CfC Stanbic

A member of Standard Bank Group

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Corporate Information

Directors, Officers and Administration

Chairman:	**CM Njonjo**	**(Appointed: 1 December 1989)**
Managing Director:	**K Mbathi**	**(Appointed: 31 May 2008)**
Non-Executive Directors:	**JG Kiereini**	**(Appointed: 1 December 1995)**
	T Naikuni	**(Appointed: 13 March 2006)**
	GR May*	**(Appointed: 22 August 2008)**
	R Kimotho	**(Appointed: 31 May 2008)**
	ML du Toit**	**(Appointed: 31 May 2008)**
	* **British**	
	** **South African**	
Secretary:	**AL Mugambi** **P.O. Box 72833** **00200 Nairobi**	
Auditor:	**PricewaterhouseCoopers** **The Rahimtulla Tower** **Upper Hill Road** **P. O. Box 43963** **00100 Nairobi GPO**	**(Appointed: 31 May 2008)**
Registered Office:	**CfC Stanbic Centre** **Chiromo Road** **P.O. Box 72833** **00200 Nairobi**	
Principal Bankers:	**CfC Stanbic Bank Limited** **CfC Stanbic Centre** **Chiromo Road** **P.O. Box 72833** **00200 Nairobi**	

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NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the fifty-fourth Annual General Meeting of the Members of CfC Stanbic Holdings Limited will be held on Friday, 29 May 2009, at CfC Stanbic Centre, Chiromo Road, Nairobi, at 11.00 in the forenoon to transact the following business:

1. The Secretary to read the notice convening the meeting.

2. To table the proxies and confirm the presence of a quorum.

3. To receive and consider the Audited Financial Statements for the year ended 31 December 2008 and the Directors' and Auditors' Report thereon.

4. To note that an interim dividend of Shs 0.50 per share having been paid in May 2008, the Directors do not recommend payment of a final dividend for the year ended 31 December 2008.

5. To elect Directors:

   i) In accordance with Article 110 of the Company's Articles of Association, Mr Jeremiah G Kiereini, a director who is over 70 years retires by rotation. Special Notice has been received by the Company pursuant to Section 142 of the Companies Act (Chapter 486, Laws of Kenya) of the intention to propose the following resolution, in accordance with Section 186(5) of the said Act, to be considered and if thought fit, passed by the Members:

   "That Mr Jeremiah G Kiereini, a Director who is over 70 years be and is hereby re-elected to serve as a Director of the Company until he next comes up for retirement by rotation under the Company's Articles of Association"

   ii) In accordance with Article 110 of the Company's Articles of Association, Dr Titus Naikuni retires by rotation and, being eligible, offers himself for re-election.

   iii) In accordance with Article 109, Mr. Kitili Mbathi retires at the dissolution of the meeting and being eligible, offers himself for re-election.

   iv) In accordance with Article 109, Mr. Mike L. du Toit retires at the dissolution of the meeting and being eligible, offers himself for re-election.

   v) In accordance with Article 109, Mr. Gayling R. May retires at the dissolution of the meeting and being eligible, offers himself for re-election.

   vi) In accordance with Article 109, Ms. Rose Kimotho retires at the dissolution of the meeting and being eligible, offers herself for re-election.

6. To approve the Directors' remuneration for the year ended 31 December 2008 as provided in the Financial Statements.

7. To note that Messrs PricewaterhouseCoopers continue in office as the Auditor under Section 159(2) of the Companies Act and to authorise the Directors to fix their remuneration.

8. Any other business for which due notice has been given.

BY ORDER OF THE BOARD

Alfred Mugambi
Company Secretary
Date: 30 April 2009

NOTE: In accordance with section 136(2) of the Companies Act 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 form of proxy is enclosed and should be returned to the Company Secretary, P.O. Box 72833-00200 Nairobi, to arrive not later than 48 hours before the meeting.

Chairman's statement

The Group will remain customer-centric, delivering value to customers, shareholders and all other stakeholders.

C.M. Njonjo
Chairman
09 April 2009

It is my pleasure to present the annual report and financial statements for the year ended 31 December 2008.

Overview

In the year 2008, CfC Bank Limited (CfC) achieved a major feat through the conclusion of the merger with Stanbic Bank Kenya Limited (SBK), the largest financial sector merger in Kenya's history to become the largest financial services group effective 1 June 2008. We believe the benefits arising from this transaction will continue to be realised now and into the future. It is in the same year when the country started on a sad note of post election violence and concluded with a global financial crisis.

Political and economic review

The Kenya economy proved resilient following the post election violence and the global financial melt down in the first quarter and fourth quarter of 2008 respectively. The economic fundamentals remain stable giving the Group opportunities for growth. This is also supported by the opening up of the East African economies through the East African Community.

The economic growth rate that had been projected to surpass 7% in the year was scaled down to less than 3.5% as inflation hovered around 27% due to increasing food and fuel prices. In a bid to reduce inflation, government reduced VAT on electricity to 12% from 16%. The government is also in advanced stages of redefining the consumer price index (CPI), the measure for inflation.

The shilling weakened against the major international currencies fluctuating between Kshs 63 and Kshs 74 against the US dollar and further slipping to Kshs 78 at the close of year. A weak shilling has pushed up cost of imports leading to increased prices of goods and services but was beneficial to the export sector, mainly the tea, coffee and horticultural producers.

Strategy

The Group will remain customer-centric, delivering value to customers, shareholders and all other stakeholders. The Group will leverage on the merger synergies and continue with expansive strategies.

ICBC transaction

On 3 March 2008, the Industrial and Commercial Bank of China (ICBC) purchased 20% of our holding company, Standard Bank Group for an aggregate consideration of ZAR15.9 billion. This new equity capital resulted in additional income that boosted earnings growth. Given China's focus on Africa and Standard Bank's presence across the African continent, the transaction represents a strong vote of confidence in the relationship between the two regions.

The partnership positions the Group at the centre of growing trade flows between Africa and China and gives us access to one of the largest growing economies in the world. With ICBC's current liquidity position, it allows them to identify business opportunities to expand their footprint into Africa.

Chairman's statement (continued)

Leadership

In the increasingly competitive environment in which we operate, managing talent has become a critical factor in maintaining competitive advantage, and is an area where we invest significant resources. The group's Global Leadership Centre (GLC) plays an important role in developing excellence among executive and operational leadership. The GLC has offered internationally designed management development programs to CfC Stanbic staff enabling the Group to deliver value to its esteemed customers.

Compliance

Post merger, your company is now regulated by, and complies with the Capital Markets Act and the Continued Listing Obligations of the Nairobi Stock Exchange.

Directorate

I am delighted to announce the appointments of K Mbathi, R Kimotho, G R May and M L Toit in 2008 as Directors. K Mbathi also took over as the Managing Director of CfC Stanbic Holdings Limited. A. Gregory, A. Munda and F Ojiambo resigned from the Board after the merger with SBK. M Soundararajan resigned from the Board on 30 September 2008. On behalf of the Board and the entire family of CfC Stanbic Group, I take this opportunity to thank them for their commitment to the company's growth and contribution to the successful merger with Stanbic Bank Kenya Limited.

Prospects

With the successful merger of CfC and SBK, the Group has great prospects derived from a combination of synergies, to deliver enhanced value to the shareholders: -

- greater retail market penetration, with innovation in products delivery;
- leading asset finance unit;
- diversity in earnings from its investments in non-banking assets;
- the merged Bank has the capacity to fund and structure larger corporate transactions due to an enlarged balance sheet;
- strong life assurance operations and platform for enhancing a bancassurance model;
- access to high quality Kenyan talent whilst providing new opportunities within the merged group for existing staff.

Appreciation

We would like to thank our esteemed customers, shareholders and other stakeholders of the Group for the tremendous support over the last year. Your loyalty has kept us motivated to perform to the best of our ability.

We remain confident that we have the skills and resources necessary to manage the significant opportunities and challenges that lie ahead. We thank our colleagues on the Board for their sound guidance and support during the year.

C.M. Njonjo
Chairman
06 April 2009

Merger transaction between CfC Bank Limited and Stanbic Bank Kenya Limited

CfC profile

CfC was a listed entity on the Nairobi Stock Exchange (NSE) and was owned by approximately 2,400 shareholders. CfC operated a commercial banking business with subsidiaries engaged in asset management, investment banking, stock broking and both short term and life insurance businesses. The short term insurance business also covered entities in Tanzania.

SBK profile

SBK's previous shareholders were Stanbic Africa Holdings Limited (SAHL: 96.31%) and the Government of Kenya (GOK: 3.69%). SBK operated a commercial banking business with a minority shareholding in an asset management entity, Stanbic Investment Management Services (East Africa) Limited.

The merger transaction was structured in three interlinked phases:

Phase one – Acquisition of SBK

CfC acquired 100% of SBK through allotment of 117,684,211 new fully paid up shares of CfC Bank Limited to SBK's share holders, SAHL and Government of Kenya (GOK). As a result, SBK became a fully owned subsidiary of CfC with SAHL holding 41.41% of the shares in CfC, the GOK, 1.59%, and the balance remaining with the existing CfC Shareholders.

The net assets of SBK at the acquisition date were as follows:

	31 May 2008
	Shs' 000
Total assets	44,609,447
Total liabilities	(41,129,367)
Net Assets	**3,480,080**

The transaction resulted in goodwill of Shs 9.4 billion as summaried below:

	Shs '000
Net assets	3,480,080
Intangible assets	765,159
Goodwill	9,349,757
Consideration*	**13,594,996**

includes acquisition costs of Shs 61.312m

Phase two – Acquisition of control by SAHL

On completion of the allotment of shares in phase one, SAHL acquired an additional 50,868,864 CfC shares from existing shareholders. SAHL's shareholding in CfC was increased to 60% of the revised share capital of CfC.

Phase three – Hive Down

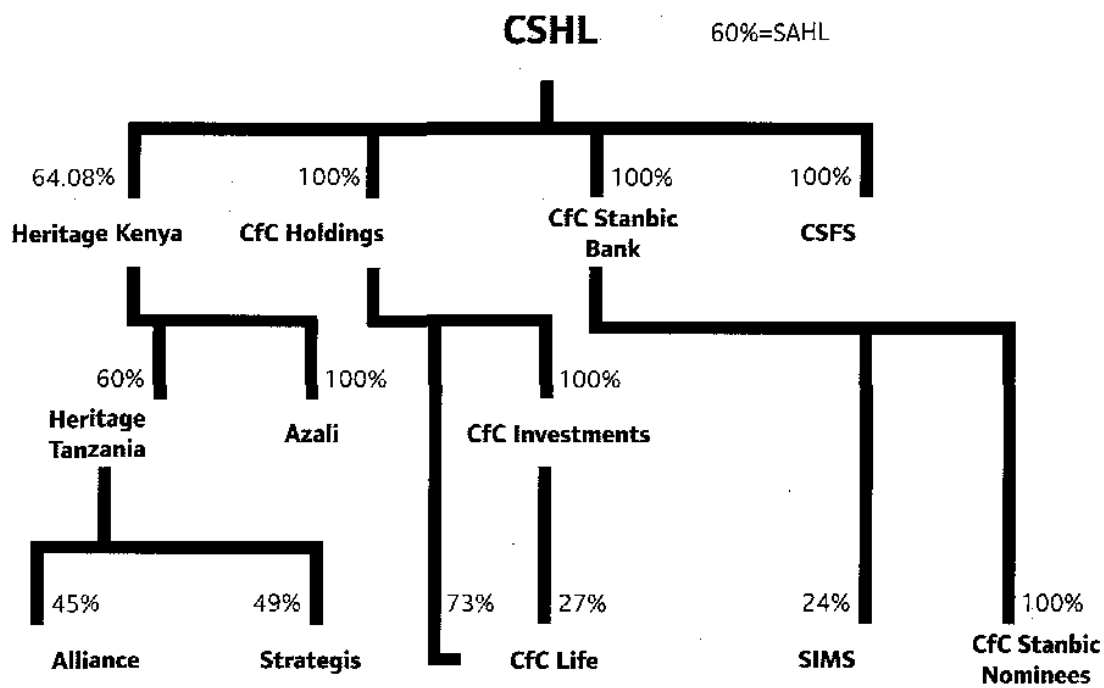
On completion of phases one and two above, there was an internal reorganisation, effectively to 'hive down' (transfer) CfC banking business into SBK to form a merged bank. SBK issued one share to CfC, its only shareholder, in exchange for the banking business. SBK was then renamed CfC Stanbic Bank Limited and retained its banking licence. The banking licence of CfC Bank was withdrawn to allow it to operate purely as a listed holding company, renamed CfC Stanbic Holdings Limited.

Net operating assets hived down to CfC Stanbic Bank

	Shs' 000
Assets	28,858,670
Liabilities	(26,549,234)
Reserves	(1,775,318)
Net Assets	**534,118**

All the necessary regulatory approvals were received and all conditions precedent met by 31 May 2008.

CfC Stanbic Holdings Limited organisation structure post merger



Note:

SAHL – Stanbic Africa Holdings Limited
CSHL – CfC Stanbic Holdings Limited
CSFS – CfC Stanbic Financial Services Limited
SIMS – Stanbic Investment Management Services (E.A.) Limited

Corporate Governance Report

Standard Bank Group Limited – Overview

CfC Stanbic Group is committed to implementing ongoing initiatives to improve corporate governance for the benefit of all stakeholders.

The Group'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.

A number of committees have been established that assist the Board in fulfilling its stated objectives. The committees' roles and responsibilities are set out in terms of agreed mandates, which are reviewed annually to ensure they remain relevant.

Standard Bank Africa is a division of The Standard Bank of South Africa Limited and oversees the group's operations in Africa outside of South Africa.

CfC Stanbic Group – Overview

The CfC Stanbic Group operates in a highly regulated industry and is committed to complying with legislation, regulation and codes of best practice and seeks 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 the 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 Board of Directors and the external auditors. This role is extended to holding the Board accountable and responsible for efficient and effective corporate governance.

Board of Directors

The Group is led by independent members of the Board who, by their skills and diversity, contribute to the efficient running of the Group. The Board is responsible for the overall corporate governance of the Group, ensuring that appropriate controls, systems and practices are in place.

Strategy

The Board considers and approves the Group's strategy at an annual meeting with executive management. Through quarterly management reporting, the Board monitors performance against financial objectives and detailed budgets.

Directors' appointment, induction and training

During the year, the Company appointed the following directors to the Board:

- K Mbathi
- ML du Toit
- GR May
- R Kimotho

In the Articles of Association, the appointments are only effective until the next Annual General Meeting, at which time the shareholders will be asked to approve the appointments. The appointments complied with the requirements of the Companies Act and the Capital Markets Act of the Republic of Kenya and the regulations of the Republic of South Africa.

On appointment, an induction programme designed to meet the needs of each new director is implemented. The Company Secretary manages the induction programme. The Board's code of conduct is provided to new directors on their appointment.

Directors are advised of new laws and regulations and changing risk to the organisation on an ongoing basis.

There is currently one executive director and six non-executive directors. The Board has the right mix of competencies and experience.

Board effectiveness and evaluation

The Board is focused on continued improvements to its effectiveness and corporate governance performance

During the year the Board of Directors conducted a self assessment evaluation, which was divided into structure, process and effectiveness. A special meeting was convened to discuss the outcome and address any areas of concern. The results will be used to further improve Board functioning.

Sustainability

Social and environmental responsibility remains an important part of CfC Stanbic Group culture. The monitoring and reporting of sustainability issues is still an evolving discipline within our organisation.

Social responsibility

As a Kenyan business, the Group understands the challenges and benefits of doing business in Kenya, 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 civil society and human 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.

Going Concern

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

Corporate Governance Report (continued)

Remuneration
CfC Stanbic Holdings Limited has a clear policy on remuneration of executive and non-executive directors at levels that are fair and reasonable in a competitive market for the skills, knowledge, experience required, nature and size of the Board.

The amounts paid to directors are included in note 38 which represents the total remuneration paid to executive and non-executive directors for the year under review.

Board meetings
The Board meets, at a minimum, once every quarter, with additional meetings scheduled to discuss strategy. 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:

CfC Stanbic Holdings Limited (Formerly CfC Bank Limited) – Directors' Attendance, 2008

Name	March	23rd May	30th May	August	November
CM Njonjo	AP	A	A	A	AP
K Mbathi	N/A	N/A	N/A	A	A
JG Kiereini	A	A	A	A	A
T Naikuni	AP	AP	AP	AP	A
GR May	N/A	N/A	N/A	A	A
R Kimotho	N/A	N/A	N/A	A	A
ML du Toit	N/A	N/A	N/A	A	A
M Soundararajan*	A	A	A	A	N/A
AA Munda*	A	A	A	A	N/A
SW Lewis*	AP	AP	A	N/A	N/A
UP Jani*	AP	AP	A	N/A	N/A
FN Ojiambo*	A	AP	A	N/A	N/A
AD Gregory*	A	AP	N/A	N/A	N/A

A: Attended AP: Apology N/A: Not applicable as appointment / resignation date was before / after meeting date respectively. *Resigned

Board committees
The Group is headed by a Board of Directors, which has ultimate responsibility for the management and strategic guidance and assumes the primary responsibility of fostering the sustainability of the company's business. The Board has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Board monitors the agreed financial and corporate governance objectives for the following year.

The 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 at the individual subsidiary companies, through various established Board committees. These include Board Asset and Liability (ALCO), Board Credit & Risk (BCRC), Board Audit (BAC) and Operational Risk committees. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

Report of the Directors

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2008, which disclose the state of affairs of the group and the company.

1. Principal activities

The Group is engaged in the business of banking, insurance, wealth management and stock broking.

2. Results and dividends

The net profit for the year was Shs 752,179,000 (2007: Shs 769,932,000) as shown below. An interim dividend of Shs 78 million (2007: Shs 218,400,000) was paid during the year. In addition, a dividend of Shs 78 million in respect of 2007 was declared and paid during the year. The directors do not recommend payment of a final dividend for the year (2007: Shs 78,000,000).

	Shs '000
Profit before taxation	1,322,356
Taxation	(475,763)
Net profit	846,593
Minority interest	(94,414)
Profit for the year transferred to reserves	**752,179**

3. Share capital

The total number of shares as at 31 December 2008 was 273,684,211 (2007: 156,000,000), ordinary shares of Sh 5 each. The details of share capital are set out in note 31.

4. Directors

The directors who held office during the year and to the date of this report were:

CM Njonjo	(Appointed: 1 December 1989)
K Mbathi	(Appointed: 31 May 2008)
JG Kiereini	(Appointed: 1 December 1995)
T Naikuni	(Appointed: 13 March 2006)
GR May***	(Appointed: 22 August 2008)
R Kimotho	(Appointed: 31 May 2008)
ML du Toit*	(Appointed: 31 May 2008)
AA Munda	(Resigned: 22 August 2008)
SW Lewis*	(Resigned: 31 May 2008)
UP Jani ***	(Resigned: 31 May 2008)
FN Ojiambo	(Resigned: 22 August 2008)
AD Gregory	(Resigned: 30 May 2008)
M Soundararajan**	(Resigned: 30 September 2008)

* - South African ** - Indian *** - British

5. Auditor

PricewaterhouseCoopers was appointed the auditor in the year and has indicated its willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap. 486).

6. Approval of financial statements

The financial statements were approved at a meeting of the Directors held on 6 April 2009.

BY ORDER OF THE BOARD

A. L. Mugambi
SECRETARY
6 April 2009

Statement of Directors' responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the group's profit or loss. It also requires the directors to ensure that the group keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the group and company. They are also responsible for safeguarding the assets of the group.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's profit or loss in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the company and its subsidiaries will not remain a going concern for at least twelve months from the date of this statement.

....	....
Chairman	**Director**
6 April 2009	6 April 2009

Financial Highlights – Six Year Review

	2003	2004	2005	2006	2007	2008
Assets	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Cash and balances with Central Bank of Kenya	768,867	967,113	1,389,193	1,581,064	1,971,627	6,289,827
Government and other securities	5,585,298	10,900,907	11,710,767	13,676,839	13,164,589	20,194,094
Total loans and advances	8,611,605	12,233,979	14,370,227	16,532,720	18,926,529	65,210,086
Loans and advances to banks	780,111	1,264,614	2,708,513	1,479,696	2,224,009	20,548,781
Loans and advances to customers	7,831,494	10,969,365	11,661,714	15,053,024	16,702,520	44,661,305
Current income tax recoverable	60,508	59,542	117,710	141,210	-	351,222
Deferred income tax asset	-	-	-	-	147,614	280,722
Other assets	711,163	3,444,842	3,029,567	5,367,144	5,322,235	3,823,885
Interest in associated companies	10,043	107,095	109,533	108,889	172,191	236,770
Intangible assets - Goodwill	-	1,084,647	1,084,647	1,084,647	1,084,647	10,434,405
Other intangible assets	26,173	18,946	16,505	197,104	483,577	1,610,735
Property and equipment	624,739	975,490	1,252,092	1,647,466	1,495,241	2,296,530
Prepaid operating lease rentals	31,950	36,109	31,953	31,579	75,702	34,023
Investment properties	-	-	-		418,829	366,500
Total assets	**16,430,346**	**29,828,670**	**33,112,194**	**40,368,662**	**43,262,781**	**111,128,799**
Equity and Liabilities						
Equity	3,138,848	3,037,134	3,976,458	5,610,317	6,012,969	19,247,973
Liabilities						
Total Deposits	11,089,771	15,153,743	17,588,785	20,846,309	22,070,935	73,071,678
Deposits from banks	1,221,528	2,480,452	2,794,743	2,917,882	1,972,975	11,096,605
Deposits from customers	9,868,243	12,673,291	14,794,042	17,928,427	20,097,960	61,975,073
Current taxation	25,235	50,489	58,589	119,419	32,065	257,033
Other liabilities	2,158,374	10,889,992	10,410,033	12,729,105	14,338,048	16,359,850
Derivative liabilities	-	-	-		-	55,383
Borrowings	-	623,000	952,412	926,502	693,842	2,080,161
Deferred taxation	18,118	74,382	125,917	137,010	114,922	56,721
Total equity and liabilities	**16,430,346**	**29,828,670**	**33,112,194**	**40,368,662**	**43,262,781**	**111,128,799**

Figures included in the six year review have been reclassified where necessary to provide a meaningful comparison of performance over the period

Financial Highlights – Six Year Review (continued)

	2003 Shs'000	2004 Shs'000	2005 Shs'000	2006 Shs'000	2007 Shs'000	2008 Shs'000
Interest income	1,103,918	1,450,494	2,401,525	3,025,201	3,599,308	5,804,824
Interest expense	(311,687)	(337,076)	(881,876)	(1,009,394)	(1,331,113)	(2,087,294)
Non interest revenue	1,639,975	2,426,689	3,343,829	4,661,191	2,374,590	3,345,908
Credit impairment charges	(115,248)	(75,143)	(91,764)	(171,966)	(318,103)	(859,959)
Operating expenditure	(1,779,197)	(2,602,180)	(3,935,838)	(5,159,589)	(3,009,287)	(4,952,288)
Share of (loss) / profit in associated companies	(7,795)	17,912	29,503	21,469	37,524	71,165
Profit before tax	**529,966**	**880,896**	**865,879**	**1,366,912**	**1,352,919**	**1,322,356**
Income tax expense	(114,858)	(215,442)	(313,388)	(426,772)	(428,202)	(475,763)
Profit for the year	**415,108**	**665,454**	**552,491**	**940,140**	**924,717**	**846,593**
Selected ratios						
Return on equity (%)	13.22%	21.91%	13.89%	16.76%	15.38%	4.39%
Return on assets (%)	2.53%	2.23%	1.67%	2.33%	2.14%	0.76%
Non interest income to total income (%)	59.77%	62.59%	58.20%	60.64%	39.75%	36 56%
Cost to income ratio(%)	-73.15%	-73.50%	-80.93%	-77.27%	-84%	-86%

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 15 to 74. These financial statements comprise the consolidated balance sheet at 31 December 2008 and the consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, together with the balance sheet of the company standing alone as at 31 December 2008 and the statement of changes in equity 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 financial statements in accordance with International Financial Reporting Standards, and with the requirements of the Kenyan Companies Act. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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. These 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 the disclosures in the financial statements. The procedures selected depend on the auditor's judgement including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 company's internal control. An audit also includes evaluating the appropriateness of the 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 affairs of the group and of the company at 31 December 2008 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm 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 company, so far as appears from our examination of those books;
- the company's balance sheet and profit and loss account are in agreement with the books of account.

PRICEWATERHOUSECOOPERS

Certified Public Accountants
Nairobi
22 April 2009

Consolidated and Company Balance Sheet

	Note	Group 2008 Shs'000	Group 2007 Shs'000	Company 2008 Shs'000	Company 2007 Shs'000
Assets					
Cash and balances with Central Bank of Kenya	19	6,289,827	1,971,627	14,828	1,777,462
Pledged assets	20	2,395,000	-	-	-
Financial investments - trading assets	21	2,548,214	586,013	-	-
Financial investments - available-for-sale	22	15,250,880	12,578,576	-	4,760,800
Loans and advances	23	65,210,086	18,926,529	-	18,394,422
Loans and advances to banks		20,548,781	2,224,009	-	1,691,902
Loans and advances to customers		44,661,305	16,702,520	-	16,702,520
Balances due from group companies		-	-	888,406	-
Other assets	24	3,823,885	5,322,235	37,459	1,362,021
Investment in subsidiaries and associates	25	236,770	172,191	14,890,349	698,332
Property and equipment	26	2,296,530	1,495,241	11,810	608,806
Investment properties	27	366,500	418,829		-
Prepaid operating lease	28	34,023	75,702	-	75,000
Intangible assets - goodwill	30	10,434,405	1,084,647	-	-
Other intangible assets	29	1,610,735	483,577	-	240,814
Current tax recoverable		351,272	-	149,871	-
Deferred tax asset	36	280,722	147,614	-	103,007
Total assets		**111,128,799**	**43,262,781**	**15,992,723**	**28,020,664**
Equity and liabilities					
Equity		**19,247,973**	**6,012,969**	**14,997,216**	**3,339,033**
Equity attributable to company's equity holders		**18,531,146**	**5,160,155**	**14,997,216**	**3,339,033**
Ordinary share capital	31	1,368,421	780,000	1,368,421	780,000
Ordinary share premium	31	13,586,847	669,420	13,586,847	669,420
Revenue reserves		2,738,554	2,636,622	41,948	1,657,163
Other reserves	41	837,324	1,074,113	-	232,450
Minority interest		716,827	852,814	-	-
Liabilities		**91,880,826**	**37,249,812**	**995,507**	**24,681,631**
Derivative liabilities	32	55,383	-	-	-
Deposits and current accounts	33	73,071,678	22,070,935	-	22,792,566
Deposits from banks		11,096,605	1,972,975	-	1,972,975
Deposits from customers		61,975,073	20,097,960	-	20,819,591
Borrowings	34	2,080,161	693,842	700,000	800,000
Other liabilities	35	16,359,850	14,338,048	34,577	1,049,598
Balances due to group companies		-	-	251,090	2,081
Current income tax payable		257,033	32,065	9,840	37,386
Deferred tax liability	36	56,721	114,922	-	-
Total equity and liabilities		**111,128,799**	**43,262,781**	**15,992,723**	**28,020,664**

The financial statements on pages 15 to 74 were approved for issue by the Board of Directors on 6 April 2009 and signed on its behalf by:

C. M. Njonjo
Chairman

K. Mbathi
Managing Director

G. R. May
Director

A. L. Mugambi
Secretary

Consolidated Income Statement

		Group	
		2008	2007
	Note	Shs'000	Shs'000
Net interest income		3,717,530	2,268,195
Interest income	6	5,804,824	3,594,308
Interest expense	7	(2,087,294)	(1,331,113)
Non-interest revenue		2,193,311	1,518,074
Net fee and commission revenue		1,363,048	883,379
Fee and commission revenue	8	1,390,074	897,442
Fee and commission expense	9	(27,026)	(14,063)
Trading revenue	10	814,067	540,491
Other revenue	11	16,196	94,704
Income from associates	25	71,165	37,524
Insurance underwriting income	12	1,152,597	856,516
Total income		**7,134,603**	**4,680,309**
Credit impairment charges	13	(859,959)	(318,103)
Impairment loss on available-for-sale securities		(226,622)	-
Income after credit impairment charges		6,048,022	4,362,206
Operating expenses		(4,725,666)	(3,009,287)
Staff costs	14	(1,819,568)	(1,172 801)
Other operating expenses	15	(2,906,098)	(1,836,486)
Profit before taxation		**1,322,356**	**1,352,919**
Income tax expense	16	(475,763)	(428,202)
Profit attributable to ordinary shareholders		**846,593**	**924,717**
Attributable to: Minority interest		94,414	154,785
Equity holders of the parent		752,179	769,932
Earnings per share - basic and diluted (Shs)	17	3.35	4.94

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Capital reserve	Statutory reserve	Fair value reserve	Revaluation reserve	Currency translation reserve	Revenue reserve	Equity attributed to the shareholders of the parent	Minority Interest	TOTAL
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January 2008 as previously reported	780,000	669,420	233,809	337,124	377,274	163,487	(37,581)	2,636,622	5,160,155	852,814	6,012,969
Reclassification of fair value reserves - CfC Life	-	-	-		(53,992)	53,992	-				-
As restated	780,000	669,420	233,809	337,124	323,282	217,479	(37,581)	2,636,622	5,160,155	852,814	6,012,969
Net profit for the year	-	-	-	-	-	-	-	752,179	752,179	94,414	846,593
Exchange difference arising on translation of a foreign subsidiary	-		-	-	-	-	2,621	-	2,621	(1,260)	1,361
Fair value adjustments on available-for-sale financial instruments\revaluation of property	-	-	-	-	(839,861)	31,350	-	-	(808,511)	(125,101)	(933,612)
Impairment loss on available-for-sale securities taken to income	-	-	-		197,695	-	-	-	197,695	28,927	226,622
Deferred tax on revaluation	-	-	-	-	37,326	(36,779)	-	-	547	-	547
Deferred tax on property revaluation write back	-	-	-	-	-	91,619	-		91,619	-	91,619
Total income and expenses items recognised directly in equity	**-**	**-**	**-**	**-**	**(604,840)**	**86,190**	**2,621**	**-**	**(516,029)**	**(97,434)**	**(613,463)**
Interim dividends 2008 paid	-	-	-		-	-	-	(78,000)	(78,000)	(23,299)	(101,299)
Dividend - 2007 paid	-	-	-	-	-	-	-	(78,000)	(78,000)	(78,306)	(156,306)
Issued shares on merger with SBK	588,421	12,917,427	-	-		-	-	-	13,505,848		13,505,848
Transfer from/to statutory reserves	-	-	-	299,553	-	-	-	(299,553)	-	-	-
Other revenue movements/transfers	-	-	39,562	(59,875)	-			(194,694)	(215,007)	(31,362)	(246,369)
At 31 December 2008	**7,368,421**	**13,586,847**	**273,371**	**576,802**	**(281,558)**	**303,669**	**(34,960)**	**2,738,554**	**18,531,146**	**716,827**	**19,247,973**

Consolidated Statement of Changes in Equity

	Share capital Shs'000	Share premium Shs '000	Capital reserve Shs '000	Statutory reserve Shs '000	Fair value reserve Shs '000	Revaluation reserve Shs '000	Currency translation reserve Shs '000	Revenue reserve Shs'000	Equity attributed to the share holders of the parent Shs '000	Minority Interest Shs '000	TOTAL Shs '000
At 1 January 2007	780,000	669,420	266,921	230,349	394,438	40,962	(36,611)	2,364,607	4,710,086	843,002	5,553,088
Net profit for the year	-	-	-	-	-	-	-	769,932	769,932	154,785	924,717
Exchange differences arising on translation of a foreign subsidiary	-	-	-	-	-	-	(970)	-	(970)	(19,138)	(20,108)
Fair value adjustments on available-for-sale assets	-	-	-	-	(71,156)	-	-	-	(71,156)	(44,962)	(116,118)
Property revaluation	-	-	-	-	-	176,517	-	-	176,517	-	176,517
Total income and expenses items recognised directly in equity	-	-	-	-	***(71,156)***	***176,517***	***(970)***	-	***104,391***	***(64,100)***	***40,291***
Dividend 2006 paid in 2007	-	-	-	-	-	-	-	(195,000)	(195,000)	(26,347)	(221,347)
Interim dividends 2007	-	-	-	-	-	-	-	(218,400)	(218,400)	-	(218,400)
Other revenue movements/transfers	-	-	(33,112)	106,775	-	-	-	(84,517)	(10,854)	(54,525)	(65,380)
At 31 December 2007	***780,000***	***669,420***	***233,809***	***337,124***	***323,282***	***217,479***	***(37,581)***	***2,636,622***	***5,160,155***	***652,814***	***6,012,969***

Company Statement of Changes in Equity

	Share capital Shs '000	Share premium Shs '000	Fair value reserve Shs '000	Statutory reserve Shs '000	Revenue reserve Shs '000	TOTAL Shs '000
At 1st January 2008	780,000	669,420	79,698	152,752	1,657,163	3,339,033
Net profit for the year	-	-	-	-	143,578	143,578
Fair value adjustment (available- for-sale financial assets)	-	-	(59,926)	-	-	(59,926)
Transfer from statutory reserve	-	-	-	(74,945)	74,945	-
Dividends declared – 2007	-	-	-	-	(78,000)	(78,000)
Interim dividend paid - 2008	-		-	-	(78,000)	(78,000)
Share issuance on merger with SBK	588,421	12,917,427		-	-	13,505,848
Transfer of reserves/hive down to CfC Stanbic Bank on merger	-	-	(19,772)	(77,807)	(1,677,738)	(1,775,317)
At 31 December 2008	**1,368,421**	**13,586,847**	-	-	**41,948**	**14,997,216**
At 1 January 2007	780,000	669,420	(26,627)	56,024	1,510,970	2,989,787
Net profit for the year	-	-	-		656,321	656,321
Final and interim dividends paid	-	-	-	-	(413,400)	(413,400)
Fair value and other reserves movements	-	-	106,325	96,728	(96,728)	106,325
At 31 December 2007	**780,000**	**669,420**	**79,698**	**152,752**	**1,657,163**	**3,339,033**

Consolidated cash flow statement

	Note	2008	2007
		Shs '000	Shs '000
Cash flows generated from operating activities	37 (a)	1,676,467	1,440,859
Income tax paid		(602,016)	(556,454)
Cash flow from operating activities before changes in operating assets and liabilities		**1,074,451**	**884,405**
Changes in operating assets and liabilities			
Loans and advances to customers		(6,898,170)	(1,649,496)
Other assets		2,109,272	(1,076,510)
Cash ratio requirement		883,733	(250,285)
Financial investments		(260,726)	3,418,199
Customer deposits		13,233,054	2,169,533
Line of credit		-	(304,500)
Other liabilities		(5,231,457)	706,008
Net cash generated from operating activities		***4,910,157***	***3,897,354***
Cash flow from investing activities			
Acquisition of subsidiary companies		(89,148)	-
Additions to property and equipment		(556,210)	(444,333)
Additions to intangible assets		(232,236)	(62,867)
Proceeds from the sale of equipment		7,251	12,732
Additions to investment properties		-	(152,154)
Investment in associates		(7,930)	(31,302)
Net cash used in investing activities		**(878,273)**	**(677,924)**
Cash flow from financing activities			
Dividends paid		(165,909)	(291,541)
Dividends paid to minority shareholders		(101,605)	(26,347)
Proceeds from/ (repayment of) borrowing and shareholder loan		1,386,319	(232,660)
Dividends from associates		14,571	4,923
Net cash generated from/ (utilised in) financing activities		**1,133,376**	**(545,625)**
Currency translation differences		(2,790)	(2,656)
Net increase in cash and cash equivalents		**5,162,470**	**2,671,149**
Cash acquired on merger with SBK		6,038,129	-
Cash and cash equivalents at 1 January		**3,926,992**	**1,255,843**
Cash and cash equivalents at 31 December	37 (b)	**15,127,591**	**3,926,992**

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

2. Summary of significant accounting policies

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

a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of financial instruments classified as available-for-sale, instruments held at fair value through profit or loss, investment property and property and equipment. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Interpretations effective in 2008

In 2008, the following new and revised standards and interpretations became effective for the first time.

- IFRIC 11 – IFRS 2 - Group and treasury share transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 14 – IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction
- IAS 39 and IFRS 7 – Reclassification of financial assets.

Standards, interpretations and amendments to published standards that are not yet effective

One new standard (IFRS 8 – Operating Segments) and numerous amendments to existing standards and new interpretations have been published and will be effective for the Group's accounting periods beginning on or after 1 January 2009, but the Group has not adopted any of them in 2008.

The Directors have assessed the relevance of the new standard and interpretations, and amendments to existing standards with respect to the Group's operations and concluded that they will not have any impact on the Group's financial statements, other than IFRS 8, which will result in changes to reportable segments and the information disclosed in respect of those segments and the amendments to IAS 1 - Presentation of Financial Statements, which will require non-owner changes in equity to be presented in a 'Comprehensive Statement of Income'.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of CfC Stanbic Holdings Limited and its subsidiaries; CfC Stanbic Bank Limited, CfC Stanbic Financial Services Limited, CfC Holdings Limited, CfC Investments Limited, The Heritage Insurance Company Limited (Kenya), Azali Limited, Heritage Insurance Company (T) Limited and CfC Life Assurance Limited. The financial statements have been made up to 31 December.

(i) Subsidiaries

Subsidiary undertakings, which are those entities in which the Group has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with group policies.

(ii) Associates

Associates are undertakings over which the Group has significant influence, but which it does not control.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 25).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of significant accounting policies (continued)

b) Basis of consolidation (continued)

Goodwill

Initially goodwill is measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

- reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
- recognises immediately in profit or loss any excess remaining after that reassessment.

c) Interest income and expense

Interest income and expense are recognised in the profit and loss account for all interest bearing instruments measured at amortised cost or fair value through equity using the effective interest method.

The effective interest method is one of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans and advances become impaired, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

d) Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

e) 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 Kenya Shillings, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. 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 the profit and loss account.

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 the available-for-sale reserve in equity.

(iii) Consolidation of group entities

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:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(b) income and expenses for each profit and loss account 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 expenses are translated at the dates of the transactions); and
(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

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.

f) Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity financial assets; and available-for-sale assets. Management determines the appropriate classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading.

Financial assets are designated at fair value through profit or loss when:

- doing so significantly reduces or eliminates a measurement inconsistency; or ,
- they form part of a group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

2. Summary of significant accounting policies (continued)

f) Financial assets (continued)

(ii) Loans, advances and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the short term, which are classified as held-for- trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Group to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available-for-sale.

(iv) Available-for-sale
Available-for-sale investments are those non-derivative financial assets that are not classified under any of the categories (i) to (iii) above.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date i.e. the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Loans, advances and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in the profit and loss account in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is de-recognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss account. However, interest calculated using the effective interest method is recognised in the profit and loss account. Dividends on available for sale equity instruments are recognised in the profit and loss account when the Group's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Fair values for unlisted equity securities are estimated using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

g) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, 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; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. Retail loans and advances are considered nonperforming when amounts are due and unpaid for three months. Corporate loans are analysed on a case-by-case basis taking into account breaches of key loan conditions.

(i) Assets carried at amortised cost
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on loans or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Notes (continued)

2. Summary of significant accounting policies (continued)

n) Claims
For long term insurance business, benefits are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contracts in-force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at each balance sheet date using the assumptions established at inception of the contracts.

For general insurance business, claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the balance sheet date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

o) Commissions payable and deferred acquisition costs ("DAC")
Deferred acquisition costs represent the proportion of commissions payable and other acquisition costs that relates to policies that are in force at the year end where the premium has not been earned. DAC is recognised as an asset is subsequently amortised over the life of the contracts as follows:

- for short term insurance business, DAC is amortised over the terms of the policies as premium is earned; and

- for long-term insurance contracts with fixed and guaranteed terms, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities.

p) Liability adequacy test
At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

As set out in (l) (i) above, long term insurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

q) Reinsurance contracts held
Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

r) Receivables and payables related to insurance contracts and investment contracts
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

2. Summary of significant accounting policies (continued)

f) Financial assets (continued)

(ii) Loans, advances and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the short term, which are classified as held-for- trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Group to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available-for-sale

(iv) Available-for-sale

Available-for-sale investments are those non-derivative financial assets that are not classified under any of the categories (i) to (iii) above.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date i.e. the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Loans, advances and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in the profit and loss account in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is de-recognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss account. However, interest calculated using the effective interest method is recognised in the profit and loss account. Dividends on available for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Fair values for unlisted equity securities are estimated using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

g) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, 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; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. Retail loans and advances are considered nonperforming when amounts are due and unpaid for three months. Corporate loans are analysed on a case-by-case basis taking into account breaches of key loan conditions.

(i) Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on loans or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Notes (continued)

2. Summary of significant accounting policies (continued)

g) Impairment of financial assets (continued)

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit and loss account.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statements.

(ii) Assets carried at fair value
In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account.

Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

(iii) Renegotiated loans
Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years the negotiated terms apply in determining whether the asset is considered to be past due.

h) Property and equipment
All categories of property and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. All other property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts less their residual values over their estimated useful lives, as follows:

Leasehold buildings	The shorter of the lease period or 50 years
Furniture & fittings	5 years
Motor vehicles	5 years
Laptops and personal computers	4 years
Other computer equipment	5 years
Office equipment	8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The Group assesses at each reporting date whether there is any indication that any item of property, plant and equipment is impaired. If any such indication exists, the Group estimates the recoverable amount of the relevant assets. An impairment loss is recognised 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are included in the profit and loss account. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings. Repairs and renewals are charged to the profit and loss account when the expenditure is incurred.

i) Income tax
Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax. Tax is recognised in the profit and loss account unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation.

Deferred income tax is recognised in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a

2. Summary of significant accounting policies (continued)

i) Income tax (continued)

transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet 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 profits will be available against which temporary differences can be utilised.

j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Central Bank of Kenya, Treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank of Kenya and deposits from other banks.

k) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

(i) With the Group as lessee

Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(ii) With the Group as lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before income tax), which reflects a constant periodic rate of return.

l) Classification of insurance contracts

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. The accounting policy for these contracts is described under note 2(f) to the financial statements.

Insurance contracts and investment contracts are classified into two main categories, depending on the duration of risk and as per the provisions of the Insurance Act.

(i) Long term insurance business

Includes insurance business of all or any of the following classes, namely, life assurance business, superannuation business, industrial life assurance business and bond investment business and business incidental to any such class of business.

Life assurance business means the business of, or in relation to, the issuing of, or the undertaking of liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the termination or continuance of human life (either with or without provision for a benefit under a continuous disability insurance contract), and include a contract which is subject to the payment of premiums for term dependent on the termination or continuance of human life and any contract securing the grant of an annuity for a term dependent upon human life; Superannuation business means life assurance business, being business of, or in relation to, the issuing of or the undertaking of liability under superannuation, group life and permanent health insurance policy.

(ii) General insurance business

Means insurance business of any class or classes not being long term insurance business. Classes of General Insurance include personal accident insurance (including medical).

Personal accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class.

Medical insurance means the business of affecting and carrying out contracts of insurance against costs of otherwise non-recoverable medical and surgical expenses necessarily and reasonably incurred by a member as a direct result of sustaining accidental bodily injury and/or illness and/or disease within the period of insurance subject to the policy provisions/ terms, exclusions and conditions.

m) Premium income

For long term insurance business, premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

For general insurance business, premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the balance sheet date, and is computed using the 365ths method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Notes (continued)

2. Summary of significant accounting policies (continued)

n) Claims
For long term insurance business, benefits are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contracts in-force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at each balance sheet date using the assumptions established at inception of the contracts.

For general insurance business, claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the balance sheet date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

o) Commissions payable and deferred acquisition costs ("DAC")
Deferred acquisition costs represent the proportion of commissions payable and other acquisition costs that relates to policies that are in force at the year end where the premium has not been earned. DAC is recognised as an asset is subsequently amortised over the life of the contracts as follows:

- for short term insurance business, DAC is amortised over the terms of the policies as premium is earned; and

- for long-term insurance contracts with fixed and guaranteed terms, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities.

p) Liability adequacy test
At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

As set out in (l) (i) above, long-term insurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

q) Reinsurance contracts held
Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

r) Receivables and payables related to insurance contracts and investment contracts
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

2. Summary of significant accounting policies (continued)

s) 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 profit and loss account in the year in which they fall due.

ii) Defined benefit plan

The Group operates a defined benefit fund, with membership generally limited to employees who were in the employment at specified dates.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past-service costs, experience adjustments and the effect of changes in actuarial assumptions are recognised as expenses or income in the current year to the extent that they relate to retired employees or past service.

The assets of the plan are held in a separate trustee administered fund. The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets.

t) Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date or appropriate pricing models. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the profit and loss account.

u) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

v) Offsetting

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

w) Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group; they are held on behalf of third parties.

x) Sale and repurchase agreements

Securities sold subject to re-purchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and re-purchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements.

y) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

z) Intangible assets – computer software

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 over their estimated useful lives not exceeding a period of five years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Expenditure, which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of five years.

2. Summary of significant accounting policies (continued)

aa) Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, where 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.

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 balance sheet date.

bb) Share capital
Ordinary shares are classified as equity.

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

dd) Comparatives
Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

ee) Investment property
Buildings, or part of a building, (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation and are not occupied by the Group are classified as investment property under non-current assets. Investment property is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are included in other operating income in the profit and loss account.

ff) Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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) Assessment of the acquirer in the combination of the former CfC and SBK

On 1 June 2008, CfC Bank Limited ("CfC") acquired a 100% interest in the former Stanbic Bank Kenya ("SBK") from Stanbic Africa Holdings Limited ("SAHL") and the Government of Kenya (phase 1). On the same day, SAHL acquired a 60% interest in CfC (phase 2). Details of the phases are as follows:

Phase 1 – Acquisition of SBK

CfC acquired 100% of SBK through the allotment of 117,684,211 new fully paid up shares of CfC to the existing SBK shareholders, being SAHL (holding 96.31%) and the Government of Kenya (holding 3.69%). As a result SBK became a wholly owned subsidiary of CfC, with SAHL holding 41.41% of the shares in CfC, the GoK 1.59%, and the balance by existing shareholders.

Phase 2 – Acquisition of control by SAHL

Immediately on completion of the allotment of shares contemplated in Phase 1, SAHL acquired an additional 50,868,864 CfC shares from existing shareholders at a price of Shs 115 per CfC share. The total consideration paid by SAHL to the CfC shareholders was Shs 5,849,919,360. SAHL's shareholding in CfC was increased to 60% of the revised share capital of CfC.

In identifying the acquirer at CfC Group level, the substance and economic reality of the transaction rather than the transaction's legal form was considered by management.

In terms of IFRS 3, Business Combinations, all relevant facts and circumstances are to be considered in identifying the acquirer, including, but not limited to the relative ownership interests of the owners of the combined entities. Fundamental to identifying the acquirer was the consideration of the relationship between the combining entities to determine which entity would have the power to govern the financial and operating policies of the other entity and obtain benefits from its activities.

Despite the fact that phase 1 and phase 2 of the transactions are legally linked, in our view, the identification of the acquirer at the level of the CfC sub-group (in Kenya) should be based on only the transactions that take place between CfC and SBK.

The following factors further supported the identification of CfC as the acquirer of SBK:

- CfC was the larger entity; and
- The transaction was not initiated by SBK but by the Standard Bank Group through its subsidiary SAHL.

Management has thus concluded that CfC was the acquirer.

b) 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 income statement, the Group makes judgements 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.

Retail loans are individually impaired if the amounts are past due and unpaid for three or more months. Corporate loans are analysed on a case-by-case basis taking into account breaches of key loan conditions. 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.

c) Fair value of derivatives

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.

d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(b). 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 30.

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

e) Income taxes

The Group is subject to income taxes in various jurisdictions. 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 tax provisions in the period in which such determination is made.

f) Impairment of available-for-sale assets

The Group determines that available-for-sale equity investments are impaired when there has been significant or prolonged decline in fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration of the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

4. Segmental reporting

The Group is currently organised into two major divisions - Banking and related services and Insurance. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Banking and related services - Taking deposits, lending to customers and provision of financial, advisory and stock broking services.
- Insurance - Insuring risks for all classes of insurance business.

(a) Primary reporting format - business segments

	Banking and Related Services		Insurance		Group	
	2008	2007	2008	2007	2008	2007
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Income	4,807,665	2,482,538	2,326,938	2,197,771	7,134,603	4,680,309
Expenditure	(3,960,352)	(1,777,274)	(1,851,895)	(1,550,116)	(5,812,247)	(3,327,390)
Profit before tax	847,313	705,264	475,043	647,655	1,322,356	1,352,919
Taxation	(305,823)	(240,441)	(169,940)	(187,761)	(475,763)	(428,202)
Profit after taxation	**541,490**	**464,823**	**305,103**	**459,894**	**846,593**	**924,717**
Assets	**96,304,289**	**30,220,060**	**14,824,510**	**13,042,721**	**111,128,799**	**43,262,781**
Goodwill	10,434,405	1,084,647	-		10,434,405	1,084,647
Liabilities	(73,808,364)	(25,812,756)	(18,072,462)	(11,437,056)	(91,880,826)	(37,249,812)
Impairment of financial assets	-	-	226,622	-	226,622	-
Credit impairment for loans and advances	859,959	318,103	-	-	859,959	318,103
Capital expenditure	554,780	213,106	233,666	294,094	788,446	507,200
Depreciation and amortisation	305,790	142,163	125,682	57,405	431,472	199,568

4. Segmental reporting (continued)

(b) Secondary reporting format - geographical segments

The Group's operations are located in Kenya and Tanzania. The Tanzanian subsidiary contributes over 14% of the Group's consolidated income.

		Kenya		Tanzania		Group
	2008	2007	2008	2007	2008	2007
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Income	6,622,431	4,200,304	512,172	480,005	7,134,603	4,680,309
Expenditure	(5,456,278)	(2,955,004)	(355,969)	(372,386)	(5,812,247)	(3,327,390)
Profit before tax	1,166,153	1,245,300	156,203	107,619	1,322,356	1,352,919
Taxation	(439,013)	(402,582)	(36,750)	(25,620)	(475,763)	(428,202)
Profit after taxation	**727,140**	**842,718**	**119,453**	**81,999**	**846,593**	**924,717**
Assets	**108,828,796**	**41,045,133**	**2,300,003**	**2,217,648**	**111,128,799**	**43,262,781**
Goodwill	10,434,405	1,084,647	-	-	10,434,405	1,084,647
Liabilities	(90,036,710)	(35,383,093)	(1,844,116)	(1,866,719)	(91,880,826)	(37,249,812)
Impairment of financial assets	226,622		-	-	226,622	-
Credit impairment for loans and advances	859,959	318,103	-	-	859,959	318,103
Capital expenditure	755,938	507,200	32,508	-	788,446	507,200
Depreciation and amortisation	421,634	192,823	9,838	6,745	431,472	199,568

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 risk
- Operational risk.

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 or 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 balance sheet, 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 or respective insurance regulators.

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. During 2008, the company maintained a gearing ratio between 4.4% and 4.8%. The company underwent major transformation from a Banking Institution to a non-Bank and a comparison to year 2007 may be misleading and has not been provided.

	2008
	Shs'000
Total borrowings	700,000
Less: cash and cash equivalents	(14,828)
Net debt	685,172
Total equity	14,997,216
Total capital	15,682,388
Gearing ratio	**4.37%**

5. Financial risk management (continued)

a) Capital management (continued)

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, Insurance Regulatory Authority and the Nairobi Stock Exchange. This section presents information about the Group's management of capital in the main operating divisions.

Capital management - Banking division

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:

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

The Bank monitors the adequacy of its capital using ratios established by the Central Bank of Kenya (CBK), which ratios are broadly in line with those for the Bank for International Settlements (BIS). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet 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 core capital (tier 1) of not less than 8% of total risk weighted assets plus risk weighted off-balance sheet 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 12% of its total risk adjusted assets plus risk adjusted off balance sheet 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 balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

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

	2008	2007
	Shs'000	**Shs'000**
Tier 1 capital (Core capital)		
Share capital	2,441,375	780,000
Share premium	534,118	669,420
Retained earnings	2,976,461	1,657,163
Total Tier 1 capital	**5,951,954**	**3,106,583**
Tier 2 capital		
Statutory credit risk reserve	422,281	152,752
Subordinated debt	1,264,200	560,000
Total Tier 2 capital	**1,686,481**	**712,752**
Total capital (Tier 1 + Tier 2)	**7,638,435**	**3,819,335**
Risk weighted assets		
On-balance sheet	47,565,618	19,925,611
Off- balance sheet	4,584,402	37,552
Total risk weighted assets	**52,150,020**	**19,963,163**

Notes (continued)

5. Financial risk management (continued)

Capital management - Banking division (continued)

Core capital / total risk weighted assets	11.41%	15.00%
Minimum regulatory requirement	8.00%	8.00%
Total capital / total risk weighted assets	14.65%	19.00%
Minimum regulatory requirement	12.00%	12.00%

Capital management - Insurance division

The insurance division is regulated through and complies with the Insurance Act, Companies Act and Insurance Regulatory Authority. The objectives when managing capital are to:

- comply with the capital requirements as set out in the Insurance Act;
- comply with regulatory solvency requirements as set out in the Insurance Act.
- safeguard the companies' ability to continue as going concerns, so that they can continue to provide returns to shareholders and benefits for other stakeholders; and
- provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

The Insurance Act requires each insurance company to hold a minimum level of paid up capital as follows;

	Regulatory	CfC Life	Heritage Insurance
	Shs' 000	Shs' 000	Shs' 000
General insurance business	100,000	240,000	450,000
Long-term insurance business	50,000	372,340	50,000

General insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent to the higher of Shs 10 million or 15% of the net premium income during the preceding financial year.

Long-term insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent to the higher of Shs 10 million or 5% of total admitted liabilities.

The solvency margin of the companies as at 31 December 2008 is illustrated below:

	Long-term business	Short-term business	Long-term business	Short-term business
	2008	2008	2007	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Admitted assets	8,787,889	2,454,224	9,726,298	2,414,931
Admitted liabilities	8,196,945	2,130,954	8,739,976	2,031,499
Solvency margin	590,944	323,270	986,322	383,432
Required margin	409,847	267,640	451,268	123,533

	Long-term business	Short-term business	Long-term business	Short-term business
	2008	2008	2007	2007
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Admitted assets	1,396,353	1,954,110	1,414,778	1,890,408
Admitted liabilities	(1,311,320)	(1,764,221)	(1,129,387)	(1,642,791)
Solvency margin	85,033	189,889	285,391	247,617
Required margin	69,818	163,827	70,739	122,700

5. Financial risk management (continued)

Capital management - Insurance division (continued)

The Group has short term insurance operations in Tanzania and is subject to Tanzania local regulations. A brief solvency regulatory compliance is shown below (converted to Kshs).

	2008	2007
	Shs' 000	Shs' 000
Admitted assets	1,269,675	1,035,085
Admitted liabilities	944,039	835,186
Solvency Margin	325,636	199,899
Required margin	108,820	98,798

b) Credit risk management

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

Exposure to credit risk is managed through regular analysis of the ability of borrower and potential borrowers to meet all payment obligations and by aligning credit 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.

The Group takes on exposure to credit risk, which is the risk that a counter-party will cause a financial loss for the Group by failing to discharge an obligation in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet 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 balance sheet date.

		Group		Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Balances with Central Bank	2,984,413	1,439,324	-	1,439,324
Loans and advances to banks	20,548,781	2,224,009	14,828	1,691,902
Loans and advances to customers	44,661,305	16,702,520	-	16,702,520
Government and other trading securities	20,194,094	13,164,589	-	4,760,800
Other assets	3,006,463	4,852,241	37,459	892,027
Total recognised financial instruments	**91,395,056**	**38,382,683**	**52,287**	**25,486,573**
Off-balance sheet items	21,538,203	4,399,719	-	4,399,719
Total credit risk exposure	**112,933,259**	**42,782,402**	**52,287**	**29,886,292**

		Group		Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Neither past due nor impaired	102,958,945	37,883,822	52,287	25,485,535
Past due but not impaired	6,862,110	3,062,524	-	2,653,825
Impaired	3,112,204	1,836,056	-	1,746,932
Total	**112,933,259**	**42,782,402**	**52,287**	**29,886,292**

5. Financial risk management (continued)

b) Credit risk management (continued)

Each subsidiary (operating division) is required to implement the Group credit policies in line with credit approval authorities delegated. Management therefore carefully manages its exposure to credit risk as indicated in the ensuing paragraphs.

Credit risk management - Banking division

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

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

(i) Management reporting

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

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

These reports are distributed to Standard Bank Group controlling divisions, regulators and are available for inspection by authorised personnel.

(ii) Credit risk measurement

Loans and advances

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

- the 'probability of default' by the client or counterparty on its contractual obligations;
- current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'; and
- the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss (the 'expected loss model') and are required by the Basel Committee on Banking Regulations and the Supervisory Practices are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed by the Standard Bank Group and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into five rating classes. The Bank's rating scale reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the ratings and their predictive power with regard to default events.

Collateral

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

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

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

Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

5. Financial risk management (continued)

(ii) Credit risk measurement (continued)

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

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

(iii) 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 balance sheet 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 are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment provision shown in the balance sheet 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 gradings (doubtful and loss categories).

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

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

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

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

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

- Corporate and Investment Banking
- Personal and Business Banking

A diverse range of performance analysis techniques are applied across product sets in recognition of differing asset and maturity profiles.

Defaulting accounts receive prompt attention and in instances where loss is anticipated, they are handled centrally by rehabilitation and recoveries resources within the credit department.

(v) Maximum exposure to credit risk before collateral held or other credit enhancements
The table below shows the maximum exposure to credit risk by class of financial instruments. Financial instruments include financial instruments defined and recognised under IAS 39 as well as other financial instruments not recognised. The maximum exposure is shown gross, before the effect of mitigation through the use of master-netting and collateral agreements.

The below table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2008 and 2007, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

	2008	**2007**
	Shs' 000	**Shs' 000**
Balances with Central Bank	2,984,474	1,439,324
Loans and advances to banks	20,444,947	1,691,902
Loans and advances to customers	44,204,538	16,702,250
Government and trading securities	11,131,839	4,760,800
Other assets	896,750	941,922
Total recognised financial instruments	**79,662,548**	**25,536,198**
Off balance sheet items	21,538,203	4,399,719
Total credit risk exposure	**101,200,751**	**29,935,917**

Notes (continued)

5. Financial risk management (continued)

Credit related commitments (continued)

As shown in the table on the previous page, 82% of the total recognised credit risk exposure is derived from loans and advances to banks and customers (2007: 60%); 14% represents investments in debt securities (2007: 16%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- 93% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2007: 78%);
- Mortgage loans, are backed by collateral;
- 80% of the loans and advances portfolio are considered to be neither past due nor impaired (2007: 90%);
- 97% of all debt securities, which the bank has invested in, are issued by the Central Bank of Kenya.

(vi) Valuation of collateral

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

(vii) Credit quality

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 table below summaries the credit quality in terms of maturity.

	2008	2007
	Shs' 000	Shs' 000
Neither past due nor impaired	36,555,481	13,045,630
Past due but not impaired	6,370,660	2,653,825
Impaired	2,965,625	1,746,932
Gross	**45,891,766**	**17,446,387**

Notes (continued)

5. Financial risk management (continued)

Credit related commitments (continued)

(viii) Collateral repossessed

Assets repossessed during the year comprise saloon vehicles, prime movers and trailers, which had been financed by the Bank under Vehicle and Asset Finance (VAF). It is the Bank's policy to dispose of repossessed properties on the open market, at fair market value. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

(ix) Concentration of credit risk

Concentration of credit risk is managed by industry sector. An analysis of concentration of credit risk as at the reporting date is shown below:

	2008			2007
	Shs '000	**%**	**Shs '000**	**%**
Agriculture	7,193,736	16%	1,022,340	6%
Manufacturing	6,369,456	14%	2,940,659	17%
Wholesale and retail trade	85,232	0%	2,263,174	13%
Transport and communication	7,342,940	16%	3,140,504	18%
Real estate and other related services	2,784,561	6%	284,146	2%
Social community and personal services	9,861,592	21%	315,656	2%
Electricity and water	1,839,510	4%	45,893	0%
Business services	9,323,793	20%	4,007,125	23%
Other	1,090,945	2%	3,426,890	20%
Total	**45,891,765**	**100%**	**17,446,387**	**100%**

Credit risk management - Insurance division

The Group has exposure to credit risk, which is the risk that a counter-party will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- Insurance receivables;
- Reinsurance receivables; and
- Reinsurers' share of insurance liabilities.

Other areas where credit risk arises include cash at bank, corporate bonds and deposits with banks and other receivables. The company has no significant concentrations of credit risk. The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counter party, or groups of counter-parties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. The exposure to individual counter parties is also managed by other mechanisms, such as the right of offset where counter-parties are both debtors and creditors of the Group. Management information reported to the Group includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal audit makes regular reviews to assess the degree of compliance with the Group's procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency.

Where there exists significant exposure to individual policyholders or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Group's underwriting department.

The amount that best represents the insurance companies' maximum exposure to credit risk at 31 December 2008 is made up as follows:

5. Financial risk management (continued)

	2008	2007
	Shs '000	Shs '000
Reinsurance receivables	102,167	161,709
Insurance receivables	756,858	796,906
Reinsurers' share notified claims	1,266,935	1,281,828
Government securities held-to-maturity	2,931,387	2,907,361
Government securities available-for-sale	2,438,859	2,159,385
Deposits with financial institutions	1,002,757	818,342
Corporate bonds	420,681	407,305
Commercial paper	91,780	155,933
Mortgage loans	1,517,880	1,496,007
Other receivables	224,245	269,025
Cash at bank	519,377	398,046
Investment in the Kenya Motor Insurance Pool	2,571	29,698
Total	**11,275,497**	**10,881,545**

All mortgage loans have the property secured as collateral while policy loans have the cash value of the policy secured as collateral. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

None of the above assets are past due or impaired except for insurance receivables (which are due upon invoicing)

Insurance receivables are summarised as follows:

	2008	2007
	Shs '000	Shs '000
Neither past due nor impaired	265,408	388,207
Past due but not impaired	491,450	408,699
Impaired	146,579	89,124
Gross	903,437	886,030
Less: allowance for impairment	(146,579)	(89,124)
Net	**756,858**	**796,906**

	2008	2007
	Shs '000	Shs '000
Past due but not impaired:		
by up to 30 days	73,703	87,149
- by 31 to 60 days	41,448	88,767
- by 61 to 150 days	75,474	197,247
- by 151 to 360 days	300,825	35,536
Total past due but not impaired	**491,450**	**408,699**

All receivables past due by more than 360 days are considered to be impaired, and are carried at their estimated recoverable value.

5. Financial risk management (continued)

c) Market risk management

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Board of Directors at each subsidiary have the responsibility of effectively managing the market risk in compliance with the Group's market risk framework. Further details per main operating divisions are disclosed separately in this section.

Market risk management - Banking division

Market risk measurement techniques:

As part of the management of market risk, the Bank's major measurement technique is value at risk.

The Bank applies 'value at risk' methodology (VAR) to its trading and non-trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The ALCO sets limits on the value of risk that may be acceptable for the Bank, which are monitored on a daily basis by the Head of Risk.

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (98%). There is therefore a specified statistical probability (2%) that actual loss could be greater than the VAR estimate.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the Board annually for all trading non-trading portfolios. Actual exposure against limits, together with a Bank-wide VAR, is reviewed daily by the Bank's Treasury.

(i) Foreign exchange risk

The quality of the VAR model is continuously monitored by back-testing the VAR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated.

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

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

Currency	Increase in currency rate in %	Effect on profit before tax	Effect on profit after tax	Increase in currency rate in %	Effect on profit before Tax	Effect on profit after tax
	2008	2008	2008	2007	2007	2007
		Shs '000	Shs '000		Shs '000	Shs '000
USD	23	592,031	414,422	5	(27,075)	(18,952)
GBP	10	10,325	7,228	5	(994)	(696)
EUR	20	10,301	7,210	5	5,514	3,860
Others	13	(3,575)	(2,503)	5	6,634	4,644

Currency	Decrease in currency rate in %	Effect on profit before tax	Effect on profit after tax	Decrease in currency rate in %	Effect on profit before Tax	Effect on profit after tax
	2008	2008	2008	2007	2007	2007
		Shs '000	Shs '000		Shs '000	Shs '000
USD	23	(592,031)	(414,422)	5	27,075	18,952
GBP	10	(10,325)	(7,228)	5	994	696
EUR	20	(10,301)	(7,210)	5	(5,514)	(3,860)
Others	13	3,575	2,503	5	(6,634)	(4,644)

5. Financial risk management (continued)

(ii) Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Asset and Liability Committee (ALCO) sets limits on the level of mis-match of interest rate repricing that may be undertaken, which is monitored daily.

Furthermore the ALCO monitors the sensitivity of net interest income to changes in interest rates. Limits are set and monitored monthly.

Currency	Increase in basis points	Sensitivity of net interest income	Decrease in basis points	Sensitivity of net interest income
	2008	2007	2008	2007
		Shs '000		Shs '000
Shs	200	14,700	200	18,192
Others	75	75	75	(11,240)

Market risk management – Insurance division

(i) Foreign exchange risk

The Group invests offshore and underwrites some policies contracted in US dollars. This exposes the Group to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign currencies.

The Group manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities using forward contracts, but has not designated any derivative instruments as hedging instruments.

At 31 December 2008, if the Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the insurance companies' post tax profit for the year would have been Shs 7,569,214 (2007: Shs 13,000,000) higher/lower, mainly as a result of US dollar investments and bank balances.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments in quoted classified as available-for-sale. To manage its price risk arising from investments in equity and debt securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Group and the Insurance Act. All quoted shares held by the insurance companies are traded on the Nairobi Stock Exchange (NSE) or the Dar es Salaam Stock Exchange (DSE).

At 31 December 2008, if the NSE Index had increased/decreased by 5% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation to the index, equity would have been Shs 86,091,517 (2007: Shs 78,696,000) higher/lower.

(iii) Cash flow and fair value interest rate risk

Fixed interest rate financial instruments expose the Group to fair value interest rate risk. Variable interest rate financial instruments expose the Group to cash flow interest rate risk. The Group's fixed interest rate financial instruments are government securities and deposits with financial institutions. The Group's variable interest rate financial instruments are quoted corporate bonds.

No limits are placed on the ratio of variable rate financial instruments to fixed rate financial instruments. The Group manages its cash flow interest rate risk by diversification of its portfolio mix. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in interest rate will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. The level of the reduction of the level of interest rate that will trigger an adjustment is an interest rate of 1 % (2007: 1 %). Investment contracts with fixed and guaranteed terms, government securities and deposits with financial institutions held- to-maturity are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of interest rates.

d) Liquidity risk management

Liquidity risk is the risk that the Group and/or its subsidiaries are unable and or will encounter difficulty in meeting obligations from financial liabilities (meet its payment obligations associated with its financial liabilities) when they fall due. The consequence may be the failure to meet obligations to repay depositors, supplier commitments and fulfil commitments to lend. The Board of Directors at each operating entity (subsidiaries) are responsible for the management of liquidity risk within the business units in compliance with the Group risk framework.

5. Financial risk management (continued)

Liquidity risk management – 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.

	2008	2008	2008	
	Up to 1 month	1 – 6 Months	6 – 12 Months	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Cash and bank balances	14,828	-	-	14,828
Other assets	37,459	-	-	37,459
Balances due from Group companies		-	888,406	888,406
Total assets	**52,287**	**-**	**888,406**	**940,693**
Borrowings	-	-	700,000	700,000
Other liabilities	34,577	-	-	34,577
Balances due to Group companies	-	-	251,090	251,090
Total liabilities	**34,577**	**-**	**951,090**	**985,667**
Net liquidity gap	**(17,710)**	**-**	**(62,684)**	**(44,974)**

	2007	2007	2007	2007	2007	
	Up to 1 month	1 – 6 Months	6 – 12 Months	1 - 5 Years	Over 5 Years	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cash and bank balances	1,537,965	210,727	25,070	3,700	-	1,777,462
Government securities	984,950	410,700	145,100	1,517,700	1,702,350	4,760,800
Loans to banks	1,307,455	152,852	-	-	-	1,460,307
Loans to customers	6,072,850	1,731,720	997,481	7,754,722	145,747	16,702,520
Other assets	-	481,715	485,419	394,889	-	1,362,023
Balances due from group companies	-	231,595		-	-	231,595
Total assets	**9,903,220**	**3,219,309**	**1,653,070**	**9,671,011**	**1,848,097**	**26,294,707**
Customer deposits	17,075,061	3,294,702	391,975	57,853	-	20,819,591
Deposits and Balances from banks	1,730,388	242,587	-	-	-	1,972,975
Borrowings	-	-	-	400,000	400,000	800,000
Balance due to group companies	2,081	-	-	-	-	2,081
Other liabilities	130,367	916,235	2,609	385	-	1,049,596
Total liabilities	**18,937,897**	**4,453,524**	**394,584**	**458,238**	**400,000**	**24,644,243**
Net liquidity gap	**(9,034,677)**	**(1,234,215)**	**1,258,486**	**9,212,773**	**1,448,097**	**1,650,464**

5. Financial risk management (continued)

Liquidity risk management – Banking division

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Asset and Liability Committee sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow; Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and managing the concentration and profile of debt maturities;
- Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets;
- Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The table below presents the cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

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 banks; and loans and advances to customers. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

The table below presents the cash flows receivable and payable by the bank under financial assets and liabilities by remaining contractual maturities at the balance sheet date.

	2008 Up to 1 month Shs'000	2008 1 – 6 Months Shs'000	2008 6 – 12 Months Shs'000	2008 1 - 5 Years Shs'000	2008 Over 5 Years Shs'000	Total Shs'000
Financial assets						
Cash and balances with Central Bank	2,063,842	-	-	-	2,539,847	4,603,689
Government securities	102,456	1,057,973	2,017,940	8,753,042	3,118,917	15,050,328
Loans and advances to banks	17,853,566	2,373,023	231,794	-	-	20,458,383
Loans and advances to customers	14,636,810	2,691,001	3,702,138	20,332,514	9,490,663	50,853,126
	34,656,674	**6,121,997**	**5,951,872**	**29,085,556**	**15,149,427**	**90,965,526**
Financial liabilities						
Contractual amounts payable on derivatives	4,246,637	-	-		-	4,246,637
Deposits from banks	10,790,718	304,883	-	5,000	-	11,100,601
Deposits from customers	57,712,123	3,968,913	340,268	890	-	62,022,194
Subordinated bonds	19,686	42,403	62,089	1,977,251	-	2,101,429
Other Liabilities	2,115,242	-	-	-	-	2,115,242
Total recognised financial instruments	**74,884,406**	**4,316,199**	**402,357**	**1,983,141**	**-**	**81,586,103**
Net liquidity gap	**(40,227,732)**	**1,805,798**	**5,549,515**	**27,102,415**	**15,149,427**	**9,379,423**

5. Financial risk management (continued)

Liquidity risk management – Banking division (continued)

	2007 Up to 1 month Shs'000	2007 1 – 6 Months Shs'000	2007 6 – 12 Months Shs'000	2007 1 - 5 Years Shs'000	2007 Over 5 Years Shs'000	Total Shs'000
ASSETS						
Cash and balances with Central Bank of Kenya	1,537,965	210,727	25,070	3,700		1,777,462
Government securities	984,950	410,700	145,100	1,517,700	1,702,350	4,760,800
Loans and advances to banks	1,307,455	152,852	-	-	-	1,460,307
Loans and advances to customers	6,072,850	1,731,720	997,481	7,754,722	145,747	16,702,520
Other assets	-	481,715	485,419	394,889		1,362,023
Balances due from group companies	-	231,595	-	-	-	231,595
Total assets	**9,903,219**	**3,219,309**	**1,653,071**	**9,671,011**	**1,848,097**	**26,294,707**
LIABILITIES						
Customer deposits	17,075,061	3,294,702	391,975	57,853	-	20,819,591
Deposits and balances from banks	1,730,388	242,587	-	-	-	1,972,975
Floating interest rate note		-	-	400,000	400,000	800,000
Balance due to group companies	2,081	-	-	-	-	2,081
Other liabilities	130,367	916,235	2,609	385	-	1,049,596
Total liabilities	**18,937,897**	**4,453,524**	**394,584**	**458,238**	**400,000**	**24,644,243**
Net liquidity gap	**(9,034,678)**	**(1,234,215)**	**1,258,487**	**9,212,773**	**1,448,097**	**1,650,464**

Liquidity risk management – Insurance division

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The table below presents the cash flows receivable and payable by the insurance companies under financial assets and liabilities by remaining maturities at the balance sheet date.

	1- 3 months Shs'000	3 – 12 Months Shs'000	1 - 5 Years Shs'000	Over 5 Years Shs'000	Total Shs'000
As at 31 December 2008					
Liabilities					
Insurance contract liabilities	221,107	1,506,494	488,349	2,432,258	4,648,208
Payable under deposit administration contracts	186,917	685,362	3,215,927	2,142,365	6,230,571
Outstanding claims	145,491	-	-	-	145,491
Creditors arising from reinsurance arrangements	31,705	3,318,232	-	-	3,349,937
Other payables	743,749	1,888	4,173	905	750,715
Total financial liabilities	**1,328,969**	**5,511,976**	**3,708,449**	**4,575,528**	**15,124,922**
As at 31 December 2007					
Insurance contract liabilities	1,086,291	2,130,887	1,670,403	1,331,069	6,218,650
Payable under deposit administration contracts	868,325	528,377	1,677,578	673,087	3,747,367
Creditors arising from reinsurance arrangements	-	23,564	337,797	-	361,361
Other payables	155,683	485,413	1,728	630	643,454
Total financial liabilities	**2,110,299**	**3,168,241**	**3,687,506**	**2,004,786**	**10,970,832**

5. Financial risk management (continued)

Liquidity risk management – Insurance division (continued)

Long-term insurance and deposit administration contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated surrenders before the contractual maturity dates. In addition, the company invests only a limited proportion of its assets in investments that are not actively traded. The companies' listed securities are considered readily realisable, as they are actively traded on the Nairobi Stock Exchange and the Dar es Salaam Stock Exchange.

e) Management of insurance and financial risk for Insurance division

General and Life Insurance divisions

The Group's activities expose it to a variety of risks, including insurance risk, financial risk, credit risk, and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the identification and management of risks and seeks to minimises potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place which help manage liquidity, and seek to maximize return within an acceptable level of interest rate risk.

This section summarises the way the Group manages key insurance specific risks;

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The following tables disclose the concentration of insurance liabilities by the class of business in which the contract holder operates and by the maximum insured loss limit included in the terms of the policy. The amounts are the carrying amounts of the insurance liabilities (gross and net of re-insurance) arising from insurance contracts.

5. Financial risk management (continued)

e) Management of insurance and financial risk for Insurance division (continued)

		Shs 0m –15m	Shs 15m –250m	Shs 250m –1,000m	Total
General insurance business		**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Personal accident	Gross	11,207,854	21,094,586	-	32,320,440
	Net	16,874,816	20,967,819	-	37,842,635
Motor	Gross	20,636,951	6,909,275	-	27,546,226
	Net	19,433,571	2,939,548	-	22,373,119
Fire	Gross	35,049,844	86,870,194	92,075,609	213,995,647
	Net	34,085,971	38,584,965	10,271,843	82,942,779
Other	Gross	12,706,285	9,922,652	121,833,838	144,462,775
	Net	8,331,207	8,584,729	833,663	17,749,599
Life assurance business					
Ordinary life	Gross	24,337,686	1,467,193	-	25,804,879
	Net	13,618,651	1,393,193	-	15,011,844
Group life	Gross	14,000,226	19,671,904	-	33,672,130
	Net	2,911,326	17,020,531	-	19,931,857
Total	**Gross**	**117,938,846**	**145,935,804**	**213,909,447**	**477,784,097**
	Net	**95,255,542**	**89,490,785**	**11,105,506**	**195,851,833**

		Shs 0m –15m	Shs 15m – 250m	Shs 250m –1,000m	Total
General insurance business		**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Personal accident	Gross	28,399,455	14,137,878	15,926,371	58,463,704
	Net	22,275,695	13,833,877	15,926,371	51,985,943
Motor	Gross	17,700,776	4,456,283	3,260,174	25,417,233
	Net	17,423,340	1,235,906	1,284,877	19,944,123
Fire	Gross	4,272,032	39,273,305	352,121,122	395,666,459
	Net	4,207,803	26,261,989	8,408,892	38,878,684
Other	Gross	7,627,553	19,930,046	141,229,298	168,786,897
	Net	6,630,985	8,415,068	8,758,810	23,804,863
Life assurance business					
Ordinary life	Gross	18,093,806	954,845	-	19,048,651
	Net	16,036,783	726,261	-	16,763,044
Group life	Gross	30,190,679	4,598,103	-	34,788,782
	Net	11,102,867	191,442	-	11,294,309
Total	**Gross**	**106,284,301**	**83,350,460**	**512,536,965**	**702,171,726**
	Net	**77,627,473**	**50,664,543**	**34,378,950**	**162,670,966**

The concentration by sector or maximum insured loss at the end of the year is broadly consistent with the prior year.

6. Interest income

	Group	
	2008	2007
	Shs'000	Shs'000
Interest on loans and advances and short-term funds	4,601,878	2,049,579
Government securities- held- to-maturity	239,686	327,580
Government securities- available-for-sale	833,669	779,717
Placements and other bank balances	32,079	124,086
Other	97,512	318,346
	5,804,824	**3,599,308**

7. Interest expense

	Group	
	2008	2007
	Shs'000	Shs'000
Current accounts	181,410	63,946
Savings and deposit accounts	1,608,583	891,421
Deposits and placements from other banks	214,398	120,818
Other interest-bearing liabilities	82,903	254,928
	2,087,294	**1,331,113**

8. Fee and commission revenue

	Group	
	2008	2007
	Shs'000	Shs'000
Account transaction fees	494,434	445,744
Knowledge-based fees and commission	33,379	16,834
Electronic banking fees	59,055	29,783
Foreign currency service fees	21,534	10,860
Documentation and administration fees	426,431	215,062
Insurance – fees and commissions	123,687	62,379
Trust and asset management fees	34,172	17,234
Other	197,382	98,546
	1,390,074	**897,442**

9. Fee and commission expense

	Group	
	2008	2007
	Shs'000	Shs'000
Card based commission	11,766	2,666
Knowledge based fees and commission	5,956	-
Other bank - related fees and commission	9,304	11,397
	27,026	**14,063**

Notes (continued)

10. Trading revenue

		Group
	2008	**2007**
	Shs'000	**Shs'000**
Foreign exchange	677,321	330,708
Debt securities	7,232	129,824
Equities	10,056	79,959
Other	119,458	-
	814,067	**540,491**

11. Other revenue

		Group
	2008	**2007**
	Shs'000	**Shs'000**
Other revenue	**16,196**	**94,204**

12. Insurance underwriting income

		Group
	2008	**2007**
	Shs'000	**Shs'000**
Gross premiums	5,083,510	4,570,521
Less: reinsurance	(1,488,468)	(1,373,523)
Net premiums	**3,595,042**	**3,196,998**
Claims - Gross	2,647,737	2,449,253
Less: Recoveries from reinsurance	(205,292)	(108,771)
Net claims	2,442,445	2,340,482
Net premiums less claims	**1,152,597**	**856,516**

13. Credit impairment charges

		Group
	2008	**2007**
	Shs'000	**Shs'000**
Net credit impairments raised for loans and advances	1,052,029	324,112
Recoveries on loans and advances previously written off	(192,070)	(6,009)
	859,959	**318,103**
Comprising:		
Net credit impairment charges for non performing loans	937,267	296,586
Credit impairments for non-performing loans	1,129,337	302,595
Recoveries on loans and advances previously written off	(192,070)	(6,009)
Credit impairments for performing loans	(77,308)	21,517
	859,959	**318,103**

Notes (continued)

14. Staff costs

	Group	
	2008	2007
	Shs'000	Shs'000
Salaries and allowances	1,380,060	912,606
Retirement benefit costs	109,209	84,367
National Social Security Fund	4,970	3,924
Other staff costs	325,329	171,904
	1,819,568	**1,172,801**

15. Other operating expenses

	Group	
	2008	2007
	Shs'000	Shs'000
Amortisation - intangible assets	197,912	63,723
Audit fees	22,559	12,349
Depreciation	230,151	135,505
Directors' fees	206,477	116,394
Amortisation of prepaid operating lease rentals	3,409	340
Premises	81,438	65,781
Other expenses	2,164,152	1,442,394
	2,906,098	**1,836,486**

16. Current income tax

	Group	
	2008	2007
	Shs'000	Shs'000
Current income tax	656,092	501,027
Deferred income tax (Note 36)	(200,981)	(74,855)
Under provision prior year	20,652	2,030
	475,763	**428,202**

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

	Group	
	2008	2007
	Shs'000	Shs'000
Profit before income tax	1,322,356	1,352,919
Tax at statutory tax rate of 30% (2007 - 30%)	396,707	405,876
Tax effect of:		
Income not subjected to tax	(51,482)	(36,764)
Expenses not deductible for tax purposes	99,460	48,184
Previous year overprovision	20,652	2,030
Other items resulting in increased tax	10,426	8,876
Income tax expense	**475,763**	**428,202**

17. Earnings per share (Group)

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
	2008	2007
	Shs'000	Shs'000
Earnings		
Earnings for the purposes of basic earnings per share (Shs' 000)	752,179	769,932
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	224,649	156,000
Earnings per share (Shs)		
Basic and diluted	**3.35**	**4.94**

The calculation of basic and diluted earnings per share is based on continuing operations attributable to the ordinary equity of the parent entity. There were no discontinued operations during the year.

Basic earnings per share is the same as the diluted earnings per share.

18. Dividends

Proposed dividends are not accounted for untill they have been ratified at the Annual General Meeting. No final dividend is to be declared for 2008 financial year.

		Group
	2008	2007
	Shs'000	Shs'000
The movement in unclaimed dividends is as follows:		
At January	9,909	83,050
Final dividend declared (2007)	78,000	-
Interim dividend	78,000	218,400
Dividend paid	(165,909)	(291,541)
At 31 December	-	**9,909**

Payments of dividends to members with shareholding below 12.5% is subject to withholding tax at a rate of 5% for residents and 10% for non-residents.

19. Cash and balances with Central Bank of Kenya

		Group		Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Cash and bank balances	3,305,414	532,303	14,828	338,138
Balances with Central Bank of Kenya	2,984,413	1,439,324	-	1,439,324
Cash ratio requirement	2,539,065	1,322,777	-	1,322,777
Other	445,348	116,547	-	116,547
	6,289,827	**1,971,627**	**14,828**	**1,777,462**

The cash ratio balance is non-interest earning and is based on the value of deposits as adjusted by the Central Bank of Kenya requirements. These funds are not available to finance the Group's day to day operations.

Notes (continued)

20. Pledged assets

		Group
	2008	2007
Securities pledged as collateral	Shs'000	Shs'000
Debt securities - pledge as collateral	2,395,000	

Dated pledged assets had a redemption value at 31 December 2008 of Shs 2,395,000 (2007: nil) for the Group.

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 balance sheet as pledged assets.

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

21. Financial investments - trading assets

		Group		Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Held for trading				
Debt securities - listed maturing after 90 days of date of acquisition	2,548,214	586,013	-	-

Maturities

The maturities represent periods to contractual redemption of trading assets recorded. Dated trading assets had a redemption value at 31 December 2008 of Shs 2,573,821,504 (2007: Shs 586,013,000).

		Group		Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Maturing after 6 months but within 12 months	763,915	-	-	-
Maturing after 12 months	1,784,299	586,013	-	-
Total	**2,548,214**	**586,013**	-	-

Trading assets are debt securities issued by the Central Bank of Kenya on behalf of the Government of Kenya. The weighted average effective interest yield on debt securities held for trading at 31 December 2008 was 7.73% (2007: 12.5%)

22. Financial investments – Available-for-sale

	Group	
	2008	2007
	Shs'000	Shs'000
Classification		
Listed	14,698,520	12,293,506
Unlisted	552,360	285,070
	15,250,880	**12,578,576**
Comprising:		
Government securities	11,690,235	9,827,545
Corporate bonds	190,849	30,000
Listed equities	3,075,481	2,465,961
Unlisted equities	294,315	255,070
	15,250,880	**12,578,576**

The weighted average effective interest yield on available-for-sale investment securities at 31 December 2008 was 10.34% (2007: 5.94%)

Maturity analysis

The maturities represent periods to contractual redemption of the investment securities recorded.

	Group	
	2008	2007
	Shs'000	Shs'000
Redeemable on demand	449,887	-
Maturing within 1 month	25,175	5,240,543
Maturing after 1 month but within 6 months	789,807	1,066,939
Maturing after 6 months but within 12 months	734,240	222,449
Maturing after 12 months	7,088,159	3,297,614
Undated securities	6,163,612	2,751,031
	15,250,880	**12,578,576**

Company

The company hived down the available-for-sale investments to CfC Stanbic Bank Limited upon merger (2007: Shs 4,760,800,000) and had no financial investments at 31 December 2008. The financial investments for the company at 31 December 2007 were made up as follows:

		Company
	2008	2007
	Shs'000	Shs'000
Treasury bills and bonds:		
Maturing within 3 months	-	1,165,650
Maturing after 1 month but within 6 months	-	3,595,150
	-	**4,760,800**

Notes (continued)

23. 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, installment credit, overdrafts and credit card borrowings. A significant portion of the Group's advances to commercial and corporate borrowers consist of advances made to companies engaged in manufacturing, finance and service industries.

Loans and advances to banks

		Group		Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Balances with banks	20,548,781	2,224,009	-	1,691,902

The weighted average effective interest rate during the year for deposits due from banking institutions at 31 December 2008 was 2% (2007: 6%)

Loans and advances to customers

		Group		Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Gross loans and advances to customers	**46,348,531**	**17,446,387**	-	**17,446,387**
Mortgage lending	6,436,984	196,943	-	196,943
Term lending	18,960,502	5,019,757	-	5,019,757
Installment sale	8,834,604	5,891,045	-	5,891,045
Overdrafts and other demand lending	12,116,441	6,338,642	-	6,338,642
Credit impairment for loans and advances	**1,687,226**	**743,867**	-	**743,867**
Impairments for non-performing loans	1,541,156	573,543	-	573,543
Impairments for performing loans	146,070	170,324	-	170,324
Net loans and advances	**44,661,305**	**16,702,520**	-	**16,702,520**

The company hived down its loans and advances to CfC Stanbic Bank on merger as at 1 June 2008. As such other related disclosures on loans and advances may not provide meaningful comparatives.

Notes (continued)

23. Loans and advances (continued)

Maturity analysis

		Group
	2008	2007
	Shs'000	Shs'000
The maturity analysis is based on the remaining period to contractual maturity from year-end.		
Redeemable on demand	10,016,336	3,745,928
Maturing within 1 month	2,388,256	893,165
Maturing after 1 month but within 6 months	2,540,522	950,109
Maturing after 6 months but within 12 months	3,506,951	1,311,536
Maturing after 12 months	26,209,240	9,801,782
	44,661,305	**16,702,520**

Segmental analysis - industry

		Group
	2008	2007
	Shs'000	Shs'000
Agriculture	6,414,688	1,022,340
Manufacturing	5,325,269	2,940,659
Electricity and water	1,462,389	45,893
Building and construction	704,671	-
Wholesale, retail trade and restaurants	642,063	2,263,174
Transport and communication	6,171,642	3,140,504
Finance and insurance	1,712,816	-
Real estate and business service	6,182,127	4,291,271
Other activities and social service	16,045,640	2,998,679
	44,661,305	**16,702,520**

The weighted average effective interest rate on loans and advances to customers as at 31 December 2008 was 7% (2007:13%).

23. Loans and advances (continued)

Impairment reserve for the year ended 31 December 2008

	Non- performing loans	Portfolio impairment	Total
	Shs'000	Shs'000	Shs'000
At 1 January 2008	573,544	170,324	743,868
Acquired from Stanbic at 1 June 2008	249,258	53,054	302,312
Amounts written off during the year as uncollectable	(254,913)	-	(254,913)
Amounts recovered during the year	(192,070)	-	(192,070)
Provision for loans impairment	1,129,337	(77,308)	1,052,029
Off market loans impairment	36,000	-	36,000
At 31 December 2008	**1,541,156**	**146,070**	**1,687,226**

Impairment reserve for the year ended 31 December 2007

	Non- performing loans	Portfolio impairment	Total
	Shs'000	Shs'000	Shs'000
At 1 January 2007	276,958	148,807	425,765
Provision for impairment loans	302,595	21,517	324,112
Amounts recovered during the year	(6,009)	-	(6,009)
At 31 December 2007	**573,544**	**170,324**	**743,868**

Installment finance		
Gross investment in installment finance	9,164,700	6,887,814
Receivable within 1 year	2,383,432	521,345
Receivable after 1 year but within 5 years	6,445,698	6,366,469
Later than 5 years	335,570	
Unearned finance charges deducted	(330,094)	(996,769)
Net investment in installment finance	**8,834,606**	**5,891,045**

The company enters into finance leasing arrangements for certain plant, equipment and motor vehicles. The average term of finance leases entered into is between 2 and 3 years.

Un-guaranteed residual values of assets under finance leases are estimated at nil (2007: nil).

The interest rate inherent in the lease is variable at the contract date for the entire lease term. The weighted average interest rate on finance lease receivable at 31 December 2008 was 14% (2007: 14.20%)

24. Other assets

	Group			Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Trading settlement assets	26,057	-	-	-
Items in transit	817,422	469,994	-	469,994
Insurance premium receivables	711,237	852,162	-	-
Due from reinsurers	114,619	104,518	-	-
Reinsurance share of technical provision	1,242,141	1,301,195	-	-
Trade receivables and prepayments	285,770	1,018,069	-	420,099
Other	626,639	1,576,297	37,459	471,928
	3,823,885	**5,322,235**	**37,459**	**1,362,021**

25. Investment in subsidiaries and associates

Associates

	Group	
	2008	2007
	Shs'000	Shs'000
At 1 January	**172,191**	**108,889**
Additions	7,930	31,302
Acquired on merger	15,000	-
Share of profit	71,165	37,524
Dividends	(14,571)	(4,923)
Share of fair value losses	(14,945)	(601)
At 31 December	**236,770**	**172,191**

Strategis Insurance Company (T) Limited and Alliance Insurance Company (T) Limited are associates of Heritage All Insurance Company (T) Limited in which it owns 49% and 45% of the shares respectively. Investment in associates has been accounted for using the equity method of accounting.

The Group acquired a beneficial interest of 24.42% in Stanbic Investment Management Services (East Africa) Limited in 2008. The reporting date of its financial statements is 31 December.

The summarised financial information of the associates is as follows:

	Total assets	Total liabilities	Revenue	Profit after tax	% Interest held
	Shs'000	Shs'000	Shs'000	Shs'000	
Year ended 31 December 2008					
Stanbic Investment Management Services (East Africa) Limited	211,444	70,638	205,906	58,386	24%
Alliance Insurance Corporation Limited	1,115,701	744,028	647,356	98,970	45%
Strategis Insurance (Tanzania) Limited	289,866	205,959	211,852	16,286	49%
Year ended 31 December 2007					
Alliance Insurance Corporation Limited	851,131	572,033	529,783	67,192	45%
Strategis Insurance (Tanzania) Limited	186,384	130,828	193,557	13,215	24%

25. Investment in subsidiaries and associates (continued)

Subsidiaries

Company	Beneficial ownership by Bank	Country of Incorporation	2008 Shs'000	2007 Shs'000
CfC Stanbic Bank Limited	100%	Kenya	14,129,114	-
CfC Stanbic Financial Services Limited	100%	Kenya	100,530	100,530
The Heritage Insurance Company (K) Limited	64%	Kenya	65,705	65,705
Azali Limited	64%	Kenya	-	
The Heritage Insurance Company (T) Limited	38%	Tanzania	-	-
CfC Holdings Limited	100%	Kenya	595,000	532,097
CfC Life Assurance Limited	100%	Kenya	-	-
CfC Investments Limited	100%	Kenya	-	-
			14,890,349	**698,332**

26. Property and equipment

(a) Group

	Land and premises Shs'000	Equipment furniture & fittings Shs'000	Motor vehicles Shs'000	Total Shs'000
Cost / valuation				
At 1 January 2008	854,686	1,297,361	115,414	2,267,461
Acquired from SBK	17,948	536,357	42,064	596,369
Additions	40	541,194	14,976	556,210
Disposals	-	(4,320)	(7,387)	(11,707)
Revaluation	34,850	-	-	34,850
Reclassification	301,668	(138,458)	-	163,210
Currency translation	-	(354)	-	(354)
At 31 December 2008	**1,209,192**	**2,231,780**	**165,067**	**3,606,039**
Depreciation				
At 1 January 2008	1,954	713,115	57,151	772,220
Acquired from SBK	9,371	295,533	10,483	315,387
Charge for the year	9,173	193,328	27,650	230,151
Disposals	-	(2,298)	(5,951)	(8,249)
At 31 December 2008	**20,498**	**1,199,678**	**89,333**	**1,309,509**
Net book value at 31 December 2008	**1,188,694**	**1,032,102**	**75,734**	**2,296,530**

26. Property and equipment (continued)

(a) Group (continued)

	Land and premises	Equipment furniture & fittings	Motor vehicles	Total
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Cost/Valuation				
At 1 January 2007	620,046	1,280,298	109,158	2,009,502
Additions	-	408,076	36,257	444,333
Disposals	-	(20,880)	(29,941)	(50,821)
Currency translation	-	(178)	(60)	(238)
Revaluation	77,290	-	-	77,290
Reclassification	157,350	(369,955)	-	(212,605)
At 31 December 2007	**854,686**	**1,297,361**	**115,414**	**2,267,461**
Depreciation				
At 1 January 2007	50,979	634,564	56,994	742,537
Charge for the year	7,054	105,044	23,407	135,505
Disposals	-	(26,374)	(23,216)	(49,590)
Currency translation	-	(119)	(34)	(153)
Revaluation	(56,079)	-	-	(56,079)
At 31 December 2007	**1,954**	**713,115**	**57,151**	**772,220**
Net book value at 31 December 2007	**852,732**	**584,246**	**58,263**	**1,495,241**

As at 31 December 2008 and 31 December 2007, there were no items of property and equipment pledged by the Group to secure liabilities.

The carrying value of fully depreciated property and equipment that is still in use is Shs 549,990,060 (2007 – Shs 342,865,774). Such assets would have attracted a notional depreciation of Shs 175,430,238 (2007 – Shs 60,405,920).

Buildings were revalued as at 31 December 2007, by Tysons Limited, independent valuers, on the basis of the market value for existing use. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to the revaluation surplus in shareholders equity.

b) Property and equipment (company)

	Land and premises	Equipment furniture & fittings	Motor vehicles	Total
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Cost/Valuation				
At 1 January 2008	375,000	633,102	38,932	1,047,034
Hive down to SBK	(375,000)	(631,443)	(24,432)	(1,030,875)
At 31 December 2008	**-**	**1,659**	**14,500**	**16,159**
Depreciation				
At 1 January 2008	-	(422,010)	(16,218)	(438,228)
Charge for the year	(3,735)	(23,865)	(6,221)	(33,821)
Hive down to SBK	3,735	445,151	18,814	467,700
At 31 December 2008	**-**	**(724)**	**(3,625)**	**(4,349)**
Net book value at 31 December 2008	**-**	**935**	**10,875**	**11,810**

26. Property and equipment (continued)

b) Property and equipment – Company (continued)	Land and premises	Equipment furniture & fittings	Motor vehicles	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Cost/Valuation				
At 1 January 2007	352,710	688,681	45,711	1,087,102
Additions	-	231,750	17,966	249,716
Disposals	-	-	(24,745)	(24,745)
Revaluation	78,369		-	78,369
Elimination of accumulated depreciation	(56,079)		-	(56,079)
Reclassification		(287,329)	-	(287,329)
At 31 December 2007	**375,000**	**633,102**	**38,932**	**1,047,034**
Depreciation				
At 1 January 2007	49,025	362,201	26,109	437,335
Charge for the year	7,054	59,809	8,846	75,709
Disposals			(18,737)	(18,737)
Revaluation	(56,079)			(56,079)
At 31 December 2007	**-**	**422,010**	**16,218**	**438,228**
Net book value at 31 December 2007	**375,000**	**211,092**	**22,714**	**608,806**

27. Investment properties

		Group
	2008	**2007**
	Shs'000	**Shs'000**
As at January	418,829	380,500
Additions resulting from acquisitions	-	157,654
Disposals	-	(61,500)
Reclassification to property and equipment	(120,150)	(157,350)
Net gain from fair value adjustments	67,821	99,525
At 31 December	**366,500**	**418,829**

28. Prepaid operating lease

a) Group

	2008 Shs'000	Group 2007 Shs'000
Cost		
At 1 January	76,000	36,000
Revaluation	-	40,000
Elimination of revaluation	(40,000)	-
At 31 December	**36,000**	**76,000**
Amortisation		
At 1 January	298	4,420
Charge for the year	3,409	340
Eliminated on revaluation	(1,730)	(4,462)
At 31 December	**1,977**	**298**
Net book value at 31 December	**34,023**	**75,702**

(b) Company

	2008 Shs'000	Company 2007 Shs'000
Cost		
At 1 January	75,000	35,000
Hive down to SBK	(75,000)	
Revaluation	-	40,000
At 31 December	**-**	**75,000**
Amortisation		
At 1 January	-	4,112
Charge for the year	151	350
Hive down to SBK	(151)	-
Eliminated on revaluation	-	(4,462)
At 31 December	-	-
Net book value at 31 December	**-**	**75,000**

29. Intangible assets

a) Group

		2008		2007
	Software	Other intangible assets	Total	Software
	Shs'000	Shs'000	Shs'000	Shs'000
Cost				
At 1 January	620,028	-	620,028	269,832
Acquired from SBK	24,966	-	24,966	-
Additions	232,236	1,099,059	1,331,295	62,867
Reclassifications	(11,542)		(11,542)	287,329
At 31 December	**865,688**	**1,099,059**	**1,964,747**	**620,028**
Amortisation				
At 1 January	136,451	-	136,451	72,728
Acquired from SBK	22,890	-	22,890	-
Charge for the year	136,565	61,347	197,912	63,723
Eliminated on reclassification	(3,241)	-	(3,241)	-
At 31 December	**292,665**	**61,347**	**354,012**	**136,451**
Net book value at 31 December	**573,023**	**1,037,712**	**1,610,735**	**483,577**

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

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

b) Company

	2008	2007
	Shs'000	Shs'000
Cost		
At 1 January	340,912	49,001
Additions	-	4,582
Reclassification		287,329
Hive down to SBK	(340,912)	-
At 31 December	-	**340,912**
Amortisation		
At 1 January	100,098	42,922
Charge for the year	25,762	57,176
Hive down to SBK	(125,860)	-
At 31 December	-	**100,098**
Net book value at 31 December	**-**	**240,814**

30. Intangible assets - Goodwill

	2008	Group 2007
	Shs'000	Shs'000
Cost		
At 1 January	1,084,647	1,084,647
On acquisition of Stanbic Bank Kenya Limited on 1 June 2008	9,349,758	-
At 31 December	**10,434,405**	**1,084,647**

During the year, the Group assessed the recoverable amount of goodwill and determined that goodwill associated with the life assurance business and of the acquired subsidiary companies was not impaired. The recoverable amount of the life assurance and banking business was assessed by reference to the cash generating unit's value-in-use. A discount factor of 10% per annum (2007: 10% per annum) was applied in the value-in-use model. The goodwill arising on the acquisition of Stanbic Bank Kenya Limited is computed as follows;

	2008
	Shs'000
Consideration	13,533,684
Transaction costs	61,312
Net assets	(3,480,080)
	10,114,916
Less :	
Intangible assets net of deferred tax	(765,159)
Goodwill	**9,349,757**

31. Ordinary share capital

		2008	2007
		Shs'000	Shs'000
Authorised share capital			
At 1 January	200,000,000 - Ordinary shares of Shs 5 each	1,000,000	1,000,000
Additions during the year	73,684,211 - Ordinary shares of Shs 5 each	368,421	-
At 31 December	273,684,211 - Ordinary shares of Shs 5 each	1,368,421	1,000,000

Issued ordinary shares

		2008	2007
		Shs'000	Shs'000
At January	156,000,000 - Ordinary shares of Shs 5 each	780,000	780,000
Additions during the year	issued 117,684,211 on merger with SBK of Shs 5 each	588,421	
At 31 December	273,684,211 - Ordinary shares of Shs 5 each	**1,368,421**	**780,000**

31. Ordinary share capital (continued)

Ordinary share premium

	2008	2007
	Shs'000	Shs'000
At January	669,420	669,420
Costs related to transfer and listing of shares	(27,836)	-
Premium on additional shares issued 31 May 2008	12,945,263	-
At 31 December	**13,586,847**	**669,420**

32. Derivative liabilities

	Net fair value	Contract/ notional amount
	Shs'000	Shs'000
Foreign currency forwards	55,383	4,658,833

Derivative liabilities

The Group did not have any derivative liabilities or assets in the prior year.

All derivatives are classified as either derivatives held for trading or derivatives held for hedging.

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.

33. Deposits and current accounts

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

		Group		Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Deposits from banks	11,096,605	1,972,975	-	1,972,975
Deposits from customers	61,975,073	20,097,960	-	20,819,591
Current accounts	26,066,301	6,186,429	-	6,186,429
Call deposits	16,499,798	2,600,508	-	2,600,508
Savings accounts	928,626	1,523,107	-	1,523,107
Term deposits	18,480,348	9,787,916	-	10,509,547
Total Deposits	**73,071,678**	**22,070,935**	**-**	**22,792,566**

33. Deposits and current accounts (continued)

Maturity analysis

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

		Group		Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Repayable on demand	45,422,148	13,098,911	-	13,098,911
Maturing within 1 month	12,266,751	3,537,505	-	3,976,150
Maturing after 1 month but within 6 months	3,957,637	3,011,716	-	3,294,702
Maturing after 6 months but within 12 months	328,412	391,975	-	391,975
Maturing after 12 months	125	57,853	-	57,853
Total	**61,975,073**	**20,097,960**	**-**	**20,819,591**

34. Borrowings

		Group		Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Term loans	700,000	103,842	700,000	
Corporate bond	595,961	590,000	-	800,000
Shareholders' loan	784,200	-	-	-
Total	**2,080,161**	**693,842**	**700,000**	**800,000**

The term loan of Shs 103,842,000 from Barclays Bank of Kenya Limited was paid off in full on 31 March 2008.

The corporate bond issued by the Bank on 31 October 2005 has a 7 year maturity and pays interest at the rate of the Treasury Bill just before re-pricing plus 1.75%. The bond reprises quarterly.

The shareholders' loan was obtained from Stanbic Africa Holdings Limited on 30 June 2008 and has a 10-year term, but is callable at the option of the issuer one day after the fifth anniversary of the issue date or any interest payment date thereafter. Interest is payable quarterly at 3 months, Libor plus 300 basis points.

The company obtained a term loan of Shs 700 million from NIC Bank on 19 December 2008 and will pay interest at the rate of 14.5% per annum. Shs 450 million of this loan was injected as additional capital in CfC Life Assurance Limited through CfC Holdings Limited.

Notes (continued)

35. Other liabilities

	Group			Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Payable under deposit administration contracts	5,092,265	5,429,113	-	-
Insurance contract liabilities	3,690,010	5,022,228	-	-
Provisions for insurance claims	1,044,500	157,892	-	-
Unearned insurance premiums	892,745	884,546		-
Payable under reinsurance arrangements	330,664	25,829	-	-
Bankers cheques unpresented	420,206	564,128	-	564,128
Other liabilities	4,889,460	2,254,312	34,577	485,570
Total	**16,359,850**	**14,338,048**	**34,577**	**1,049,598**

36. Deferred tax

a) Deferred tax asset

	Group			Company
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	147,614	109,283	103,007	91,478
Credit/ (charge) to profit and loss account	94,068	39,275	(3,716)	11,529
Over-provision of deferred tax asset from previous years	(20,652)	-	-	-
Credit to equity	5,141	-	-	-
Balances transferred from SBK on merger	54,551	-	-	-
Hive down to SBK			(99,291)	
Currency translation	-	(944)	-	-
At end of year	**280,722**	**147,614**	**-**	**103,007**

36. Deferred tax (continued)

a) Deferred tax asset (continued)

					Group
Year ended 31 December 2008	**1.1.08**	**Transfer from SBK**	**Credit/ (charge) to P/L**	**Credit/ (charge) to equity**	**31.12.08**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Arising from:					
Property and equipment	5,803	395	14,895	-	21,093
Portfolio impairment	75,975	9,159	(41,313)	-	43,821
Unrealised gain on bonds	(964)	30,693	19,178	5,974	54,881
Other provisions	67,744	14,304	80,656	-	162,704
Currency translation	(944)	-	-	(833)	(1,777)
Net deferred tax asset	**147,614**	**54,551**	**73,416**	**5,141**	**280,722**

				Group
Year ended 31 December 2007	**1.1.07**	**Charge/(credit) to P/L**	**Charge to equity**	**31.12.07**
Arising from:				
Property and equipment	57,410	(51,607)	-	5,803
Portfolio impairment	40,415	35,560	-	75,975
Other provisions	11,458	55,322	-	66,780
Exchange differences	-		(944)	(944)
Net deferred tax asset	**109,283**	**39,275**	**(944)**	**147,614**

Notes (continued)

36. Deferred tax (continued)

a) Deferred tax asset (continued)

			Company
	1.1.2007	Charged /(credited) to P/L	31.12.2007
	Shs'000	Shs'000	Shs'000
Year ended 31 December 2008			
Arising from:			
Property and equipment	55,435	25,163	80,598
Portfolio impairment	35,015	(13,498)	21,517
Other provisions	1,028	(136)	892
Net deferred tax asset	**91,478**	**11,529**	**103,007**

b) Deferred tax liability

		Group
	2008	2007
	Shs'000	Shs'000
At start of year	(114,922)	(137,010)
Credit to profit and loss account	107,746	35,580
Under-provision of deferred tax liability from previous years	-	(2,030)
Charge to equity	(49,545)	(11,462)
At end of year	**(56,721)**	**(114,922)**

				Group
	1.1.2008	Credit/ (charge) to P/L	Credit/ (charge) to equity	31.12.2008
	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2008				
Arising from:				
Property and equipment revaluation surplus	(98,834)	-	(49,545)	(148,379)
Investment property fair value gains	(29,858)	(32,203)	-	(62,061)
Other provisions	13,770	139,949	-	153,719
Net deferred tax liability	**(114,922)**	**107,746**	**(49,545)**	**(56,721)**

	1.1.2007	Credit/ (charge) to P/L	Credit/ (charge) to equity	31.12.2007
	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2007				
Arising from:				
Property and equipment revaluation surplus	(79,214)	-	(11,462)	(90,676)
Investment property fair value gains	(13,911)	(15,947)	-	(29,858)
Other provisions	(43,885)	49,497	-	5,612
Net deferred tax liability	**(137,010)**	**33,550**	**(11,462)**	**(114,922)**

37. Notes to the cashflow statement

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

	2008	2007
	Shs'000	**Shs'000**
Profit before taxation	1,322,356	1,352,919
Depreciation	230,151	135,505
Amortisation of intangible asset	197,912	63,723
Amortisation of operating lease prepayments	3,409	340
(Profit)/loss on sale of equipment	(3,793)	(11,501)
Fair value adjustment for investment property	(67,821)	(99,525)
Currency translation differences	(5,747)	(602)
	1,676,467	**1,440,859**

(b) Analysis of balances of cash and cash equivalents as shown in the balance sheet and notes

	2008	2007
	Shs'000	**Shs'000**
Cash and other balances with Central Bank of Kenya	3,749,980	648,851
Treasury bills and bonds	1,925,435	3,027,107
Deposits and balances due from banking institutions	20,548,781	2,224,009
Deposits and balances due to banking institutions	(11,096,605)	(1,972,975)
Total	**15,127,591**	**3,926,992**

For the purposes of the cash flow statement, 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.

38. 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 Group 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:

	2008	2007
	Shs'000	**Shs'000**
Amounts due from the Standard Bank Group	6,300,817	-
Interest income earned on the above	340,853	-
Amounts due to the Standard Bank Group	3,427,674	-
Interest expenses incurred on the above	174,940	-

38. Related party transactions (continued)

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, contingent liabilities include guarantees and letters of credit, which have been issued to associated companies. The balances as at 31 December 2008 are as shown below;

Directors associated companies

	2008	2007
	Shs'000	Shs'000
Loans and advances		
At 1 January	580,682	419,469
Net movement for the year	70,555	161,213
At 31 December	**651,237**	**580,682**

Employees

	2008	2007
	Shs'000	Shs'000
Loans and advances		
At 1 January	214,492	207,349
Net movement for the year	665,186	7,143
At 31 December	**879,678**	**214,492**

There were no outstanding advances to directors (2007: Nil). These loans and advances are performing and adequately secured.

Deposits

	2008	2007
	Shs'000	Shs'000
At 1 January	1,221,141	1,160,831
Net movement for the year	309,773	60,310
At 31 December	**1,530,914**	**1,221,141**

Key management compensation

	2008	2007
	Shs'000	Shs'000
Salaries and other short-term employment benefits	390,704	157,216
Directors' remuneration		
Fees for services as directors	8,686	7,580
Other emoluments (included in key management compensation above)	61,915	50,916
Total	**70,601**	**58,496**

Contingent liabilities at 31 December 2008 include contingencies on behalf of companies associated to the directors of Shs 1,298,823,000 (2007 - Shs 583 095,000).

All related party transactions are at arms length and in the normal course of business.

39. Retirement benefit liability

The Group operates a retirement benefit arrangement known as the Stanbic Bank Kenya Staff Pension and Life Assurance Scheme ('the Scheme'), which has been inherited by the Group on the acquisition of Stanbic Bank Kenya Limited. The Scheme is sponsored by CfC Stanbic Bank. Until 30 September 2001 the Scheme operated on a defined benefits' basis. With effect from 1 October 2001 the Trustees of the Scheme resolved to convert the Scheme to operate on a "defined contribution" basis in respect of the active in-service members. In compliance with the provisions of the Trust Deed and Rules of the Scheme, the Group (sponsoring employer) gave its approval to the conversion. Under a defined contribution basis the quantum of benefits received by the member at retirement or earlier exit depend on the actual contributions paid plus interest declared on the actual contributions to the date of retirement or earlier exit.

With effect from 1 October 2001 all the active in-service members were transferred to the defined contribution fund with the actuarial reserves / liabilities calculated on the defined benefits basis as at 30 September 2001 forming the opening balances in the members' defined contribution fund credit.

Pensions have continued to be paid to existing pensioners from the Scheme Fund and the terms for benefit provision to deferred pensioners have been retained on a defined benefits basis. Accordingly, the pension benefits payable to all the existing pensioners and deferred pensioners will continue to be met from the resources of the Scheme Fund.

The consulting actuaries carried out an actuarial review of the Scheme as at 31 December 2008 and that valuation revealed the following financial position.

	2008
	Shs'000
Present value of funded obligations	105,633
Fair value of plan assets	(103,401)
Present value of unfunded obligations/(over funding)	2,232
Unrecognised actuarial gains/ (losses)	(2,232)
Liability or asset in the balance sheet	-

The movement in the defined benefit obligation over the year was as follows:

	2008
	Shs'000
At start of year	-
Acquired on merger with SBK	108,025
Current service cost	749
Interest cost	10,105
Actuarial losses	698
Benefits paid	(13,944)
Past service cost	
At end of year	**105,633**

39. Retirement benefit liability (continued)

The movement in the fair value of the plan assets is as follows:

	2008
	Shs'000
At start of year	-
Acquired on merger with SBK	114,452
Expected return on scheme assets	10,748
Actuarial gains/ (losses)	(7,855)
Benefits and expenses paid	(13,944)
At end of year	**103,401**

Plan assets comprise:

	Shs'000	%
Equity instruments	21,958	21
Debt instruments	47,365	46
Property and other	34,078	33
	103,401	**100**

The principal actuarial assumptions used in 2008 were as follows:

Rate of return on investments/discount rate	10% p.a. compound
Rate of pension increases	0% p.a.
Mortality in retirement	a (55) Males/Females Ultimate
Mortality in deferment	A1949 / 52 Ultimate

40. Contingent liabilities

	2008	2007
	Shs'000	Shs'000
Commitments with respect to:		
Guarantees and performance bonds	4,294,423	2,246,453
Acceptances and letters of credit	9,406,901	1,329,753
Others	-	68,138
	13,701,324	**3,644,344**

Nature of contingent liabilities

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

Guarantees are generally written by the Group to support performance by its customers 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.

41. Other reserves

	Group		Company	
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Statutory reserve	576,802	337,124	-	152,752
Fair value reserve	(281,558)	323,282	-	79,698
Currency translation reserve	(34,960)	(37,581)	-	-
Capital reserves	273,371	233,809	-	-
Revaluation reserve	303,669	217,479	-	-
At end of year	**837,324**	**1,074,113**	**-**	**232,450**

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.

Currency translation reserve represents exchange differences arising on the translation of the net investment in foreign entities.

The statutory reserve represents :

- the surpluses from the life fund whose distribution is subject to restrictions imposed by Kenya's Insurance Act; and
- regulatory reserve which is 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.

Shareholding

Name	Number of shares held	shareholding %
1.Stanbic Africa Holdings Ltd. (UK)	113,341,663	41.41%
2.CfC Stanbic Nominees Ltd A/C NR 00901	50,868,863	18.59%
3.African Liason and Consultant Services Ltd	43,063,683	15.73%
4.Sovereign Trust Ltd	18,459,354	6.74%
5.Feneast Nominees Ltd	7,000,000	2.56%
6.Archer and Wilcock Nominees Ltd	6,125,000	2.24%
7.Kingsway Nominees Ltd	5,198,498	1.90%
8.The Permanent Secretary to the Treasury (on behalf of the Government of Kenya)	4,342,548	1.59%
9. Beechwood Overseas Ltd	3,768,501	1.38%
10. Jani, Uday Prahlad	3,500,000	1.28%

	Number of shareholders	Number of shares held	shareholding %
The distribution of shareholders is as follows:			
1 – 500	1,538	323,888	0.12%
501 – 5,000	1,291	2,164,729	0.79%
5,001 – 10,000	413	3,086,097	1.13%
10,001 100,000	238	6,110,661	2.23%
100,001 – 1,000,000	23	4,909,808	1.79%
Over 1,000,000	11	257,089,028	93.94%
Total	**3,514**	**273,684,211**	**100.00%**