		122,598	122,598
At end of year		**(790,252)**	**330,248**

The revaluation reserve represents solely the surplus on the revaluation of buildings and freehold land net of deferred income tax and 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.

40. Share-based payment reserve

	2015 KShs '000	2014 KShs '000
At the start of the year	131,001	110,316
Options exercised during the year	(102,614)	-
Equity growth scheme for the year	14,006	20,685
As at 31 December	**42,393**	**131,001**

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.

As at 31 December 2015, the total amount included in staff costs for Group Share Incentive Scheme was KShs.13,947,000 (2014: KShs 20,228,000) and for Equity Growth Scheme was KShs 57,000 (2014: KShs 449,000).

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

40. 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:

	Option price range (ZAR)	Number of options	
Group Share Incentive Scheme	**2015**	**2015**	**2014**
Options outstanding at beginning of the year		476,538	503,400
Transfers	62,39 - 111,94	6,000	67,050
Exercised	62,39 - 111,94	(113,505)	(93,912)
Lapsed		(21,250)	-
Options outstanding at end of the year		**347,783**	**476,538**

The weighted average SBG share price for the year to 31 December 2015 year end was ZAR 147.88 (2014: ZAR 134.83).

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

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5,000,	98,00	98,00	Year to 31 December 2017
17,875,	92,00	92,00	Year to 31 December 2018
26,875,	62,39	62,39	Year to 31 December 2019
128,063,	104,53 - 111,94	109,41	Year to 31 December 2020
169,970,	97,80 - 107,55	99,70	Year to 31 December 2021
347 783			

Notes (continued)

40. Share-based payment reserve (continued)

The following options granted to employees had not been exercised at 31 December 2014:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
7,000	65,60	65,60	Year to 31 December 2015
1,300	79,50	79,50	Year to 31 December 2016
7,000	98,00	98,00	Year to 31 December 2017
38,550	92,00	92,00	Year to 31 December 2018
52,500	62,39	62,39	Year to 31 December 2019
183,125	104,53 - 111,94	109,41	Year to 31 December 2020
187,063	97,80 - 107,55	99,70	Year to 31 December 2021
476,538			

Equity Growth Scheme	Appreciation right price range (ZAR) 2015	Number of rights 2015	Number of rights 2014
Rights outstanding at beginning of the year		37,200	158,604
Transfers			(114,904)
Exercised[1]	62.39-79.50	(11,000)	(6,500)
Lapsed			-
Rights outstanding at end of the year[2]		**26,200**	**37,200**

[1]During the year 5,255 (2014: 3,529) SBG shares were issued to settle the appreciated rights value.

[2]. At 31 December 2014 the Group would need to issue 3,578 (2014: 16,392) SBG shares to settle the outstanding appreciated rights value.

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

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

The following rights granted to employees had not been exercised at 31 December 2014:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
3,500	79,50	79,50	Year to 31 December 2016
8,500	98,00	98,00	Year to 31 December 2017
5,500	92,00	92,00	Year to 31 December 2018
19,700	62,39	62,39	Year to 31 December 2019
37,200			

Notes (continued)

41. Capital commitments

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

	2015 KShs'000	2014 KShs'000
Authorised and contracted for	208,424	581,935
Authorised but not contracted for	**27,970**	**181,984**

42. Operating leases

The Group leases a number of its branch operations and office premises under operating leases.

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

	2015 KShs'000	2014 KShs'000
Less than one year	445,575	392,568
Between one and five years	1,237,280	1,184,020
More than five years	3,435,686	576,601
	5,118,541	**2,153,189**

43. Fiduciary activities

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

	2015 KShs'000	2014 KShs'000
Assets held on behalf of individual's trusts and other institutions	**177,185,777**	**198,768,544**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REPUBLIC OF KENYA
June & November 2014
US$ 2.5 billion
Debut & Tap Eurobond Issue
Joint Lead Manager & Joint Bookrunner
REAL INSURANCE CO. LTD - KENYA
August 2014
US$ 21million
Transaction Adviser for sale of 99% equity stake
UMEME HOLDINGS LIMITED - UGANDA
May 2014
US$ 98.8 million
Sole Global Co-ordinator, Transaction Advisor and Joint Bookrunner, Block Trade on the Uganda and Nairobi Securities Exchanges
INTERNATIONAL FINANCE CORPORATION - RWANDA
May 2014
RWF 15 million
Corporate Bond Issue
Lead Arranger & Joint Bookrunner
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SHAREHOLDER INFORMATION

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Group Shareholding

The ten largest shareholdings in the company and the respective number of shares held at 31 december 2015 are as follows:

Name	Number of shares held	Shareholding (%)
Stanbic Africa Holdings Ltd. (UK)	163,715,735	41.41
CfC Stanbic Nominees (K) Ltd Non-Resident	73,477,246	18.59
Standard Chartered Nominees Non-Resident	29,520,128	7.47
Standard Chartered Nominees Non-Resident	16,024,572	4.05
Standard Chartered Kenya Nominees Ltd	6,414,100	1.62
Archer & Wilcock Nominees Limited	6,125,000	1.55
Standard Chartered Nominees Non-Resident	5,705,533	1.44
The Permanent Secretary to the Treasury of Kenya (On Behalf of the Government of Kenya)	4,342,548	1.10
SCB A/C Pan African Unit Linked Fd	4,335,400	1.10
Sovereign Trust Ltd	3,670,617	0.93
	313,330,879	

Shareholding ranges at 31 December 2015 are as follows:

Name	Number of Members	Total No. of shares	Percent
1 - 500	1,643	317,436	0.0803
501 - 1,000	518	431,937	0.1093
1,001 - 5,000	906	2,236,552	0.5658
5,001 - 10,000	439	3,284,418	0.8308
10,001 - 50,000	372	8,320,326	2.1047
50,001 - 100,000	89	6,261,054	1.5838
100,001 - 500,000	93	19,924,641	5.0401
500,001 - 1,000,000	19	12,833,635	3.2464
1,000,001 - 999,999,999,999	24	341,711,639	86.4369
	4,103	**395,321,638**	**100**

Notice of Annual General Meeting

Notice is hereby given that the Sixty-First Annual General Meeting of the Members of CfC Stanbic Holdings Limited will be held on Friday, 10 June, 2016, at Chiromo Parking, CfC Stanbic Bank Centre, Nairobi, at 12.00 noon to transact the following business:

1. The Secretary to read the notice convening the meeting and confirm the presence of a quorum.

2. To receive and consider the Audited Financial Statements for the year ended 31 December, 2015, and the Directors' and Auditor's Report thereon.

3. To consider and approve a final dividend of KShs 5.40 per share for the year ended 31 December, 2015, and to note the book closure date of 13 June, 2016, subject to approval of the payment of a final dividend.

4. To elect Directors:

    i) In accordance with Article 110 of the Company's Articles of Association, Peter N. Gethi retires by rotation and, being eligible, offers himself for re-election.

    ii) In accordance with Article 110 of the Company's Articles of Association, Rose W. Kimotho retires by rotation and, being eligible, offers herself for re-election.

    iii) In accordance with Article 110 of the Company's Articles of Association, Edward K. Njoroge retires by rotation and, being eligible, offers himself for re-election.

5. To approve the Directors' remuneration for the year ended 31 December 2015 as provided in the Financial Statements.

6. To re-appoint Messrs PricewaterhouseCoopers as auditors of the Company under Section 721 (2) of the Companies Act, 2015, taking note that the auditors have indicated their willingness to continue in office.

7. To authorise the Directors to fix the remuneration of the appointed auditors in accordance with Section 724 (1) of the Companies Act, 2015.

8. To note the plan to transfer 100% of the shareholding in Stanbic Insurance Agency Limited from CfC Stanbic Bank Limited to CfC Stanbic Holdings Limited, subject to regulatory approval.

9. Any other business for which due notice has been given.

BY ORDER OF THE BOARD

Lillian Mbindyo
Company Secretary
2 March 2016

NOTE:

In accordance with section 298 (1) 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 to attend and vote on his/her behalf. A proxy need not be a Member of the Company. A proxy form can be downloaded from the Company's website, www.cfcstanbicbank.co.ke, or from the Registered Office of the Company at CfC Stanbic Centre, Chiromo Road, Westlands, Nairobi.

1. 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.
2. 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 or Share Registrars, Comprite Kenya Ltd.

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 registrar@stanbic.com

Notes

Proxy form

To **The Company Secretary**
CfC Stanbic Holdings Limited
P O Box 30550 – 00100
NAIROBI

I/We,____,

of ____,

being a member of CfC STANBIC HOLDINGS LIMITED hereby appoint_______________________________________

____

of ____

or failing him ____

of ____

as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on Friday, 10 June, 2016, and at any adjournment thereof.

Dated this ______________________________ day of ____________________ 2016

Signed: ____

Name:____

Note: The proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof.


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Tulipe Ushuru, Tujitegemee!
DISTINGUISHED TAXPAYERS 2015
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CFC STANBIC BANK LIMITED
We take our corporate citizenship very seriously. The significance we attach to it and strength in executing it was recognized and rewarded at the Kenya Revenue Authority 2015 Tax Payer Awards, where we received the Best VAT Yield Award. We draw this strength from the loyalty of our customers and stakeholders and our responsibility to them. We therefore say thank you to them, for being the inspiration for this award.
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Africa is a complex and diverse continent deserving nuanced insight. With differing prospects and performance across the continent, a 'one size fits all' approach is inappropriate. We are able to navigate environments by employing and developing local skill. Together with our other competitive advantages, our heritage and footprint, we are in a prime position to turn Africa's challenges into market opportunities.