CfC Stanbic Holdings Limited

A member of Standard Bank Group

Annual Report and Financial Statements

For the year ended 31 December 2009

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Directors, Officers and Administration

Chairman:	CM Njonjo
Managing Director:	K Mbathi
Non-Executive Directors:	JG Kiereini T Naikuni ML du Toit* R Kimotho GR May**
	* South African ** British
Secretary:	A L Mugambi P.O. Box 72833 00200 Nairobi
Auditor:	PricewaterhouseCoopers The Rahimtulla Tower Upper Hill Road P O Box 43963 00100 Nairobi
Registered Office:	CfC Stanbic Centre Chiromo Road P O Box 72833 00200 Nairobi
Principal Bankers:	CfC Stanbic Bank Limited Chiromo Road P O Box 30550 00100 Nairobi GPO

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the fifty-fifth Annual General Meeting of the Members of CfC Stanbic Holdings Limited will be held on Friday, 21st May 2010, 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 and confirm the presence of a quorum.
2. To receive and consider the Audited Financial Statements for the year ended 31 December 2009 and the Directors' and Auditors' Report thereon.
3. To note that the Directors do not recommend payment of dividend for the year ended 31 December 2009.
4. To elect Directors.

i) In accordance with Article 110 of the Company's Articles of Association, Mr Charles Njonjo, Mr Mike L du Toit and Dr Titus Naikuni retire by rotation but do not offer themselves for re-election.

ii) In accordance with Article 109 of the Company's Articles of Association, Mr Fred N Ojiambo, SC, a director appointed to fill a casual vacancy retires at the dissolution of the meeting and, being eligible, offers himself for re-election.

iii) In accordance with Article 109 of the Company's Articles of Association, Mr Edward W Njoroge, a director appointed to fill a casual vacancy retires at the dissolution of the meeting and, being eligible, offers himself for re-election.

iv) In accordance with Article 109 of the Company's Articles of Association, Mrs Jane Babsa-Nzibo, a director appointed to fill a casual vacancy retires at the dissolution of the meeting and, being eligible, offers herself for re-election.

v) In accordance with Article 109 of the Company's Articles of Association, Mr Gregory R Brackenridge, a director appointed to fill a casual vacancy retires at the dissolution of the meeting and, being eligible, offers himself for re-election.

5. To approve the Directors' remuneration for the year ended 31 December 2009 as provided in the Financial Statements.
6. 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.
7. **Special business**: To consider, and if thought fit, pass the following Special Resolution:

"That Article 165 of the Company's Articles of Association be and is hereby deleted in its entirety and replaced with the following new Article 165:

A copy of every balance sheet (including every document required by law to be annexed thereto) which is to be laid before the Company in general meeting, together with a copy of the Auditor's report, (together the "*Accounts") shall not less than twenty-one (21) days before the date of the meeting be sent, or to the extent permissible by law otherwise made available by electronic means, to every member of, and every* holder of income notes, or debentures of the Company. To the extent permissible by law, the Accounts may be sent or otherwise made available by electronic means and not by post. This Article shall not require a copy of the Accounts to be sent or to the extent permissible by law otherwise made available by electronic means to any person of whose electronic or postal address the Company is not aware, nor to more than the first named of any joint holders of any shares or debentures. To the extent permissible by law the Company may send the Accounts to all persons entitled thereto by publishing the Accounts on the Company's official website and, if available, on the official website of the Nairobi Stock Exchange, provided that the Company shall contemporaneously print an abridged set of the balance sheet and income statement in two daily newspapers with nationwide circulation drawing attention to the website(s) on which the Accounts in full may be read, and the address to which a request for a printed copy of the Accounts may be submitted and upon any such publication the Accounts shall be deemed to have been sent to every Member or other person entitled to receive a copy of the Accounts. The provisions of this Article shall apply, *mutatis mutandis*, to any other document or information required to be sent or otherwise made available to members. For purposes of this Article, a method of electronic communication includes, but is not limited to, facsimile, electronic data message (including, but not limited to, e-mail), bulletin board, internet website, CD ROM and computer network."

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

BY ORDER OF THE BOARD

A.L. Mugambi
COMPANY SECRETARY
Date: 30th April 2010

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

It is my pleasure to present the Annual Report and Financial Statements for the year ended 31 December 2009.

Overview

The year 2009 will be remembered as one of the most difficult years for CfC Stanbic Holdings Limited. The Group faced significant challenges in operating in a tough economic environment which was characterized by the global financial crisis and the protracted drought. During the year, the Group's main focus was the completion of the integration process while at the same time preserving capital.

Political and economic review

Although the economy grew by about 2.5% compared to 1.7% in 2008, this has to be seen in context of the major blow to the Kenyan economy in 2008 brought about by the post-election violence, drought and the initial onslaught of the global economic downturn. The sectors which drove economic growth in 2009 were services and construction, with agriculture suffering severe setbacks given the worst drought in a decade which cut output and forced the Government to apply a significant portion of the budget allocation for the year to disaster relief operations throughout the country.

Kenya's financial sector continued to grow in 2009, with the banking sector, measured by credit growth, expanding by 20% in 2009, although this is down from 25% in 2008 largely due to a decline in growth of credit to households.

Responding to the effects of the global economic downturn, the CBK implemented counter-cyclical monetary policies to spur lending and stimulate economic recovery in Kenya. During 2009, the Monetary Policy Committee reduced the Central Bank Rate (CBR) by 175 basis points from 8.75% in the fourth quarter of 2008 to 7% in the fourth quarter of 2009. However, commercial bank lending rates remained sticky in 2009, reflecting a perception of risk in the market.

Kenya's overall inflation declined considerably in 2009, from 19.5% at the end of 2008 to 5% at the end of 2009, largely due to the adjustment to the geometric method of calculation as the previous method was seen to have an upward bias, particularly in times of food price volatility.

In the foreign exchange market the Kenya shilling closed at KSh 75.90 to the US Dollar compared to KSh 78.00 in 2008. The strengthening of the shilling in the second half of 2009 indicated a greater appetite for emerging market risk, a weaker US dollar and hard currency inflows from the IMF, as well as bond market investors.

The equities market witnessed sustained depression of investor risk appetite. The downward trend in the equity market did not bode well with the local retail and institutional investors and as a result equities turnover at the NSE declined by 60% with NSE-20 share index closing at 7.8% lower than 2008.

Overview of financial performance

The financial perfomance was adversely affected by the significant decline in the activity of the Nairobi Stock Exchange. The impact of this decline is largely responsible for the financial results which reflected a drop in the Profit After Tax for the year to Shs 36 million from Shs 847 million in 2008. The key reason for the decline was an impairment of Shs 699 million on the stock portfolios held by some of the Group Companies. The rebound in the NSE in the first quarter of 2010 has had a positive impact on these stock portfolios.

Performance highlights:-

Income Statement

- Total operating income increased by 25% to Shs 8.9 billion.
- Net interest income grew by 25% or Shs 935 million largely due to increased loans and advances to banks and to customers.
- Non-interest revenue increased by 39% or Shs 853 million mainly driven by enhanced trading volumes and higher foreign exchange market volatility.

Chairman's Statement (continued)

- Staff costs increased by 27% or Shs 487 million due to additional head count for branch expansion and new products support.

- Operating expenses rose by 57% or Shs 1.6 billion mainly due to increased branches for the bank, new agency offices for the life assurance business and one-off costs on the implementation of a new banking software.

- During the year we implemented the revised International Accounting Standard 1 that requires all entities to reflect any non-owner changes in equity in the statement of comprehensive income. Consequently we recognized Shs 1,025 million relating to net gains on government securities, bonds and shares held in the statement of comprehensive income.

Balance Sheet

- Total assets increased by 15% to Shs 128 billion.

- Financial investments reflected a growth of 44% to Shs 30 billion, held on account of trading opportunities.

- Property and equipment increased by 29% on account of refurbishment at the CfC Stanbic Centre and in the branch network.

- Implementation of Temenos T24 Model Bank software amounted to Shs 760 million.

- The increase in borrowings reflects mainly a loan from IFC Shs 759 million and the issuance of a Bond of Shs 2.5 billion raised for long term assets financing mainly mortgages and medium term loans.

As a result of the overall operating performance and to manage the capital and regulatory requirements for each of the group entities, the directors do not recommend the payment of a dividend.

Restructuring and de-merger

As many of you may be aware the Group is in the process of streamlining its group corporate structure. When approved, the CfC Life Assurance Limited, The Heritage Insurance Company Limited and their subsidiaries will be constituted as wholly owned subsidiaries of CfC Insurance Holdings Limited (formerly CfC Holdings Limited).

On 2 December 2009, the company entered into a conditional legal arrangement with Liberty Holdings and African Liaison and Consultants Services Limited pursuant to which the shareholding of the Insurance business will be de-merged from the banking and financial services business.

CfC Insurance Holdings Limited will then be separately listed on the Nairobi Stock Exchange. The conclusion of this transaction is subject to a number of approvals from the Insurance Regulatory Authority, the Exchange Control Division of the South African Reserve Bank, the Johannesburg Stock Exchange, the Capital Markets Authority, the NSE, the Minister for Finance and the shareholders.

The Board is of the view that the restructuring will be beneficial to the shareholders because it will result in more specialised focus on the banking and insurance businesses with a view to generating superior returns.

Human Resources

The Group's total staff complement as at 31 December 2009 was 1,127, compared to 1,066 in 2008. This growth reflected expansion of points of representation and support for business and systems developments.

As we endeavor to further expand our business both geographically and by way of product offerings, we shall continue to raise the skills of our human capital in order to ensure that high standard of customer service is upheld at all times. Staff development plans, training, leadership development programmes and employee wellness programmes are ingredients of this objective.

Chairman's Statement (continued)

Compliance

Compliance with best practice and regulatory requirements is enshrined within our values and governance structures in all the subsidiaries. The following are our key regulators;

- The Central Bank of Kenya - primary regulator of the banking business
- Insurance Regulatory Authority – Primary regulator of the insurance businesses
- Capital Markets Authority – Primary regulator of CfC Stanbic Holdings Limited and CfC Stanbic Financial Services Limited.

Our relationship with the regulators is one of mutual trust built through regular and open communication.

Directorate

There were no changes to the board of directors in the year 2009.

Leadership

The Group's leadership strategy is to continue to build competitive advantage through comprehensive development programs and tools.

In the year, the Global Leadership Centre (GLC), a world class leadership development Centre, hosted various managers. We believe this is critical in developing excellence among executive and operational leadership. The GLC offers internationally designed management development programs aligned to global best practice and the Group's values and strategy.

Outlook

In 2010 the economy is expected to grow by upto 4.5%, aided by the global recovery which will boost the tourism sector, and expectation of sufficient rains which will have a positive impact on the agricultural sector and the Government's fiscal and monetary stimuli.

The operating environment is expected to improve and inject credit demand helped by an improvement in the equities market.

In line with the Standard Bank's global campaign of "Moving Forward", the Group will continue to improve our customer experience and enhanced product offerings that surpass our customers' expectations.

The Group's focus will be to strategically position itself in the market by providing relevant and cutting edge products and services to its target markets. Our focus will also include judiciously seeking growth opportunities through strategic alliances to enhance our long term prospects.

We are pleased to announce that the Bank began 2010 on a positive note, and our first quarter results are positive. The management of all Group entities is geared to steer the Group to greater heights aided by the global recovery as well as overall improvement of the Kenyan economy.

Appreciation

In conclusion, we appreciate the energy, skill and commitment of all staff across the Group who have shown character and delivered performance in the very challenging environment. We also wish to appreciate the efforts of our colleagues on the Board and its Committees. We extend our sincere gratitude to our customers, shareholders and other stakeholders for their continued support.

C.M. Njonjo
Chairman
09 April 2010

Corporate Governance Report

Standard Bank Group Limited - Overview
Standard Bank Group understands that good corporate governance is fundamental to earning the trust of our stakeholders, which is critical to sustaining the organisation's success and preserving shareholder value. In line with this philosophy, the Board is committed to adopt sound governance practices.

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

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 auditor. 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.

Board composition and evaluation
There are seven directors on the Board of whom one is executive and six are non-executive.

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.

The Board has the right balance between independent, non-executive and executive directors of diverse skills, expertise, competencies and experience to effectively guide the Group and ensure that the objective of shareholder value maximisation is achieved.

All the Group's subsidiary entities have boards of directors. The directors of these boards independently manage the affairs of the entities. A number of committees have been established that assist the various boards in fulfilling stated objectives. The committees' roles and responsibilities are set out in terms of agreed mandates, which are reviewed annually to ensure they remain relevant.

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

Corporate Governance Report (continued)

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.

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.

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.

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.

Board meetings
The Board meets at least once every quarter. Additional meetings are held whenever deemed necessary. Directors are provided with comprehensive board documentation at least seven days prior to each of the scheduled meetings.

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

Directors' Board Attendance, 2009

Name	Apr	May	Jun	Jul	Aug	Nov
Mr Charles Njonjo	✓	✓	✓	AP	AP	✓
Mr Kitili Mbathi	✓	✓	✓	✓	✓	✓
Mr Jeremiah Kiereini	✓	✓	✓	✓	✓	✓
Mr Gayling R. May	✓	✓	✓	✓	✓	✓
Ms Rose Kimotho	✓	✓	✓	✓	✓	✓
Dr Titus Naikuni	✓	AP	✓	AP	✓	AP
Mr Mike du Toit	AP	✓	AP	AP	✓	✓

✓: Attended AP: Absent with Apology

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 Group'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 and management committees.

These committees include Board Credit Committee (BCC), Board Audit (BAC), Operational Risk and Compliance Committee and Asset and Liability (ALCO). All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Board Audit Committee was reconstituted in August 2009. The Committee meets at least twice a year in accordance with the half-yearly financial reporting period adopted by the Group.

Corporate Governance Report (continued)

All the members attended the meeting as shown below

Directors' BAC attendance, 2009

Name	August
Mr Gayling R. May	✓
Mr Jeremiah Kiereini	✓
Ms Rose Kimotho	✓
Mr Kitili Mbathi	✓
Mr Mike du Toit	✓

Sustainability Report

Introduction

Our business model focuses on both short term and long term sustainability objectives. Our sustainability objectives are aligned to stakeholders and the material issues that impact on our business, stakeholders and community we are operating in. The Group-wide material issues are:

- Liquidity and capital
- Customer satisfaction
- Regulation
- Information technology systems
- Infrastructure
- People practices
- HIV/AIDS
- Supply chain management
- Supporting communities
- Environment

Our stakeholders

Shareholders

Enhanced shareholder value is a key component of building a sustainable business. The Group's business model is to drive higher sustainable revenue whilst embracing a strong risk management framework. In 2009, the Group's focus was shareholder value capital preservation and liquidity management.

We seek to achieve appropriate balance between risk and reward in our business, and continue to build and enhance the risk management capabilities that assist in delivering our growth plans in a controlled environment.

Customers

Our objective is to ensure that customers enjoy their experience with us and build on a mutually beneficial and sustainable relationship. In order to create a sustainable business, we engage meaningfully with our customers in order to provide them with relevant products and services. The range of our products, services and solutions shall remain customer-centric.

Employees

The Group recognises that human capital is critical towards achieving both short and long term objectives.

Our commitment is creating a compelling employee value proposition for long-term sustainability. This is dependent on meeting employees' expectations through fair employment policies, career development as well as wellness and lifestyle support. Staff development plans, training, leadership development programmes and employee wellness programmes are ingredients to this objective.

Regulators

Our entire business model is based on trust and integrity as perceived by our stakeholders. As such, our compliance with the regulatory framework and best practice is a pillar in the way we conduct our business.

As a financial services conglomerate, the regulations are both at Group wide and entity/subsidiary company level. The following regulators also monitor our compliance with legislation:

- Central Bank of Kenya;
- Insurance Regulatory Authority;
- Nairobi Stock Exchange;
- Capital Markets Authority;
- The South African Reserve Bank; and
- Kenya Revenue Authority, among others.

Supply chain management

Our procurement strategy focuses on developing appropriate strategies for each spend category and on deploying appropriate structures, processes and technologies to deliver these strategies. Our suppliers form an integral part of stakeholders.

Arms length relationship and continuous improvement in managing our supplier base remains a key objective.

Environmental friendliness

Under the Equator Principles approved by the Standard Bank Group's Board of Directors in December 2008, projects financed by the Bank are required to be socially responsible and reflect sound environmental management practices.

Sustainability Report (continued)

As a signatory to the Principles, we are bound to ensure that the customers to whom we offer our products, evaluate and actively avoid, manage or mitigate the social and environmental impacts of the projects for which they require financing. This is an important statement about our commitment to sustainable banking and adding value to our clients. This puts us in a unique position to bring tangible benefits to various stakeholders, through a consistent approach to environmental and social management.

Our adoption of these Principles is recognition of our role as a responsible lender looking towards a sustainable future.

Community

In 2009, the Group continued to dedicate a part of its earnings to assisting the community through various programmes and projects. The Group carries on corporate social initiatives activities through its subsidiary companies.

Below are some of the key initiatives undertaken during the year:

- **Naivasha Horticultural Fair**

The annual Naivasha Horticultural Fair is an event that is used to showcase the horticultural community in Kenya as well as acting as a fund raising event for various charities based in and around the Naivasha area, including but not limited to care of street children and support of the Naivasha Hospital. Last year, we made a contribution to the Hospital as well as to the Naivasha Children's home.

- **Rhino Ark Charitable Trust/Foundation**

The Bank once again sponsored 20 corporate customers to participate in the Rhino Charge event. The money raised by each competing car goes to the Foundation's work and not to the competitors. The Foundation was set up to raise money for the conservation of the Aberdare National Park. The main focus of the Foundation was to construct an electric fence which they have now completed around the entire park to protect the main source of water to Nairobi, the animals and the ecosystem of the park from degradation by human intervention.

- **Palm House Foundation**

The foundation was set up to help underprivileged girls to get quality education at some of Kenya's top National secondary schools such as Alliance Girls and Kenya High School. The Group has undertaken to sponsor 2 girls and the sponsorship which started in 2008 will continue for 4 years until completion of their KCSE examinations.

- **Kenya Society of the Blind**

The Group was the main sponsor of the annual mountain climbing event organised by the Kenya Society for the Blind. This is an initiative to help raise funds for the Society as well as raise awareness of the plight of the blind in Kenya.

- **HIV/AIDS**

"HIV in the workplace" is a HIV/AIDS awareness initiative launched across the Group. Peer Educators were trained in selected HIV interventions to complement a team of Wellness champions who spearhead general wellness activities across the Group. A key focus in the year was on dissemination of knowledge and information on the disease with a special emphasis on "know your status".

Counselling is offered through Independent Counselling and Advisory Services (ICAS) to support staff affected by or infected with HIV/AIDS. Treatment is offered under the Staff Medical Scheme (Disease Management Programme).

- **Kijani Kenya Trust**

The Group sponsored the Kijani Festival. This initiative invites artists from London, Germany and locally to stage performances in Nairobi, Mombasa and Nanyuki so as to raise funds. The funds are donated to a number children homes taking care of children infected with HIV/AIDS.

Focus areas for social investment in 2010
The main focus areas for social relevance in 2010 are:

- Youth Business Entrepreneurship
- Environment
- Community development

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2009, 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 comprehensive income for the year was Shs 1,054,497,000 (2008: Loss of Shs 13,239,000) as shown below.

	2009 Shs '000	2008 Shs '000
Profit before taxation	709,301	1,322,356
Taxation	(673,373)	(475,763)
Net profit	**35,928**	**846,593**
Other comprehensive income for the year net of tax	1,018,569	(859,832)
Total comprehensive income for the year	**1,054,497**	**(13,239)**

The directors do not recommend payment of dividend for the year (2008: Shs 78,000,000).

3. **Share capital**
The total number of shares as at 31 December 2009 was 273,684,211 (2008: 273,684,211), ordinary shares of Shs 5 each. The details of share capital are set out in note 30.

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)

* - South African   ** - British

5. **Auditor**
PricewaterhouseCoopers 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 09 April 2010.

BY ORDER OF THE BOARD

A. L. Mugambi
COMPANY SECRETARY
09 April 2010

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.

C. M. Njonjo
Chairman
09 April 2010

K.Mbathi
Director
09 April 2010

Financial highlights – six year review

	2004	2005	2006	2007	2008	2009
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Assets						
Cash and balances with CBK	967,113	1,389,193	1,581,064	1,971,627	6,289,827	4,606,140
Government and other securities	10,900,907	11,710,767	13,676,839	13,164,589	20,194,094	29,727,224
Total loans and advances	**12,233,979**	**14,370,227**	**16,532,720**	**18,926,529**	**65,210,086**	**70,922,412**
Loans and advances to banks	1,264,614	2,708,513	1,479,696	2,224,009	20,548,781	25,081,964
Loans and advances to customers	10,969,365	11,661,714	15,053,024	16,702,520	44,661,305	45,840,448
Current income tax recoverable	59,542	117,710	141,210	-	351,222	166,882
Deferred income tax asset	-	-	-	147,614	280,722	11,424
Other assets	3,444,842	3,029,567	5,367,144	5,322,235	3,823,885	5,961,542
Intangible assets - goodwill	1,084,647	1,084,647	1,084,647	1,084,647	10,434,405	10,434,405
Interest in associated companies	107,095	109,533	108,889	172,191	236,770	337,675
Other intangible assets	18,946	16,505	197,104	483,577	1,610,735	2,074,927
Property and equipment	823,240	958,111	1,266,966	1,495,241	2,296,530	2,962,665
Prepaid operating lease rentals	36,109	31,953	31,579	75,702	34,023	73,654
Investment properties	152,250	293,981	380,500	418,829	366,500	412,000
Total assets	**29,828,670**	**33,112,194**	**40,368,662**	**43,262,781**	**111,128,799**	**127,690,950**
Equity and Liabilities						
Equity	3,037,134	3,976,458	5,610,317	6,012,969	19,247,973	20,341,602
Liabilities						
Total Deposits	**15,153,743**	**17,588,785**	**20,846,309**	**22,070,935**	**73,071,678**	**82,534,005**
Deposits from banks	2,480,452	2,794,743	2,917,882	1,972,975	11,096,605	21,059,626
Deposits from customers	12,673,291	14,794,042	17,928,427	20,097,960	61,975,073	61,474,379
Current taxation	50,489	58,589	119,419	32,065	257,033	-
Other liabilities	11,512,922	11,362,445	13,655,607	14,338,048	16,359,850	19,493,754
Derivative liabilities	-	-	-	-	55,383	16,228
Borrowings	-	-	-	693,842	2,080,161	5,256,618
Deferred taxation	74,382	125,917	137,010	114,922	56,721	48,743
Total equity and liabilities	**29,828,670**	**33,112,194**	**40,368,662**	**43,262,781**	**111,128,799**	**127,690,950**

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

Financial highlights – six year review (continued)

	2004 Shs '000	2005 Shs '000	2006 Shs '000	2007 Shs '000	2008 Shs '000	2009 Shs '000
Interest income	1,450,494	2,401,525	3,025,201	3,599,308	5,804,824	7,096,328
Interest expense	(337,076)	(881,876)	(1,009,394)	(1,331,113)	(2,087,294)	(2,443,813)
Non-interest revenue (NIR)	2,426,889	3,343,829	4,661,191	2,374,590	3,345,908	4,153,031
Credit impairment charges	(75,143)	(91,264)	(171,966)	(318,103)	(859,959)	(599,149)
Operating expenditure	(2,602,180)	(3,935,838)	(5,159,589)	(3,009,287)	(4,952,288)	(7,579,334)
Profit/ (loss) in associates	17,912	29,503	21,469	37,524	71,165	82,238
Profit before tax	**880,896**	**865,879**	**1,366,912**	**1,352,919**	**1,322,356**	**709,301**
Income tax	(215,442)	(313,388)	(426,772)	(428,202)	(475,763)	(673,373)
Profit for the year	**665,454**	**552,491**	**940,140**	**924,717**	**846,593**	**35,928**
Selected ratios						
Return on equity %	21.91%	13.89%	16.76%	15.38%	4.40%	0.18%
Return on assets %	2.23%	1.67%	2.33%	2.14%	0.76%	0.03%
NIR to total income %	62.59%	58.20%	60.64%	39.75%	36.56%	36.92%
Cost to income ratio %	73.50%	80.93%	77.27%	64.82%	70.11%	86.07%

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

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 20 to 113. These financial statements comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and statement of cash flows for the year then ended, together with the statement of financial position of the company standing alone as at 31 December 2009 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 2009 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 OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CfC STANBIC HOLDINGS LIMITED (CONTINUED)

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 statement of financial position and income statement are in agreement with the books of account.

PricewaterhouseCoopers

Certified Public Accountants
09 April 2010
Nairobi

Consolidated and Company Statement of Financial Position

	Note	Group 31 December 2009 Shs'000	Group 31 December 2008 Shs'000	Company 31 December 2009 Shs'000	Company 31 December 2008 Shs'000
Assets					
Cash, banks and Central Bank of Kenya balances	19	4,606,140	6,289,827	2,228	14,828
Pledged assets	20	3,351,812	1,928,997	-	-
Financial investments	21	26,375,412	18,265,097	-	-
Loans and advances	22	70,922,412	65,210,086	-	-
Loans and advances to banks		25,081,964	20,548,781	-	-
Loans and advances to customers		45,840,448	44,661,305	-	-
Balances due from group companies		-	-	275,586	888,406
Other assets	23	5,961,542	3,823,885	133,023	37,459
Investment in subsidiaries and associates	24	337,675	236,770	14,890,349	14,890,349
Property and equipment	25	2,962,665	2,296,530	7,721	11,810
Investment properties	26	412,000	366,500	-	-
Prepaid operating lease	27	73,654	34,023	-	-
Intangible assets - Goodwill	29	10,434,405	10,434,405	-	-
Other intangible assets	28	2,074,927	1,610,735	-	-
Current tax recoverable		166,882	351,222	140,031	149,871
Deferred income tax asset	35	11,424	280,722	-	-
Total assets		**127,690,950**	**111,128,799**	**15,448,938**	**15,992,723**
Equity and liabilities					
Equity		**20,341,602**	**19,247,973**	**14,890,598**	**14,997,216**
Equity attributable to company's equity holders		**19,451,787**	**18,531,146**	**14,890,598**	**14,997,216**
Ordinary share capital	30	1,368,421	1,368,421	1,368,421	1,368,421
Ordinary share premium	30	13,586,847	13,586,847	13,586,847	13,586,847
Revenue reserves		3,184,382	2,738,554	(64,670)	41,948
Other reserves	41	1,312,137	837,324	-	-
Minority interest		889,815	716,827	-	-
Total liabilities		**107,349,348**	**91,880,826**	**558,340**	**995,507**
Derivative liabilities	31	16,228	55,383	-	-
Deposits and current accounts	32	82,534,005	73,071,678	-	-
Deposits from banks		21,059,626	11,096,605		-
Deposits from customers		61,474,379	61,975,073	-	-
Borrowings	33	5,256,618	2,080,161	200,000	700,000
Other liabilities	34	19,493,754	16,359,850	33,908	34,577
Balances due to group companies		-	-	324,432	251,090
Current income tax payable		-	257,033	-	9,840
Deferred income tax liability	35	48,743	56,721	-	-
Total equity and liabilities		**127,690,950**	**111,128,799**	**15,448,938**	**15,992,723**

The financial statements on pages 20 to 113 were approved for issue by the Board of Directors on 9 April 2010 and signed on its behalf by:

C.M. Njonjo
Chairman

K. Mbathi
Managing Director

G.R. May
Director

A.L. Mugambi
Company Secretary

Consolidated Income Statement

	Note	31 December 2009 Shs'000	31 December 2008 Shs'000
Net interest income		**4,652,515**	**3,717,530**
Interest income	6	7,096,328	5,804,824
Interest expense	7	(2,443,813)	(2,087,294)
Non-interest revenue		**3,046,903**	**2,193,311**
Net fee and commission revenue		1,454,059	1,363,048
Fee and commission revenue	8	1,465,277	1,390,074
Fee and commission expense	9	(11,218)	(27,026)
Trading revenue	10	1,483,488	814,067
Other revenue	11	109,356	16,196
Income from associates	24	82,238	71,165
Insurance underwriting income	12	1,106,128	1,152,597
Total income		**8,887,784**	**7,134,603**
Credit impairment charges	13	(599,149)	(859,959)
Impairment loss on available-for-sale securities		(699,449)	(226,622)
Income after impairment charges		**7,589,186**	**6,048,022**
Operating expenses		**(6,879,885)**	**(4,725,666)**
Staff costs	14	(2,306,249)	(1,819,568)
Other operating expenses	15	(4,573,636)	(2,906,098)
Profit before taxation		**709,301**	**1,322,356**
Income tax expense	16	(673,373)	(475,763)
Profit for the year		**35,928**	**846,593**
Attributable to :			
Equity holders of parent		(59,871)	752,179
Minority interest		95,799	94,414
		35,928	**846,593**
Earnings per share basic and diluted (Shs)	17	**(0.22)**	**3.35**

Consolidated Statement of Comprehensive Income

	31 December 2009 Shs'000	31 December 2008 Shs'000
Profit for the year	**35,928**	**846,593**
Other comprehensive income		
Exchange differences on translation of foreign operations	6,049	1,361
Gain/(loss) on fair valuation of available for sale financial assets	429,800	(933,652)
Deferred tax (charge) / credit on revaluation of AFS financial assets	(103,830)	5,976
Impairment loss on AFS equity securities charged through P&L	699,449	226,662
(Losses) /gains on property revaluations	(1,937)	86,190
Other comprehensive income	(10,962)	(246,369)
Other comprehensive income for the year net of tax	**1,018,569**	**(859,832)**
Total comprehensive income for the year	**1,054,497**	**(13,239)**
Total comprehensive income attributable to:		
Equity holders of parent	907,153	21,143
Minority interest	147,344	(34,382)
Total comprehensive income for the year	**1,054,497**	**(13,239)**

Consolidated Statement of Changes in Equity

	Note	Share capital	Share Premium	Capital Reserve	Statutory Reserve	Fair Value Reserve	Revaluation reserve	Currency Translation reserve	Share-based payment reserve	Revenue Reserve	Minority Interest	Total equity
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2009												
At start of year	30	**1,368,421**	**13,586,847**	**273,371**	**576,802**	**(281,558)**	**303,669**	**(34,960)**	-	**2,738,554**	**716,827**	**19,247,973**
Total comprehensive income for the year		-	-	-	**(218,096)**	**675,309**	**(1,937)**	**6,049**	-	**445,828**	**147,344**	**1,054,497**
Profit or loss		-	-	-	-	-	-	-	-	(59,871)	95,799	**35,928**
Other comprehensive income:												
Gains on revaluation of land and buildings		-	-	-	-	-	(1,937)	-	-	-	-	**(1,937)**
Surplus on disposal of Fund management division		-	-	-	-	-	-	-	-	14,686	-	**14,686**
Available-for-sale financial assets net of tax		-	-	-	-	944,227	-	-	-	-	81,143	**1,025,370**
Currency translation differences		-	-	-	-	-	-	6,049	-	-	-	**6,049**
Other comprehensive income for the year, net of tax		-	-	-	(218,096)	(268,918)	-	-	-	491,013	(29,598)	**(25,599)**
Total other comprehensive income		-	-	-	**(218,096)**	**675,309**	**(1,937)**	**6,049**	-	**505,699**	**51,545**	**1,018,569**
Contribution and distributions to owners												
Dividend paid in 2009	18	-	-	-	-	-	-	-	-	-	25,644	**25,644**
Share based payment reserve	41	-	-	-	-	-	-	-	13,488	-	-	**13,488**
Total contributions by and distributions to owners		-	-	-	-	-	-	-	**13,488**	-	**25,644**	**39,132**
At end of year		**1,368,421**	**13,586,847**	**273,371**	**358,706**	**393,751**	**301,732**	**(28,911)**	**13,488**	**3,184,382**	**889,815**	**20,341,602**

Consolidated Statement of Changes in Equity

Year ended 31 December 2008	Note	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	Minority Interest Shs'000	Total equity Shs'000
At start of year	30	**780,000**	**669,420**	**233,809**	**337,124**	**323,282**	**217,479**	**(37,581)**	**2,636,622**	**852,814**	**6,012,969**
Total comprehensive income for the year		**-**	**-**	**39,562**	**239,678**	**(604,840)**	**86,190**	**2,621**	**257,932**	**(34,382)**	**(13,239)**
Profit or loss		-	-	-	-	-	-	-	752,179	94,414	**846,593**
Other comprehensive income:											
Gains on revaluation of land and buildings		-	-	-	-	-	86,190	-	-	-	**86,190**
Available-for-sale financial assets net of tax		-	-	-	-	(604,840)	-	-	-	(96,174)	**(701,014)**
Currency translation differences		-	-	-	-	-	-	2,621	-	(1,260)	**1,361**
Other comprehensive income for the year, net of tax		-	-	39,562	239,678	-	-	-	(494,247)	(31,362)	**(246,369)**
Total other comprehensive income		**-**	**-**	**39,562**	**239,678**	**(604,840)**	**86,190**	**2,621**	**(494,247)**	**(128,796)**	**(859,832)**
Transactions with owners, recorded directly in equity		-	-	-	-	-	-	-	-	-	-
Dividends:											
- Final for 2007		-	-	-	-	-	-	-	(78,000)	(78,306)	**(156,306)**
- Interim for 2008	18	-	-	-	-	-	-	-	(78,000)	(23,299)	**(101,299)**
Issued shares on merger		588,421	12,917,427	-	-	-	-	-	-	-	**13,505,848**
Total contributions by and distributions to owners		**588,421**	**12,917,427**	**-**	**-**	**-**	**-**	**-**	**(156,000)**	**(101,605)**	**13,248,243**
At end of year		**1,368,421**	**13,586,847**	**273,371**	**576,802**	**(281,558)**	**303,669**	**(34,960)**	**2,738,554**	**716,827**	**19,247,973**

The dividend per share was Shs 0.5.

Company Statement of Changes in Equity

Year ended 31 December 2009	Note	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 start of year		**1,368,421**	**13,586,847**	-	-	**41,948**	**14,997,216**
Total comprehensive income for the year		-	-	-	-	**(106,618)**	**(106,618)**
Profit or loss		-	-	-	-	(106,618)	**(106,618)**
Total other comprehensive income		-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-
At end of year		**1,368,421**	**13,586,847**	-	-	**(64,670)**	**14,890,598**

Year ended 31 December 2008	Note	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 start of year		**780,000**	**669,420**	**79,698**	**152,752**	**1,657,163**	**3,339,033**
Total comprehensive income for the year		-	-	**(59,926)**	**(74,945)**	**218,523**	**83,652**
Profit or loss		-	-	-	-	143,578	**143,578**
Other comprehensive income:							
Available-for-sale financial assets net of tax		-	-	(59,926)	-	-	**(59,926)**
Transfer from statutory reserves		-	-	-	(74,945)	74,945	-
Total other comprehensive income		-	-	**(59,926)**	**(74,945)**	**74,945**	**(59,926)**
Contribution and distributions to owners							
Dividends							
- Final for 2007		-	-	-	-	(78,000)	**(78,000)**
- Interim for 2008		-	-	-	-	(78,000)	**(78,000)**
Issued shares on merger with Stanbic Bank Kenya Limited		588,421	12,917,427	-	-	-	**13,505,848**
Hive down to Stanbic Bank Kenya Limited on merger		-	-	(19,772)	(77,807)	(1,677,738)	**(1,775,317)**
Total contributions by and distributions to owners		**588,421**	**12,917,427**	**(19,772)**	**(77,807)**	**(1,833,738)**	**11,574,531**
At end of year		**1,368,421**	**13,586,847**	-	-	**41,948**	**14,997,216**

Consolidated Statement of Cash Flows

	Note	31 December 2009 Shs '000	31 December 2008 Shs '000
Cash flows generated from operating activities	36 (a)	**1,263,928**	**1,676,467**
Income tax paid		(560,551)	(602,016)
Net cash generated from operating activities		**703,377**	**1,074,451**
Changes in operating assets and liabilities			
Loans and advances to customers		(1,179,143)	(6,898,170)
Other assets		(2,137,657)	2,109,272
Cash ratio requirement		(211,701)	883,733
Financial investments		(6,222,614)	(260,726)
Customer deposits		(500,694)	13,233,054
Other liabilities		3,125,255	(5,231,457)
Net cash (Used in) /generated from operating activities		**(6,423,177)**	**4,910,157**
Cash flows from investing activities			
Acquisition of subsidiary companies		-	(89,148)
Additions to property and equipment		(1,035,733)	(556,210)
Additions to intangible assets		(788,363)	(232,236)
Proceeds from the sale of equipment		8,990	7,251
Proceeds from sale of investment properties		35,500	-
Net proceeds from sale of Fund management division		5,476	-
Dividends from associates		23,195	14,571
Investment in associates		-	(7,930)
Net cash used in investing activities		**(1,750,935)**	**(863,702)**
Cash flows from financing activities			
Dividends paid		-	(165,909)
Dividends paid to minority shareholders		(25,644)	(101,605)
Proceeds from borrowing and shareholder loan		3,176,457	1,386,319
Net cash generated from financing activities		**3,150,813**	**1,118,805**
Currency translation differences		(16,048)	(2,790)
Net increase in cash and cash equivalents		(5,039,347)	5,162,470
Cash acquired on merger with Stanbic Bank Kenya Limited		-	6,038,129
Cash and cash equivalents at 1 January		15,127,591	3,926,992
Cash and cash equivalents at 31 December	36 (b)	**10,088,244**	**15,127,591**

Notes

1 General information

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

CfC Stanbic Centre
Chiromo Road
P O Box 72833
00200 Nairobi

The company's shares are listed on the Nairobi Stock Exchange.

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 consolidated and company financial statements ('financial statements') are prepared in accordance with International Financial Reporting Standards (IFRS) and the Kenyan Companies Act. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. 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.

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment property, liabilities for cash-settled share-based payment arrangements, interests in mutual funds, policyholder investment contract liabilities and third party financial liabilities arising on consolidation of mutual funds are measured at fair value; and
- policyholder insurance contract liabilities and related reinsurance assets are measured in terms of the Financial Soundness Valuation (FSV) basis.

Changes in accounting policies

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

Adoption of new standards and interpretations effective in 2009

The Group has adopted the following new and amended IFRSs as of 1 January 2009 that have had an effect on the Group's financial statements:

- Revised IAS 1 *Presentation of Financial Statements*

  As a result of adopting this revised standard, the Group presents all owner changes in equity in the statement of changes in equity. All non-owner changes in equity are presented in the income statement and the statement of comprehensive income.

  Comparative information has been re-presented to conform to the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- Amendments to IFRS 7 *Improving Disclosures about Financial Instruments*

  The amendments require enhanced fair value measurement and liquidity risk disclosures. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

In accordance with the relevant transitional provisions, comparative disclosures for 2008 have not been presented. This has resulted only in additional disclosures being provided in 2009 and there is no impact on earnings per share.

Notes (continued)

Summary of significant accounting policies (continued)

Basis of preparation (continued)

- Amendments to IAS 40 *Investment Property* (included in the *Improvements to IFRSs 2008*)

These amendments result in property under construction or development for future use as investment property being within the scope of IAS 40. Such property is therefore required to be measured at fair value, in accordance with the Group's accounting policy for investment property (unless it is not possible to measure fair value reliably). Previously, such property was measured at cost less impairment.

In accordance with the relevant transitional provisions, this change in accounting policy has been applied prospectively. The change in accounting policy has not had a material impact on any of the financial statement line items or earnings per share.

The Group has also adopted all other effective new and amended IFRSs (not previously early adopted) as of 1 January 2009, with no material impact on the Group's accounting policies or results and no restatement of prior period results.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

Two new standards (IFRS 3 – Business combinations and IAS 27 – Consolidated and separate financial statements) 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 2010, but the Group has not early adopted any of them.

The Directors have assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they will not have a significant impact on the Group's financial statements for 2010.

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, The Heritage Insurance Company (T) Limited and CfC Life Assurance Limited. The financial statements have been made up to 31 December.

Subsidiaries

The financial statements of subsidiaries are consolidated from the date on which the Group acquires control, up to the date that control ceases. For this purpose, subsidiaries are entities over which the Group, directly or indirectly, has the power to govern the financial and operating policies to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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 sum of 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 an acquisition over the Group's share of the fair value of identifiable net assets acquired is recorded as goodwill.

If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference, referred to as negative goodwill, is recognised directly in profit or loss.

Notes (continued)

Summary of significant accounting policies (continued)

Basis of consolidation (continued)

Intra-group transactions, balances and unrealised gains and losses within banking and investment management and life insurance activities are eliminated on consolidation.

Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment.

Accounting policies of subsidiaries conform to the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment losses in the company financial statements. The carrying amounts of these investments are reviewed annually and impaired when necessary.

Associates

Associates are those entities in which the Group has significance influence, but not control, over the financial and operating policies. Significant influence generally accompanies, but is not limited to, a shareholding of between 20% and 50% of the voting rights. Investments in mutual funds over whose financial and operating policies the Group is able to exercise significant influence (including those in which the Group has between 20% and 50% economic interest) are also classified as associates.

Interest in associates is accounted for using the equity method and are measured in the consolidated statement of financial position at an amount that reflects the Group's share of the net assets of the associate (including goodwill). Equity accounting involves recognising the investment initially at cost, including goodwill, and subsequently adjusting the carrying value for the Group's share of the associates' income and expenses and other comprehensive income. Equity accounting of losses in associates is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the Group has an obligation or has made payments on behalf of the associate.

Unrealised intra-Group profits are eliminated in determining the Group's share of equity accounted profits. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Equity accounting is applied from the date on which the entity becomes an associate, up to the date on which it ceases to be an associate. The accounting policies of associates have been changed where necessary to ensure consistency with the policies of the Group.

Investment in associates is accounted for at cost less impairment losses in the company financial statements.

c. Foreign currency translations

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 (functional currency). The consolidated and company financial statements are presented in Kenya Shillings, which is the functional currency of CfC Stanbic Holdings Limited.

Consolidation of group entities

The results and financial position of all foreign operations that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- assets and liabilities (including goodwill and fair value adjustments arising on acquisition) are translated at the closing rate on the reporting date;
- income and expenses are translated at average exchange rates for the year, to the extent that such average rates approximate actual rates; and
- all resulting foreign exchange differences are accounted for directly in a separate component of other comprehensive income, being the foreign currency translation reserve.

Notes (continued)

Summary of significant accounting policies (continued)

Basis of consolidation (continued)

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.

Transactions and balances

Foreign currency transactions are translated into the respective functional currencies of Group entities at exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

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.

d. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cash flows consist of cash and balances with central banks and other short term highly liquid investments with maturities of three months or less including investment securities with original maturities of 90 days or less and balances with other banks. Cash and cash equivalents exclude the cash reserve held with Central Bank of Kenya. Cash and balances with central bank comprise coins and bank notes and balances with central banks. Cash flows arising from operating funds are stated after excluding the impact of foreign currency translation differences on asset and liability classes.

e. Financial instruments

Financial instruments include all financial assets and liabilities held for liquidity, investment, trading or hedging purposes.

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

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classification.

(i) Classification

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity. Were the Group to sell more than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in other comprehensive income.

Held-to-maturity investments are carried at amortised cost, using the effective interest method, less any impairment losses.

Loans 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 classified by the Group as at fair value through profit or loss or available-for-sale. This category includes purchased loans.

Notes (continued)

Summary of significant accounting policies (continued)

Financial Instruments (continued)

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the Group's advances are included in the loans and receivables category.

Trading assets and liabilities

Trading assets and liabilities are either those financial assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term, or those forming part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading, unless they are designated as hedging instruments.

Subsequent to initial recognition, the fair values are remeasured at each reporting date. All gains and losses arising from changes in fair value are recognised in profit or loss as trading revenue under non-interest revenue.

Interest earned and dividends received on trading assets are included in trading revenue.

Financial assets and liabilities designated at fair value through profit or loss

The Group designates certain financial assets and liabilities, other than those held for trading, as at fair value through profit or loss when:

- this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. The designation significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost. This category also includes financial assets used to match investment contracts or insurance contract liabilities; or
- groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the Group's key management personnel on a fair value basis; or
- financial instruments contain one or more embedded derivatives that significantly modify the instruments' cash flows.

The fair value designation is made on initial recognition and is irrevocable. Subsequent to initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (expense) for all dated financial assets (financial liabilities) and in other revenue within non-interest revenue for all undated financial assets.

Available-for-sale

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

Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired. When dated (undated) available-for-sale financial assets are disposed of, the cumulative fair value adjustments in other comprehensive income are transferred to interest income (other revenue).

Notes (continued)

Summary of significant accounting policies (continued)

Financial Instruments (continued)

Interest income, calculated using the effective interest method, is recognised in profit or loss. Dividends received on available-for-sale instruments are recognised in profit or loss when the Group's right to receive payment has been established. Foreign exchange gains or losses on available-for-sale debt instruments are recognised in profit or loss.

(ii) Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or Group of financial assets is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that loss event had a negative effect on the estimated future cash flows of the financial asset or Group of financial assets that can be estimated reliably.

Assets carried at amortised cost

The Group first assesses whether there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Retail loans and advances are considered non-performing 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. The impairment of non-performing loans takes account of past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

If the Group determines that 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 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 for impairment.

Impairment of performing loans is only recognised if there is objective evidence that a loss event has occurred after the initial recognition of the financial asset but before the reporting date. In order to provide for latent losses in a portfolio of loans that have not yet been individually identified as impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods. Loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows.

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired, are reflected in profit or loss. Previously impaired advances are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

Any subsequent reductions in amounts previously impaired are reversed by adjusting the allowance account with the amount of the reversal recognised as a reduction in impairment for credit losses in profit or loss. Subsequent recoveries of previously written off advances are recognised in profit or loss.

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

Impairment losses on financial assets measured at cost are not reversed.

Notes (continued)

Summary of significant accounting policies (continued)

Financial Instruments (continued)

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 reset to performing loan status. Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered impaired or past due.

Available-for-sale financial assets
Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have a negative impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred.

In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is transferred from other comprehensive income to profit or loss.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for available-for-sale debt instruments. An impairment loss in respect of an available-for-sale equity instrument is not reversed through profit or loss but accounted for directly in other comprehensive income.

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

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

(iv) Derecognition of financial instruments
Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expires.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include securities lending and repurchase agreements.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

Notes (continued)

Summary of significant accounting policies (continued)

Financial Instruments (continued)

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

f. Financial guarantee contracts

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

Financial guarantee liabilities are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

g. Sale and repurchase agreements and lending of securities

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

Securities purchased under agreements to resell are recorded as loans granted under resale agreements and included under loans and advances to other banks or customers, as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the repurchase agreement using the effective interest method.

Securities lent to counterparties are retained in the financial statements and are classified and measured in accordance with the measurement policy above. Securities borrowed are not recognised in the financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability.

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

h. Investment property

Property held to earn rental income and/or for capital appreciation that is not owner-occupied is classified as investment property. Investment property includes property under construction or development for future use as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value with fair value changes recognised in profit or loss as investment gains or losses.

The fair value of investment property is based on valuation information at the reporting date. If the valuation information cannot be reliably determined, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices on active markets.

Fair value adjustments on investment property recognised in profit or loss are adjusted for any double-counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Notes (continued)

Summary of significant accounting policies (continued)

i. Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Acquisition costs include any directly attributable transaction costs.

Goodwill arising on the acquisition of subsidiaries occurring on or after 1 January 2000 is reported in the statement of financial position as an intangible asset, and goodwill arising on the acquisition of associates is included in interest in associates in the statement of financial position. Goodwill arising on acquisitions on or after 1 January 2000 but before or on 31 December 2003 has been amortised using the straight-line method over its estimated useful life and is carried at cost less accumulated amortisation and impairment recognised up to 31 December 2003.

Goodwill arising on acquisitions after 31 December 2003 and the carrying values of goodwill that existed on this date are not amortised, but allocated to cash-generating units and tested annually for impairment. Negative goodwill is recognized as income in profit or loss in the period in which it arises. Gains or losses on the disposal of an entity are determined after taking into account the carrying amount of goodwill (if any) relating to the entity sold.

Computer software

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

Capitalisation is further limited to development costs where the Group is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development.

Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

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

Other intangible assets

The Group recognises the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in profit or loss as incurred. Prepayment assets are recognised for advertising or promotional expenditure until the Group has obtained the right to access the goods purchased or received the services.

The Group capitalises brands, customer lists, customer contracts and similar rights acquired in business combinations.

Capitalised intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, not exceeding 20 years, from the date that they are available for use.

Summary of significant accounting policies (continued)

Intangible assets (continued)

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

j. Property and equipment

Equipment and owner-occupied properties

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 equipment, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. Maintenance and repairs, which do not meet these criteria, are recognised in profit or loss as incurred. Depreciation, impairment losses and gains or losses on disposal of assets are included in profit or loss.

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

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

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

The estimated useful lives of tangible assets for the current financial year are as follows:

Leasehold buildings	The shorter of the lease period or 50 years
Furniture & fittings	5 - 13 years
Motor vehicles	4 - 5 years
Computer and other computer equipment	3 - 5 years
Office equipment	3 - 13 years

Capitalised leased assets – over the shorter of the lease term or its useful life

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

k. Impairment of non-financial assets

Intangible assets that have an indefinite useful life and goodwill are tested annually for impairment. Intangible assets that are subject to amortisation and other non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (cash-generating units).

Notes (continued)

Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

l. Leases

Group as lessee

Leases, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is recognised in profit or loss over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases of assets are classified as operating leases if the lessor retains a significant portion of the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Group as lessor

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances in the statement of financial position.

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return. The benefits arising from investment allowances on assets leased to clients are accounted for in tax.

Leases of assets under which the Group retains a significant portion of the risks and rewards of ownership are classified as operating leases. Operating lease income from properties held as investment properties, net of any incentives given to lessees, is recognised on the straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of a penalty is recognised as income in the period in which termination takes place.

m. Provisions and contingent liabilities

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

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

Notes (continued)

Summary of significant accounting policies (continued)

Provisions and contingent liabilities (continued)

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit pledged as collateral security. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements unless they are remote.

n. Employee benefits

(i) Defined contribution plan
The majority of the Group's employees are eligible for retirement benefits under a defined contribution plan. The Group and 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.

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

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

Notes (continued)

Summary of significant accounting policies (continued)

Employement benefits (continued)

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

o. Tax

Direct taxation includes current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences:

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

p. Non-current assets held for sale and disposal groups

Non-current assets, or disposal groups comprising assets and liabilitiesthat are expected to be recovered primarily through sale rather than continuing use, are classified as held for sale.

Non-current assets held as investments for the benefit of policyholders as part of the Group's investment management and life insurance activities are not classified as held for sale as ongoing investment management implies regular purchases and sales in the ordinary course of business. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, the assets (or components of a disposal group) are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss.

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.

Notes (continued)

Summary of significant accounting policies (continued)

q. Revenue and expenditure

Banking activities

Revenue is derived substantially from the business of banking and related activities and comprises interest income, fee and commission revenue and other non-interest revenue.

Net interest income

Interest income and expense (with the exception of those borrowing costs that are capitalized), are recognised in the income statement on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimates or receipts on financial assets (except those that have been reclassified) are subsequently revised, the carrying amount of the financial asset is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset's original effective interest rate. Any adjustment to the carrying value is recognised in interest income.

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate.

Gains and losses on the disposal of dated financial instruments, including amounts removed from other comprehensive income in respect of available-for-sale financial assets, and excluding those classified as held for trading, are included in other revenue.

Non-interest revenue

Net fee and commission revenue

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

Loan syndication fees, where the Group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income.

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

Fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received.

Trading revenue

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

Other revenue

Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, gains and losses on realised undated available-for-sale financial assets, dividends relating to those financial instruments and underwriting profit from the Group's short- term insurance operations and related insurance activities.

Notes (continued)

Summary of significant accounting policies (continued)

Revenue and expenditure (continued)

Net income from financial instruments designated at fair value includes all gains and losses from changes in the fair value of undated financial assets and liabilities designated at fair value through profit or loss, including dividend income arising on these financial instruments.

Gains and losses on undated available-for-sale financial assets are transferred from other comprehensive income to profit or loss on realisation of the investments. Dividends on these instruments are recognised in profit or loss.

Gains and losses on all other undated financial instruments that are not held for trading, are recognised in other revenue.

Dividend income
Dividends are recognised in profit or loss when the right to receipt is established.

r. Classification of insurance contracts
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.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

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.

Long term insurance business
Includes insurance business of all or any of the following classes; life assurance business, superannuation business, industrial life assurance business, 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.

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.

In terms of IFRS 4 Insurance Contracts, insurance liabilities are measured under existing local practice at the date of adoption of IFRS 4.

Summary of significant accounting policies (continued)

s. 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.

t. 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.

u. Commissions payable and deferred acquisition costs ("DAC")

Deferred acquisition costs represent the proportion of commission 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.

Notes (continued)

Summary of significant accounting policies (continued)

v. 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.

w. 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.

x. 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.

y. Reinsurance premiums

Reinsurance premiums are recognised when due for payment, in accordance with the terms of each reinsurance contract.

Summary of significant accounting policies (continued)

z. Acquisition costs

Acquisition costs for insurance contracts represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. These costs are expensed as incurred.

aa. Deferred acquisition costs (DAC) in respect of investment contracts

Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed. These costs are expensed as incurred, unless specifically attributable to an investment contract with an investment management service element. Such costs are deferred and amortised on a straight-line basis over the expected life of the contract (10 to 16 years for linked annuities and five years for other investment contracts), taking into account all decrements, as they represent the right to receive future management fees. A DAC asset is recognised for all applicable policies with the amortisation being calculated on a portfolio basis.

The DAC asset is assessed for impairment at the reporting date.

bb. Investment income

Investment income for investment management and life insurance activities comprises mainly rental income from properties, interest, hotel operations sales, scrip lending fees and dividends. Dividends are recognised when the right to receive payment is established and interest income is recognised using the effective interest method.

cc. Management fees on assets under management

Fee revenue includes management fees on assets under management and administration fees. Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements.

Administration fees received for the administration of medical schemes are recognised when the services are rendered.

dd. 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.

ee. Share capital

Ordinary shares are classified as equity.

ff. Dividends on ordinary shares

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

gg. Segment reporting

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

Notes (continued)

Summary of significant accounting policies (continued)

hh. 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, post-employment benefit plans and other institutions. These assets and the income arising thereon are excluded from these financial statements as they are not assets of the Group.

ii. Comparative figures

Where necessary, comparative figures within notes have been restated to conform to changes in presentation, in the current year. Refer to Note 4 *Segment reporting*

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the 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.

b) 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.

c) 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 29.

d) 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.

e) 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.

Notes (continued)

4 Segmental reporting

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

The Group is required to produce segmented financial statements i.e. Income Statement and Balance Sheet in compliance with IFRS 8.

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

Management has determined the operating segments based on the reports reviewed by the Managing Director. Management considers the business from client turnover perspective.

The Group has therefore segmented its business as Personal & Business Banking (PBB), Corporate and Investment Banking (CIB) and Insurance. This is in line with Group reporting and decision making reports.

The geographical spread (across borders) is also used as a part of performance analysis.

Personal and Business Banking (PBB)

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

- Mortgage lending – provides residential accommodation loans to individual customers.
- Instalment sales and finance leases – comprises two areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.
- Card products – provides card facilities to individuals and businesses.
- Transactional and lending products – transactions in products associated with the various points of contact channels such as ATMs, Internet, and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.

Corporate and Investment Banking (CIB)

Provides commercial and investment financial services to larger corporates, financial institutions and international counterparties. The products offered include:

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

Insurance

The Group underwrites all classes of life and non life insurance risks as defined in the Insurance Act and medical and personal accidents classes of short term insurance. It also issues investment contracts to provide customers with asset management solutions for their savings and retirement needs.

Major Customers

The Group does not have any one major customer that contributes more than 10 percent of its revenues. However the Group has one major customer whose deposits contribute 17.4% percent of total deposits as at December 2009. The interest expense paid to this customer is reported under the Corporate and Investment Banking segment

4. Segmental reporting (continued)

a) Results by business units

	31 December 2009			
	CIB	PBB	Insurance	Total
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Net interest income	1,795,646	1,837,394	1,019,475	**4,652,515**
Non interest revenue	2,141,217	442,618	463,068	**3,046,903**
Net premiums	-	-	3,915,452	**3,915,452**
Net claims	-	-	(2,809,324)	**(2,809,324)**
Income from associates	21,635	-	60,603	**82,238**
Impaiments on loans and advances	(285,813)	(313,336)	-	**(599,149)**
Impaiment of available for sale financial investments	-	-	(699,449)	**(699,449)**
Staff cost	(826,260)	(913,751)	(566,238)	**(2,306,249)**
Operating expenses	(1,071,638)	(2,032,147)	(1,469,851)	**(4,573,636)**
Profit before tax	**1,774,787**	**(979,222)**	**(86,264)**	**709,301**
Taxation	(686,734)	206,715	(193,354)	**(673,373)**
Profit after taxation	**1,088,053**	**(772,507)**	**(279,618)**	**35,928**
Assets	88,221,542	19,590,805	19,878,603	**127,690,950**
Loans and advances	55,967,744	13,329,829	1,624,839	**70,922,412**
Investments in associates	56,248	-	281,427	**337,675**
Customer deposits	64,127,044	18,406,961	-	**82,534,005**
Property and equipment	922,462	949,902	1,090,301	**2,962,665**
Intangibles	7,495,745	4,822,844	190,743	**12,509,332**
Total liabilities	(68,910,566)	(21,882,877)	(16,555,905)	**(107,349,348)**
Borrowings	(2,513,173)	(2,743,445)	-	**(5,256,618)**
Derivative liabilities	(16,228)	-	-	**(16,228)**
Additions to property and equipment	254,216	575,275	206,242	**1,035,733**
Additions to intangible assets	56,971	713,622	17,770	**788,363**
Depreciation and amortisation for the year	201,524	271,416	145,028	**617,968**

Notes (continued)

4. Segmental reporting (continued)

				31 December 2008
	CIB	PBB	Insurance	Total
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Net interest income	1,485,980	1,396,306	835,244	**3,717,530**
Non interest revenue	1,396,577	519,736	276,998	**2,193,311**
Net premiums	-	-	3,595,042	**3,595,042**
Net claims	-	-	(2,442,445)	**(2,442,445)**
Income from associates	21,635	-	49,530	**71,165**
Impaiments on loans and advances	(270,100)	(589,859)	-	**(859,959)**
Impaiment of available for sale financial investments	-	-	(226,622)	**(226,622)**
Staff cost	(785,224)	(461,908)	(572,436)	**(1,819,568)**
Operating expenses	(1,099,883)	(669,417)	(1,136,798)	**(2,906,098)**
Profit before tax	**748,985**	**194,858**	**378,513**	1,322,356
Taxation	(247,650)	(59,242)	(168,871)	**(475,763)**
Profit after taxation	**501,335**	**135,616**	**209,642**	**846,593**
Assets	74,263,172	20,416,920	16,448,707	**111,128,799**
Loans and advances	28,250,098	35,442,108	1,517,880	**65,210,086**
Investments in associates	34,615	-	202,155	**236,770**
Customer deposits	37,304,796	35,766,882	-	**73,071,678**
Property and equipment	659,034	672,624	964,872	**2,296,530**
Intangibles	5,957,110	5,834,273	253,757	**12,045,140**
Total liabilities	(50,922,019)	(27,392,943)	(13,565,864)	**(91,880,826)**
Borrowings	(1,590,161)	(490,000)	-	**(2,080,161)**
Derivative liabilities	(55,383)	-	-	**(55,383)**
Additions to property and equipment	129,178	317,574	109,458	**556,210**
Additions to intangible assets	653,286	619,950	58,059	**1,331,295**
Depreciation and amortisation for the year	134,408	171,599	125,465	**431,472**

Notes (continued)

4. Segmental reporting (continued)

b) Results on geographical spread (continued)

	31 December 2008		
	Kenya Shs' 000	**Tanzania Shs' 000**	**Group Shs' 000**
Net interest income	3,685,915	31,615	**3,717,530**
Non interest revenue	2,081,629	111,682	**2,193,311**
Net premiums	3,088,046	506,996	**3,595,042**
Net claims	(2,121,779)	(320,666)	**(2,442,445)**
Assets	108,828,796	2,300,003	**111,128,799**
Loans and advances	65,210,086	-	**65,210,086**
Customer deposits	73,071,678	-	**73,071,678**
Property and equipment	2,275,477	21,053	**2,296,530**
Intangibles	12,045,140	-	**12,045,140**
Total liabilities	(90,036,710)	(1,844,116)	**(91,880,826)**
Borrowings	(2,080,161)	-	**(2,080,161)**
Derivative liabilities	(55,383)	-	**(55,383)**
Additions to property and equipment	536,751	19,459	**556,210**
Additions to intangible assets	1,331,295	-	**1,331,295**
Depreciation and amortisation for the year	428,985	2,487	**431,472**

5 Financial risk management

Group risk management framework and governance structures

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

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

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various committees in the operating subsidiaries, including the Asset and Liability (ALCO), Credit Risk Management and Operational Risk and Compliance 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.

5. Financial risk management (continued)

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.

	2009 Shs'000	2008 Shs'000
Total borrowings	200,000	700,000
Less: cash and cash equivalents	(2,228)	(14,828)
Net debt	197,772	685,172
Total equity	14,890,598	14,997,216
Total capital	**15,088,370**	**15,682,388**
Gearing ratio	**1.31%**	**4.37%**

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.

Notes (continued)

5. Financial risk management (continued)

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.

Regulatory capital

	2009 Shs'000	2008 Shs'000
Tier 1 capital (Core capital)		
Share capital	2,441,375	2,441,375
Share premium	534,118	534,118
Retained earnings	3,765,536	2,976,461
Total Tier 1 capital (Core capital)	**6,741,029**	**5,951,954**
Tier 2 capital		
Statutory credit risk reserve	427,899	422,281
Subordinated debt	3,370,515	1,264,200
Total Tier 2 capital	**3,798,414**	**1,686,481**
Total capital (Tier 1 + Tier 2)	**10,539,443**	**7,638,435**
Risk weighted assets		
On-balance sheet	54,891,877	47,565,618
Off- balance sheet	10,805,513	4,584,402
Total risk weighted assets	**65,697,390**	**52,150,020**

Capital adequacy ratios

	2009	2008
Core capital / total risk weighted assets	10.26%	11.41%
Minimum regulatory requirement	**8.00%**	**8.00%**
Total capital / total risk weighted assets	16.04%	14.65%
Minimum regulatory requirement	**12.00%**	**12.00%**

5. Financial risk management (continued)

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 Shs' 000	CfC Life Shs' 000	Heritage Insurance 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 2009 is illustrated below:

CfC Life Assurance Limited

	Long-term business 2009 Shs'000	Short-term business 2009 Shs'000	Long-term business 2008 Shs'000	Short-term business 2008 Shs'000
Admitted assets	10,312,224	468,256	8,787,889	500,114
Admitted liabilities	(9,647,488)	(417,342)	(8,196,945)	(366,733)
Solvency margin	**664,736**	**50,914**	**590,944**	**133,381**
Required margin	**515,611**	**91,634**	**409,847**	**103,813**

Notes (continued)

5. Financial risk management (continued)

Capital management - Insurance division (continued)

The Heritage Insurance Company (K) Limited

	Long-term business 2009 Shs'000	Short-term business 2009 Shs'000	Long-term business 2008 Shs'000	Short-term business 2008 Shs'000
Admitted assets	1,483,445	2,235,689	1,396,353	1,954,110
Admitted liabilities	(1,508,976)	(2,024,088)	(1,311,320)	(1,764,221)
Solvency margin	**(25,531)**	**211,601**	**85,033**	**189,889**
Required margin	**75,449**	**211,644**	**69,818**	**184,541**

The Group has short term insurance operations in Tanzania through its subsidiary (The Heritage Insurance Company (T) Limited) and is subject to Tanzania local regulations. A brief solvency regulatory compliance is shown below (converted to Kshs).

	2009 Shs' 000	2008 Shs' 000
Admitted assets	1,658,885	1,269,675
Admitted liabilities	(1,426,175)	(944,039)
Solvency Margin	**232,710**	**325,636**
Required margin	**115,953**	**108,820**

b) Credit risk

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.

Notes (continued)

5. Financial risk management (continued)

Credit risk

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.

Maximum exposure to credit risk (before collateral)

		Group		Company
	2009	2008	2009	2008
	Shs '000	Shs '000	Shs '000	Shs '000
Balances with Central Bank	2,444,150	2,984,413	-	-
Balances with other banks	26,347,747	20,548,781	2,228	14,828
Loans and advances to customers	45,840,448	44,661,305	-	-
Government and other securities	26,712,867	20,194,094	-	-
Other assets	5,961,542	3,006,463	133,023	37,459
Total	**107,306,754**	**91,395,056**	**135,251**	**52,287**
Off-balance sheet items	11,684,621	13,701,324	-	-
Total credit risk exposure	**118,991,375**	**105,096,380**	**135,251**	**52,287**

Credit exposures classified in terms of maturity

		Group		Company
	2009	2008	2009	2008
	Shs '000	Shs '000	Shs '000	Shs '000
Neither past due nor impaired	112,779,284	95,122,066	135,251	52,287
Past due but not impaired	4,466,881	6,862,110	-	-
Impaired	1,745,210	3,112,204	-	-
	118,991,375	**105,096,380**	**135,251**	**52,287**

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.

5. Financial risk management (continued)

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') 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.

Notes (continued)

5. Financial risk management (continued)

Credit risk management - Banking division (continued)

(ii) Credit risk measurement (continued)

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)

Credit risk management - Banking division (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.

5. Financial risk management (continued)

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

As shown above, 75% of the total recognised credit risk exposure is derived from loans and advances to banks and customers (2008: 81%); 20% represents investments in debt securities (2008: 8%).

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:

- 96% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2008: 93%);
- Mortgage loans, are backed by collateral;
- 96% of the loans and advances portfolio are considered to be neither past due nor impaired (2008: 80%);
- 92% of all debt securities, which the bank has invested in, are issued by the Central Bank of Kenya. (2008: 97%)

(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 summarise the credit quality in terms of maturity.

	2009 **Shs '000**	**2008** **Shs '000**
Neither past due nor impaired	40,350,140	36,555,481
Past due but not impaired	4,007,689	6,370,660
Impaired	1,579,718	2,965,625
Gross	**45,937,547**	**45,891,766**

(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.

Notes (continued)

5. Financial risk management (continued)

Credit risk management - Banking division (continued)

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.

	2009 Shs '000	2008 Shs '000
Balances with Central Bank	2,444,150	2,984,474
Loans and advances to banks	25,081,964	20,444,947
Loans and advances to customers	44,977,967	44,204,538
Government and trading securities	18,572,510	11,131,839
Other assets	2,517,017	896,750
Total recognised financial instruments	**93,593,608**	**79,662,548**
Off-balance sheet items	11,684,621	13,701,324
Total credit risk exposure	**105,278,229**	**93,363,872**

The above table represents a worst-case scenario of credit risk exposure to the Bank at 31 December 2009 and 2008, 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.

5. Financial risk management (continued)

(a) Foreign exchange risk (continued)

Currency	Increase in currency rate in % 2009	Effect on profit before tax 2009 Shs '000	Effect on profit after tax 2009 Shs '000	Increase in currency rate in % 2008	Effect on profit before tax 2008 Shs '000	Effect on profit after tax 2008 Shs '000
USD	3	(156,985)	(109,889)	23	592,031	414,422
GBP	8	627,034	438,924	10	10,325	7,228
EUR	1	5,072	3,550	20	10,301	7,210
Others	6	(61,986)	(43,390)	13	(3,575)	(2,503)

Currency	Decrease in currency rate in % 2009	Effect on profit before tax 2009 Shs '000	Effect on profit after tax 2009 Shs '000	Decrease in currency rate in % 2008	Effect on profit before tax 2008 Shs '000	Effect on profit after tax 2008 Shs '000
USD	3	156,985	109,889	23	(592,031)	(414,422)
GBP	8	(627,034)	(438,924)	10	(10,325)	(7,228)
EUR	1	(5,072)	(3,550)	20	(10,301)	(7,210)
Others	6	61,986	43,390	13	3,575	2,503

(b) 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.

Year ended 31 December 2009

Currency	Increase in basis points	Sensitivity of net interest income Shs '000	Decrease in basis points	Sensitivity of net interest income Shs '000
Shs	200	158,853	200	(233,902)
Others	75	150,410	75	(28,075)

5. Financial risk management (continued)

Market risk management - Banking division (continued)

Year ended 31 December 2008	Increase in basis points	Sensitivity of net interest income	Decrease in basis points	Sensitivity of net interest income
Currency		Shs '000		Shs '000
Shs	200	90,733	200	(97,136)
Others	75	147,242	50	(74,495)

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 2009, if the Shilling had weakened or strengthened by 5% against the US dollar with all other variables held constant, the post tax profit for the period would have been Shs 11,007,725 (2008: Shs 7,569,214) higher or lower, mainly as a result of US dollar investments, receivables 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 2009, 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 138,181,579 (2008: Shs 134,242,517) 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.

5. Financial risk management (continued)

Market risk management - Insurance division (continued)

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 % (2008: 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

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.

Liquidity risk – Company

A summary of liquidity risk showing matching of financial assets and liabilities at CfC Stanbic Holdings Limited (Company only) is shown in the following table.

31 December 2009	Up to 1 month Shs'000	1 – 6 Months Shs'000	6 – 12 Months Shs'000	Total Shs'000
Cash and bank balances	2,228	-	-	2,228
Other assets	133,023	-	-	133,023
Balances due from Group companies	-	-	275,586	275,586
Total assets	**135,251**	**-**	**275,586**	**410,837**
Borrowings	-	-	200,000	200,000
Other liabilities	33,908	-	-	33,908
Balances due to Group companies	-	-	324,432	324,432
Total liabilities	**33,908**	**-**	**524,432**	**558,340**
Net liquidity gap	**101,343**	**-**	**(248,846)**	**(147,503)**

Notes (continued)

5. Financial risk management (continued)

Liquidity risk – Company (continued)

31 December 2008	Up to 1 month Shs'000	1 – 6 Months Shs'000	6 – 12 Months Shs'000	Total 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)**

5. Financial risk management (continued)

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.

Notes (continued)

5. Financial risk management (continued)

Credit risk management – insurance division (continued)

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 2009 is made up as follows:

Maximum exposure to credit risk before collateral held

	2009 Shs '000	2008 Shs '000
Reinsurance receivables	211,334	102,167
Insurance receivables	859,372	756,858
Reinsurers' share notified claims	1,986,945	1,266,935
Government securities held-to-maturity	2,606,017	2,931,387
Government securities available-for-sale	4,397,698	2,438,859
Deposits with financial institutions	1,032,713	1,002,757
Corporate bonds	1,232,536	420,681
Commercial paper	25,333	91,780
Mortgage loans	1,075,069	1,517,880
Other receivables	946,548	224,245
Cash at bank	283,522	519,377
Investment in the Kenya Motor Insurance Pool	6,905	2,571
	14,663,992	**11,275,497**

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)

Notes (continued)

5. Financial risk management (continued)

Financial assets that are neither past due or impaired

Insurance receivables are summarised as follows:

	2009 Shs '000	2008 Shs '000
Neither past due nor impaired	276,260	265,408
Past due but not impaired	459,192	491,450
Impaired	165,492	146,579
Gross	**900,944**	**903,437**
Less: allowance for impairment	(41,572)	(146,579)
Net	**859,372**	**756,858**

Insurance receivables past due but not impaired:

	2009 Shs '000	2008 Shs '000
Past due but not impaired:		
- by up to 30 days	52,748	73,703
- by 31 to 60 days	45,541	41,448
- by 61 to 150 days	127,139	75,474
- by 151 to 360 days	233,764	300,825
Total past due but not impaired	**459,192**	**491,450**

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**

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 has 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.

(a) 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.

5. Financial risk management (continued)

Market risk management - Banking division (continued)

Year ended 31 December 2008	**Increase in basis points**	**Sensitivity of net interest income**	**Decrease in basis points**	**Sensitivity of net interest income**
Currency		**Shs '000**		**Shs '000**
Shs	200	90,733	200	(97,136)
Others	75	147,242	50	(74,495)

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 2009, if the Shilling had weakened or strengthened by 5% against the US dollar with all other variables held constant, the post tax profit for the period would have been Shs 11,007,725 (2008: Shs 7,569,214) higher or lower, mainly as a result of US dollar investments, receivables 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 2009, 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 138,181,579 (2008: Shs 134,242,517) 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.

5. Financial risk management (continued)

(a) Foreign exchange risk (continued)

Currency	Increase in currency rate in % 2009	Effect on profit before tax 2009 Shs '000	Effect on profit after tax 2009 Shs '000	Increase in currency rate in % 2008	Effect on profit before tax 2008 Shs '000	Effect on profit after tax 2008 Shs '000
USD	3	(156,985)	(109,889)	23	592,031	414,422
GBP	8	627,034	438,924	10	10,325	7,228
EUR	1	5,072	3,550	20	10,301	7,210
Others	6	(61,986)	(43,390)	13	(3,575)	(2,503)

Currency	Decrease in currency rate in % 2009	Effect on profit before tax 2009 Shs '000	Effect on profit after tax 2009 Shs '000	Decrease in currency rate in % 2008	Effect on profit before tax 2008 Shs '000	Effect on profit after tax 2008 Shs '000
USD	3	156,985	109,889	23	(592,031)	(414,422)
GBP	8	(627,034)	(438,924)	10	(10,325)	(7,228)
EUR	1	(5,072)	(3,550)	20	(10,301)	(7,210)
Others	6	61,986	43,390	13	3,575	2,503

(b) 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.

Year ended 31 December 2009

Currency	Increase in basis points	Sensitivity of net interest income Shs '000	Decrease in basis points	Sensitivity of net interest income Shs '000
Shs	200	158,853	200	(233,902)
Others	75	150,410	75	(28,075)

Notes (continued)

5. Financial risk management (continued)

Market risk management - Insurance division (continued)

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 % (2008: 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

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.

Liquidity risk – Company

A summary of liquidity risk showing matching of financial assets and liabilities at CfC Stanbic Holdings Limited (Company only) is shown in the following table.

31 December 2009	Up to 1 month Shs'000	1 – 6 Months Shs'000	6 – 12 Months Shs'000	Total Shs'000
Cash and bank balances	2,228	-	-	2,228
Other assets	133,023	-	-	133,023
Balances due from Group companies	-	-	275,586	275,586
Total assets	**135,251**	**-**	**275,586**	**410,837**
Borrowings	-	-	200,000	200,000
Other liabilities	33,908	-	-	33,908
Balances due to Group companies	-	-	324,432	324,432
Total liabilities	**33,908**	**-**	**524,432**	**558,340**
Net liquidity gap	**101,343**	**-**	**(248,846)**	**(147,503)**

5. Financial risk management (continued)

Liquidity risk – Company (continued)

31 December 2008

	Up to 1 month Shs'000	1 – 6 Months Shs'000	6 – 12 Months Shs'000	Total 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)**

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.

Notes (continued)

5. Financial risk management (continued)

Liquidity risk management – Banking division (continued)

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.

	2009 Up to 1 month Shs '000	2009 1 – 6 months Shs '000	2009 6 - 12 months Shs '000	2009 1 - 5 years Shs '000	2009 Over 5 years Shs '000	2009 Total Shs '000
Financial assets						
Cash and balances with Central Bank	589,591	-	-	-	2,750,766	**3,340,357**
Government securities	2,107,555	3,228,441	2,243,440	11,138,272	7,480,429	**26,198,137**
Loans and advances to banks	15,208,237	4,169,873	5,814,259	-	-	**25,192,369**
Loans and advances to customers	22,344,784	3,365,878	2,372,329	15,767,872	4,734,915	**48,585,778**
	40,250,167	**10,764,192**	**10,430,028**	**26,906,144**	**14,966,110**	**103,316,641**
Financial liabilities						
Contractual amounts payable on derivatives	5,318,481	-	-	-	-	**5,318,481**
Deposits from banks	13,941,219	1,632,306	5,579,401	10,007	-	**21,162,933**
Deposits from customers	45,472,385	8,448,064	7,999,861	7	-	**61,920,317**
Subordinated bonds	18,176	203,052	224,575	2,365,225	4,821,876	**7,632,904**
Other Liabilities	2,249,378	-	-	-	-	**2,249,378**
Total recognised financial instruments	**66,999,639**	**10,283,422**	**13,803,837**	**2,375,239**	**4,821,876**	**98,284,013**
Net liquidity gap	**(26,749,472)**	**480,770**	**(3,373,809)**	**24,530,905**	**10,144,234**	**5,032,628**

Notes (continued)

5. Financial risk management (continued)

Liquidity risk management – Banking division (continued)

	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	2008 Total Shs '000
Financial assets						
Cash and balances with CBK	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**

Notes (continued)

5. Financial risk management (continued)

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.

As at 31 December 2009

Liabilities	1 - 3 months Shs'000	3 - 12 months Shs'000	1 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
Insurance contract liabilities	142,473	1,752,460	459,569	153,045	**2,507,547**
Payable under deposit administration	213,779	883,939	3,890,780	2,620,538	**7,609,036**
Outstanding claims	204,954	813,318	-	-	**1,018,272**
Creditors arising from reinsurance	20,674	603,244	-	-	**623,918**
Other payables	601,948	86,312	-	-	**688,260**
Total financial liabilities (expected maturity)	**1,183,828**	**4,139,273**	**4,350,349**	**2,773,583**	**12,447,033**

As at 31 December 2008

Liabilities	1 - 3 months Shs'000	3 - 12 months Shs'000	1 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
Insurance contract liabilities	221,107	1,506,494	488,349	2,432,258	**4,648,208**
Payable under deposit administration	186,917	685,362	3,215,927	2,142,365	**6,230,571**
Outstanding claims	145,491	-	-	-	**145,491**
Creditors arising from reinsurance	31,705	3,318,232	-	-	**3,349,937**
Other payables	743,749	1,888	4,173	905	**750,715**
Total financial liabilities (expected maturity)	**1,328,969**	**5,511,976**	**3,708,449**	**4,575,528**	**15,124,922**

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.

Notes (continued)

5. Financial risk management (continued)

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 Group'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.

Notes (continued)

5. Financial risk management (continued)

Insurance risk (continued)

Maximum insured loss 2009

General insurance business		Shs 0m –Shs 15m Shs'000	Shs 15m –Shs 250m Shs'000	Shs 250m –Shs 1,000m Shs'000	Total Shs'000
Personal accident	Gross	23,423,158	22,638,690	58,542,477	**104,604,325**
	Net	21,247,419	21,330,667	52,778,229	**95,356,315**
Motor	Gross	19,524,474	3,328,491	2,395,935	**25,248,900**
	Net	19,233,205	894,497	873,122	**21,000,824**
Fire	Gross	33,340,588	54,536,673	339,331,140	**427,208,401**
	Net	33,282,109	41,245,486	11,309,888	**85,837,483**
Other	Gross	11,865,542	19,559,466	86,893,746	**118,318,754**
	Net	11,747,413	11,187,619	7,568,386	**30,503,418**
Life assurance business					
Ordinary life	Gross	15,761,956	71,000	-	**15,832,956**
	Net	13,870,521	71,000	-	**13,941,521**
Group life	Gross	24,232,313	8,808,099	2,263,907	**35,304,319**
	Net	11,668,184	3,584,445	2,263,907	**17,516,536**
Total	**Gross**	**128,148,031**	**108,942,419**	**489,427,205**	**726,517,655**
	Net	**111,048,851**	**78,313,714**	**74,793,532**	**264,156,097**

Notes (continued)

5. Financial risk management (continued)

Insurance risk (continued)

Maximum insured loss 2008

General insurance business		**Shs 0m –Shs 15m** Shs'000	**Shs 15m –Shs 250m** Shs'000	**Shs 250m –Shs 1,000m** Shs'000	**Total** Shs'000
Personal accident	Gross	11,207,854	21,094,586	-	**32,302,440**
	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**

Notes (continued)

6 Interest income

	Group	
	2009	**2008**
	Shs' 000	**Shs' 000**
Interest on loans and advances and short-term funds	5,058,223	4,601,878
Government securities- held- to-maturity	390,628	239,686
Government securities- available-for-sale	1,170,714	833,669
Placement and other bank balances	406,188	32,079
Other	70,575	97,512
	7,096,328	**5,804,824**

7 Interest expense

	Group	
	2009	**2008**
	Shs' 000	**Shs' 000**
Current accounts	183,167	181,410
Savings and deposit accounts	1,849,845	1,608,583
Deposits and placements from other banks	31,779	214,398
Other interest-bearing liabilities	379,022	82,903
	2,443,813	**2,087,294**

8 Fee and commission revenue

	Group	
	2009	**2008**
	Shs' 000	**Shs' 000**
Account transaction fees	637,328	494,434
Knowledge-based fees and commission	272,617	33,379
Electronic banking fees	210,642	59,055
Foreign currency service fees	65,867	21,534
Documentation and administration fees	58,289	426,431
Insurance – fees and commissions	97,539	123,687
Trust and asset management fees	42,595	34,172
Other	80,400	197,382
	1,465,277	**1,390,074**

Notes (continued)

9 Fee and commission expense

	Group 2009 Shs'000	Group 2008 Shs'000
Card based commission	4,334	11,766
Knowledge based fees and commission	881	5,956
Other bank - related fees and commission	6,003	9,304
	11,218	**27,026**

10 Trading revenue

	Group 2009 Shs'000	Group 2008 Shs'000
Foreign exchange	1,067,188	677,321
Debt securities	267,694	7,232
Equities	24,448	10,056
Other	124,158	119,458
	1,483,488	**814,067**

11 Other revenue

	Group 2009 Shs'000	Group 2008 Shs'000
Income from sale of equipment and investment property	6,019	3,793
Other revenue	103,337	12,403
	109,356	**16,196**

Notes (continued)

12 Insurance underwriting income

	Group	
	2009	2008
	Shs '000	Shs '000
Gross premiums	5,635,876	5,083,510
Less: reinsurance	(1,720,424)	(1,488,468)
Net premiums	**3,915,452**	**3,595,042**
Claims – Gross	4,004,508	2,647,737
Less: Recoveries from reinsurance	(1,195,184)	(205,292)
Net claims	**2,809,324**	**2,442,445**
Net premiums less claims	**1,106,128**	**1,152,597**

13 Credit impairment charges

	Group	
	2009	2008
	Shs'000	Shs'000
Net credit impairments raised for loans and advances	1,002,649	1,052,029
Recoveries on loans and advances previously written off	(403,500)	(192,070)
	599,149	**859,959**
Comprising:		
Net credit impairment charges for non-performing loans	658,879	937,267
Credit impairments for non-performing loans	1,062,379	1,129,337
Recoveries on loans and advances previously written off	(403,500)	(192,070)
Credit impairments for performing loans	(59,730)	(77,308)
	599,149	**859,959**

Notes (continued)

14 Staff costs

	Group	
	2009	**2008**
	Shs'000	**Shs'000**
Salaries and allowances	1,987,695	1,380,060
Retirement benefit costs	183,208	109,209
National Social Security Fund	4,019	4,970
Other staff costs	131,327	325,329
	2,306,249	**1,819,568**

15 Other operating expenses

	Group	
	2009	**2008**
	Shs'000	**Shs'000**
Amortisation - intangible assets	291,216	197,912
Audit fees	33,595	22,559
Depreciation (Note 25)	323,876	230,151
Write off of property and equipment	22,025	-
Directors' fees	170,076	206,477
Amortisation of prepaid operating lease rentals (Note 27)	2,876	3,409
Premises	254,652	81,438
Other expenses	3,475,320	2,164,152
	4,573,636	**2,906,098**

Notes (continued)

16 Income tax expense

	Group 2009 Shs'000	2008 Shs'000
Current income tax	639,326	656,092
Deferred income tax (Note 35)	34,047	(200,981)
Under provision prior year	-	20,652
	673,373	**475,763**

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

	Group 2009 Shs'000	2008 Shs'000
Profit before income tax	**709,301**	**1,322,356**
Tax at statutory tax rate of 30% (2008 – 30%)	**212,790**	**396,707**
Tax effect of:		
Income not subjected to tax	(82,357)	(51,482)
Expenses not deductible for tax purposes	350,795	99,460
Previous year deferred tax overprovision	15,540	20,652
Other items resulting in increased tax	176,605	10,426
Income tax expense	**673,373**	**475,763**

Notes (continued)

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	
	2009	2008
Earnings	Shs'000	Shs'000
Earnings for the purposes of basic earnings per share (Shs' 000)	(59,871)	752,179
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	273,684	224,649
Earnings per share (Shs) basic and diluted	**(0.22)**	**3.35**

The calculation of basic and diluted earnings per share is based on continuing operations attributable to the ordinary equity holders 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 until they have been ratified at the Annual General Meeting. No dividend is to be declared for the 2009 financial year.

	Group	
	2009	2008
	Shs'000	Shs'000
At January	-	9,909
Final dividend declared (2008)	-	78,000
Interim dividend	-	78,000
Dividend paid	-	(165,909)
At 31 December	-	-

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

Notes (continued)

19 Cash, bank balances and balances with Central Bank of Kenya

	Group		Company	
	2009	2008	2009	2008
	Shs'000	Shs'000	Shs'000	Shs'000
Cash and bank balances	2,161,990	3,305,414	2,228	14,828
Balances with Central Bank of Kenya	2,444,150	2,984,413	-	-
	4,606,140	**6,289,827**	**2,228**	**14,828**

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.

20 Pledged assets

	Group	
	2009	2008
	Shs'000	Shs'000
Securities pledged as collateral		
Debt securities - pledged as collateral	**3,351,812**	**1,928,997**

Dated pledged assets had a redemption value at 31 December 2009 of Shs 3,194,391,363 (2008 - Shs 1,892,035,852).

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.

Notes (continued)

21 Financial investments

	Group 2009 Shs'000	2008 Shs'000
Financial investments - trading assets 21(a)	7,663,017	2,548,215
Financial investments - available for sale 21(b)	15,967,680	12,378,057
Financial investments - held to maturity 21(c)	2,744,715	3,338,825
	26,375,412	**18,265,097**

(a) Financial investments - trading assets

	Group 2009 Shs'000	2008 Shs'000
Classification		
Listed securities	5,933,761	2,548,215
Unlisted securities	1,729,256	-
	7,663,017	**2,548,215**

Maturities
The maturities represent periods to contractual redemption of trading assets recorded.

	2009 Shs'000	2008 Shs'000
Maturing within 12 months	5,589,359	763,915
Maturing after 12 months	2,013,226	1,721,935
Undated securities	60,432	62,365
	7,663,017	**2,548,215**

The maturities represent periods to contractual redemption of trading assets recorded. Dated trading assets had a redemption value as at 31 December 2009 of Shs 7,642,862,102 (2008 - Shs 2,573,821,504).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 as at 31 December 2009 was 5.75% (2008 – 7.73%)

Notes (continued)

21. Financial investments (continued)

(b) Financial investments - available-for-sale

	Group	
Classification	**2009 Shs'000**	**2008 Shs'000**
Listed	14,335,040	11,978,598
Unlisted	1,632,640	399,459
	15,967,680	**12,378,057**
Comprising:		
Government securities	11,526,229	8,861,841
Corporate bonds	1,487,526	460,141
Listed equities	2,853,394	2,950,626
Unlisted equities	100,531	105,449
	15,967,680	**12,378,057**

	2009 Shs'000	**2008 Shs'000**
Maturing within 12 months	977,118	1,498,737
Maturing after 12 months	12,036,637	7,878,426
Undated securities	2,953,925	3,000,894
	15,967,680	**12,378,057**

The weighted average effective interest yield on available-for-sale investment dated securities at 31 December 2009 was 10.09% (2008: 10.34%)

Notes (continued)

21. Financial investments (continued)

(c) Financial investments - held to maturity

	Group	
	2009	2008
	Shs'000	Shs'000
Listed	2,646,215	3,287,655
Unlisted	98,500	51,170
	2,744,715	**3,338,825**

Marturity analysis

	2009	2008
	Shs'000	Shs'000
Maturing within 12 months	183,656	392,731
Maturing after 12 months	2,561,059	2,946,094
	2,744,715	**3,338,825**

22 Loans and advances

The Group extends advances to the personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, installment credit, overdrafts and credit card borrowings.

Loans and advances to banks

	Group	
	2009	2008
	Shs '000	Shs '000
Balances with banks	**25,081,964**	**20,548,781**

The weighted average effective interest rate during the year for deposits due from banking institutions at 31 December 2009 was 0.35% (2008: 2.01%)

Notes (continued)

22. Loans and advances (continued)

Loans and advances to customers

	Group	
	2009	2008
	Shs '000	Shs '000
Gross loans and advances to customers	**46,800,028**	**46,348,531**
Mortgage lending	6,787,179	6,436,984
Term lending	18,867,020	18,960,502
Installment sales	6,842,955	8,834,604
Overdrafts and other demand lending	14,302,874	12,116,441
Credit impairment for loans and advances	**959,580**	**1,687,226**
Impairments for non-performing loans	873,239	1,541,156
Impairments for performing loans	86,341	146,070
Net loans and advances	**45,840,448**	**44,661,305**

Maturity analysis

	Group	
	2009	2008
	Shs'000	Shs'000
Redeemable on demand	21,095,862	10,016,336
Maturing within 1 month	1,681,727	2,388,256
Maturing after 1 month but within 6 months	3,396,886	2,540,522
Maturing after 6 months but within 12 months	2,022,503	3,506,951
Maturing after 12 months	17,643,470	26,209,240
	45,840,448	**44,661,305**

The weighted average effective interest rate on loans and advances to customers as at 31 December 2009 was 9%. (2008:7%).

Notes (continued)

22. Loans and advances (continued)

Segmental analysis – industry

	Group			
	2009 Shs'000	%	2008 Shs'000	%
Agriculture	6,164,082	13%	6,414,688	14%
Manufacturing	5,851,403	13%	5,325,269	12%
Electricity and water	2,062,299	4%	1,462,389	3%
Building and construction	845,030	2%	704,671	2%
Wholesale, retail trade and restaurants	839,815	2%	642,063	1%
Transport and communication	6,834,225	15%	6,171,642	14%
Finance and insurance	2,125,678	5%	1,712,816	4%
Real estate and business service	435,825	1%	6,182,127	14%
Other activities and social service	20,682,091	45%	16,045,640	36%
	45,840,448	**100%**	**44,661,305**	**100%**

Impairment reserve for the year ended 31 December 2009

	Non-performing loans Shs'000	Portfolio impairment Shs'000	Group Total Shs'000
At 1 January 2009	1,541,156	146,070	1,687,226
Amounts written off during the year as uncollectable	(1,267,831)	-	(1,267,831)
Amounts recovered during the year	(390,063)	-	(390,063)
Provision for loans impairment	1,050,550	(61,338)	989,212
Off market loans impairment	(60,573)	1,609	(58,964)
At 31 December 2009	**873,239**	**86,341**	**959,580**

Notes (continued)

22. Loans and advances (continued)

Impairment reserve for the year ended 31 December 2008

	Non-performing loans Shs'000	Portfolio impairment Shs'000	Group Total 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**

23 Other assets

	Group		Company	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Off market loan prepayment	47,393	26,057	-	-
Uncleared effects	2,017,179	817,422	-	-
Insurance premium receivables	859,373	711,237	-	-
Due from reinsurers	211,334	114,619	-	-
Reinsurance share of technical provision	1,986,945	1,242,141	-	-
Trade receivables and prepayments	539,681	285,770	-	-
Others	299,637	626,639	133,023	37,459
	5,961,542	**3,823,885**	**133,023**	**37,459**

Notes (continued)

24 Investment in subsidiaries and associates

Associates

	Group	
	2009	2008
	Shs' 000	Shs' 000
At 1 January	236,770	172,191
Additions	-	7,930
Acquired on merger	-	15,000
Share of profit after tax	82,238	71,165
Dividends	(23,195)	(14,571)
Share of fair value gains/(losses)	41,862	(14,945)
At 31 December	**337,675**	**236,770**

Strategis Insurance Company (T) Limited and Alliance Insurance Company (T) Limited (both incorporated in Tanzania) are associates of The Heritage Insurance Company (T) Limited in which it owns 49% and 45% of the shares respectively. The Group acquired a beneficial interest of 24.42% in Stanbic Investment Management Services (East Africa) Limited (incorporated in Kenya) in 2008. The reporting date of the associates' financial statements is 31 December. Investment in associates has been accounted for using the equity method of accounting.

The summarised financial information of the associates is as follows:

Year ended 31 December 2009	Total assets Shs`000	Total liabilities Shs`000	Revenue Shs`000	Profit after tax Shs`000	% Interest held Shs`000
Stanbic Investment Management Services (E.A) Limited	340,813	122,598	385,977	90,145	24%
Alliance Insurance Corporation Limited	1,300,892	924,807	406,600	93,236	45%
Strategis Insurance (Tanzania) Limited	421,145	219,105	157,481	37,916	49%
Year ended 31 December 2008					
Stanbic Investment Management Services (E.A) 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%

Notes (continued)

24. Investment in subsidiaries and associates (continued)

Subsidiaries

Company	Beneficial ownership	Country of Incorporation	Company 2009 Shs'000	Company 2008 Shs'000
CfC Stanbic Bank Limited	100%	Kenya	14,129,114	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 Insurance Holdings Limited (formerly CfC Holdings Limited)	100%	Kenya	595,000	595,000
CfC Life Assurance Limited	100%	Kenya	-	-
CfC Investments Limited	100%	Kenya	-	-
			14,890,349	**14,890,349**

Notes (continued)

25 Property and equipment

(a) Group

	Land and premises	Equipment furniture & fittings	Motor vehicles	Total
Cost / valuation	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
At 1 January 2009	1,209,192	2,231,780	165,067	3,606,039
Additions	86,274	931,767	17,692	1,035,733
Disposals	-	(45,607)	(9,166)	(54,773)
Eliminated on write off	-	(26,703)	-	(26,703)
Revaluation	(1,937)	-	-	(1,937)
Reclassification	(219,358)	219,358	-	-
Currency translation	-	3,221	1,070	4,291
Adjustments	31,239	(64,843)	3,735	(29,869)
At 31 December 2009	**1,105,410**	**3,248,973**	**178,398**	**4,532,781**
Depreciation				
At 1 January 2009	20,498	1,199,678	89,333	1,309,509
Eliminated on write off	-	(4,678)	-	(4,678)
Charge for the year	16,235	276,199	31,442	323,876
Disposals	-	(41,529)	(7,272)	(48,801)
Currency adjustment	-	2,327	721	3,048
Eliminated on revaluation	(4,527)	-	-	(4,527)
Adjustments	(8,311)	-	-	(8,311)
At 31 December 2009	**23,895**	**1,431,997**	**114,224**	**1,570,116**
Net book value at 31 December 2009	**1,081,515**	**1,816,976**	**64,174**	**2,962,665**

As at 31 December 2009, there were no items of property and equipment pledged by the Group to secure liabilities.

Buildings were revalued as at 31 December 2009, 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.

Notes (continued)

25. Property and equipment (continued)

(a) Group (continued)

	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 Stanbic Bank Kenya Limited	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 Stanbic Bank Kenya Limited	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**

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

Buildings were revalued as at 31 December 2008, 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.

Notes (continued)

25. Property and equipment (continued)

(b) Property and equipment (company)

	Equipment furniture & fittings Shs '000	Motor vehicles Shs '000	Total Shs'000
Cost			
At 1 January 2009	1,659	14,500	16,159
At 31 December 2009	**1,659**	**14,500**	**16,159**
Depreciation			
At 1 January 2009	(724)	(3,625)	(4,349)
Charge for the year	(464)	(3,625)	(4,089)
At 31 December 2009	**(1,188)**	**(7,250)**	**(8,438)**
Net book value at 31 December 2009	**471**	**7,250**	**7,721**

As at 31 December 2009 and 31 December 2008, there were no items of property and equipment pledged by the Company to secure liabilities.

Cost	Land and premises Shs '000	Equipment furniture & fittings Shs '000	Motor vehicles Shs '000	Total Shs'000
At 1 January 2008	375,000	633,102	38,932	1,047,034
Hive down to Stanbic Bank Kenya Limited	(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 Stanbic Bank Kenya Limited	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**

Notes (continued)

26 Investment properties

	Group	
	2009	2008
	Shs '000	Shs '000
As at January	366,500	418,829
Disposals	(32,500)	-
Reclassification to property and equipment	-	(120,150)
Net gain from fair value adjustments	78,000	67,821
At 31 December	**412,000**	**366,500**

27 Prepaid operating lease

(a) Group

	Group	
	2009	2008
Cost	Shs'000	Shs'000
At 1 January	36,000	76,000
Reclassification	-	(40,000)
Adjustment	50,818	-
At 31 December	**86,818**	**36,000**
Amortisation		
At 1 January	1,977	298
Charge for the year	2,876	3,409
Reclassification	-	(1,730)
Adjustment	8,311	-
At 31 December	**13,164**	**1,977**
Net book value at 31 December	**73,654**	**34,023**

Notes (continued)

27 Prepaid operating lease (Continued)

(b) Company

	Company	
	2009	2008
Cost	Shs'000	Shs'000
At 1 January	-	75,000
Hive down to Stanbic Bank Kenya Limited	-	(75,000)
At 31 December	-	-
Amortisation		
At 1 January	-	-
Charge for the year	-	151
Hive down to Stanbic Bank Kenya Limited	-	(151)
At 31 December	-	-
Net book value at 31 December	-	-

Notes (continued)

28 Intangible assets

(a) Group

			2009	2008
Cost	**Software Shs'000**	**Other intangible assets Shs'000**	**Total Shs'000**	**Software Shs'000**
At 1 January	865,688	**1,099,059**	1,964,747	**620,028**
Acquired from Stanbic Bank Kenya Limited	-	-	-	24,966
Additions	788,363	-	788,363	1,331,295
Transfer on diposal of Fund management division	(95)	-	(95)	-
Reclassifications to other receivables	(32,860)	-	(32,860)	(11,542)
At 31 December	**1,621,096**	**1,099,059**	**2,720,155**	**1,964,747**
Amortisation				
At 1 January	292,665	61,347	354,012	136,451
Acquired from Stanbic Bank Kenya Limited	-	-	-	22,890
Charge for the year	189,535	101,681	291,216	197,912
Eliminated on reclassification	-	-	-	(3,241)
At 31 December	**482,200**	**163,028**	**645,228**	**354,012**
Net book value at 31 December	**1,138,896**	**936,031**	**2,074,927**	**1,610,735**

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

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

Notes (continued)

28. Intangible assets (continued)

Company

Cost	**2009 Shs '000**	**2008 Shs '000**
At 1 January	-	340,912
Hive down to Stanbic Bank Kenya Limited	-	(340,912)
At 31 December	-	-
Amortisation		
At 1 January	-	100,098
Charge for the year	-	25,762
Hive down to Stanbic Bank Kenya Limited	-	(125,860)
At 31 December	-	-
Net book value at 31 December	-	-

29 Intangible assets - goodwill

	Group	
Cost	**2009 Shs '000**	**2008 Shs '000**
At 1 January	10,434,405	1,084,647
On acquisition of Stanbic Bank Kenya Limited on 1 June 2008	-	9,349,758
At 31 December	**10,434,405**	**10,434,405**

During the year, the Group assessed the recoverable amount of goodwill and determined that goodwill associated with the life assurance business and banking business were 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 (2008: 10% per annum) was applied in the value-in-use model.

Notes (continued)

30 Ordinary share capital

Authorised share capital

	Group and Company	
	Number of shares (thousands)	Ordinary shares Shs '000
Balance as at 1 January 2008	200,000	1,000,000
Issue of shares	73,684	368,421
Balance as at 31 December 2008, 1 January 2009 and 31 December 2009	**273,684**	**1,368,421**

Issued ordinary shares

	Number of shares (thousands)	Ordinary shares Shs '000
Balance as at 1 January 2008	156,000	780,000
Issue of shares	117,684	588,421
Balance as at 31 December 2008, 1 January 2009 and 31 December 2009	**273,684**	**1,368,421**

Ordinary share premium

	2009 Shs '000	2008 Shs '000
At January	13,586,847	669,420
Costs related to transfer and listing of shares	-	(27,836)
Premium on additional shares issued on 31 May 2008	-	12,945,263
At 31 December	**13,586,847**	**13,586,847**

31 Derivative liabilities

Foreign currency forwards

	2009 Shs'000	2008 Shs'000
Net fair value	16,228	55,383
Contract/ notional amount	5,318,481	4,658,833

All derivatives are classified as either derivatives held for trading.

Notes (continued)

31. Derivative liabilities (continued)

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 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.

32 Deposits and current accounts

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

	Group	
	2009 Shs'000	2008 Shs'000
Deposits from banks	21,059,626	11,096,605
Deposits from customers	61,474,379	61,975,073
Current accounts	25,470,229	26,066,301
Call deposits	5,741,143	16,499,798
Savings accounts	889,997	928,626
Term deposits	29,373,010	18,480,348
	82,534,005	73,071,678

Notes (continued)

32. Deposits and current accounts (continued)

Maturity analysis of deposits from customers

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

	Group	
	2009 Shs'000	2008 Shs'000
Repayable on demand	39,609,106	45,422,148
Maturing within 1 month	5,621,962	12,266,751
Maturing after 1 month but within 6 months	8,264,094	3,957,637
Maturing after 6 months but within 12 months	7,972,898	328,412
Maturing after 12 months	6,319	125
	61,474,379	**61,975,073**

33 Borrowings

	Group		Company	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Term loans	700,000	700,000	200,000	700,000
Corporate bond	3,040,224	595,961	-	-
IFC loan	758,566	-	-	-
Shareholders' loan	757,828	784,200	-	-
	5,256,618	**2,080,161**	**200,000**	**700,000**

The corporate bond of Shs 800 million 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 reprices quarterly. In addition the Bank issued a 8 year corporate bond of Shs 2.5 billion in July 2009. Interest on the fixed bond portfolio is payable at 12.50% while the floating rate is priced at 1.75% above the 182 day Treasury Bill rate. 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 Group paid off the term loan of Shs 700 million from NIC Bank and obtained new term loans of Shs 200 million and Shs 500 million from the Commercial Bank of Africa Limited (CBA) and NIC Bank respectively. Interest on CBA loan is payable at the rate of 10% while that of NIC Bank is 14.5%.

Notes (continued)

34 Other liabilities

	Group		Company	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Payable under deposit administration	7,609,037	5,092,265	-	-
Insurance contract liabilities	5,618,795	3,690,010	-	-
Sundry Creditors and provisions	2,906,170	1,044,500	-	-
Unearned insurance premiums	1,892,028	892,745	-	-
Payable under reinsurance arrangements	623,918	330,664	-	-
Unpresented bank drafts	224,030	420,206	-	-
Other liabilities	619,776	4,889,460	33,908	34,577
	19,493,754	**16,359,850**	**33,908**	**34,577**

35 Deferred tax

a) Deferred tax asset

	Group		Company	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
At start of year	280,722	147,614	-	103,007
(Charge)/credit to profit and loss account	(26,423)	73,416	-	(3,716)
Credit to equity	(14,726)	5,141	-	-
Balances transferred on merger	-	54,551	-	(99,291)
Consolidation adjustment	(228,149)	-	-	-
At end of year	**11,424**	**280,722**	-	-

The company did not have transactions and balances that attract deferred tax as at 31 December 2009.

Notes (continued)

35. Deferred tax (continued)

(a) Deferred tax asset (continued)

Year ended 31 December 2009	1 January 2009 Shs'000	Adjustment on consolidation Shs'000	Credit/ (charge) to P/L Shs'000	Credit/ (charge) to equity Shs'000	31 December 2009 Shs'000
Arising from:					
Property and equipment	(7,432)	-	15,004	-	**7,572**
Unrealised gain on bonds	54,881	-	(54,881)	-	**-**
Portfolio impairment	43,821	-	(43,821)	-	**-**
Property and equipment revaluation surplus	(36,779)	-	-	36,779	**-**
Tax losses	4,662	-	38,310	-	**42,972**
Other provisions	101,794	(525)	18,965	(52,106)	**68,128**
Consolidation adjustment	121,552	(227,624)	-	-	**(106,072)**
Currency translation	(1,777)	-	-	601	**(1,176)**
Net deferred tax asset	**280,722**	**(228,149)**	**(26,423)**	**(14,726)**	**11,424**

Year ended 31 December 2008	1 January 2008 Shs'000	Transfer from SBK Shs'000	Credit/ (charge) to P/L Shs'000	Credit/ (charge) to equity Shs'000	31 December 2008 Shs'000
Arising from:					
Property and equipment	5,803	395	14,895	(28,525)	**(7,432)**
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	28,525	**191,229**
Currency translation	(944)	-	-	(833)	**(1,777)**
Net deferred tax asset	**147,614**	**54,551**	**73,416**	**5,141**	**280,722**

Notes (continued)

35.Deferred tax (continued)

b) Deferred tax liability

	Group 2009 Shs'000	2008 Shs'000
At start of year	(56,721)	(114,922)
(Charge)/credit to profit and loss account	(7,624)	107,746
Charge to equity	(88,503)	(49,545)
Consolidation adjustment	104,105	-
At end of year	**(48,743)**	**(56,721)**

Arising from:	1 January 2009 Shs'000	Consolidation adjustment Shs'000	Credit/ (charge) to P/L Shs'000	Credit/ (charge) to equity Shs'000	31 December 2009 Shs'000
Property and equipment	-	-	(67,296)	-	**(67,296)**
Unrealised gain on bonds	-	-	49,228	(103,830)	**(54,602)**
Porfolio impairment	-	-	25,902	-	**25,902**
Property and equipment revaluation surplus	26,547	-	(3,484)	(36,779)	**(13,716)**
Investment property fair value gains	(61,817)	-	(15,453)	-	**(77,270)**
Other provisions	(21,451)	(1,967)	3,479	52,106	**32,167**
Consolidation adjustment	-	106,072	-	-	**106,072**
Net deferred tax liability	**(56,721)**	**104,105**	**(7,624)**	**(88,503)**	**(48,743)**

Arising from:	1 January 2008 Shs'000	Credit/ (charge) to P/L Shs'000	Credit/ (charge) to equity Shs'000	31 December 2008 Shs'000
Property and equipment revaluation surplus	(98,834)	-	125,381	**26,547**
Investment property fair value gains	(29,858)	(32,203)	244	**(61,817)**
Other provisions	13,770	139,949	(175,170)	**(21,451)**
Net deferred tax liability	**(114,922)**	**107,746**	**(49,545)**	**(56,721)**

Notes (continued)

36 Notes to the cashflow statement

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

	Group	
	2009 Shs'000	2008 Shs'000
Profit before taxation	**709,301**	**1,322,356**
Depreciation (Note 25(a))	323,876	230,151
Amortisation of intangible asset (Note 28(a))	291,216	197,912
Write off of property and equipment (Note 25(a))	22,025	-
Amortisation of operating lease prepayments (Note 27(a))	2,876	3,409
Profit on sale of equipment	(3,019)	(3,793)
Profit on sale of investment property	(3,000)	-
Fair value adjustment for investment property (Note 26)	(78,000)	(67,821)
Currency translation differences	(1,347)	(5,747)
	1,263,928	**1,676,467**

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

	2009 Shs'000	2008 Shs'000
Cash, bank balances and balances with Central Bank of Kenya	1,855,374	3,749,980
Treasury bills and bonds	4,210,532	1,925,435
Deposits and balances due from banking institutions	25,081,964	20,548,781
Deposits and balances due to banking institutions	(21,059,626)	(11,096,605)
	10,088,244	**15,127,591**

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.

37 Fair value of financial instruments

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy. The different levels are defined as follows:

Level 1	quoted prices in active markets for identical assets or liabilities.
Level 2	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes (continued)

37. Fair value of financial instruments (continued)

					Group
31 December 2009		Level 1	Level 2	Level 3	Total
	Note	Shs'000	Shs'000	Shs'000	Shs'000
Assets					
Financial investments	21	2,913,826	20,616,340	100,531	**23,630,697**
Pledged assets	20	-	3,351,812	-	**3,351,812**
		2,913,826	**23,968,152**	**100,531**	**26,982,509**
Comprising					
Held for Trading	21	60,432	7,602,585	-	**7,663,017**
Available-for-sale	21	2,853,394	16,365,567	100,531	**19,319,492**
		2,913,826	**23,968,152**	**100,531**	**26,982,509**
Liabilities					
Derivative liabilities	31	-	16,228	-	**16,228**
		-	**16,228**	-	**16,228**
Comprising					
Held for trading	31	-	16,228	-	**16,228**
		-	**16,228**	-	**16,228**

Notes (continued)

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:

	2009 Shs ' 000	2008 Shs ' 000
Amounts due from the Standard Bank Group	22,416,488	6,300,817
Interest income earned on the above	251,011	340,853
Amounts due to the Standard Bank Group	1,040,113	3,427,674
Interest expenses incurred on the above	32,588	174,940

Loans and advances

Included in loans and advances are amounts advanced to certain companies in which directors are involved either as shareholders or directors (associated companies). In addition, there are contingent liabilities including guarantees and letters of credit, which have been issued to associated companies. The balances as at 31 December 2009 are as shown below;

Directors associated companies

	2009 Shs '000	2008 Shs '000
At 1 January	651,237	580,682
Net movement for the year	417,685	70,555
At 31 December	**1,068,922**	**651,237**

Employees

	2009 Shs '000	2008 Shs '000
At 1 January	879,678	214,492
Net movement for the year	452,535	665,186
At 31 December	**1,332,213**	**879,678**

Notes (continued)

38. Related party transactions (continued)
There were no outstanding advances to directors (2008: Nil). These loans and advances are performing and adequately secured.

Deposits

	2009 Shs '000	2008 Shs '000
At 1 January	1,530,914	1,221,141
Net movement for the year	84,090	309,773
At 31 December	**1,615,004**	**1,530,914**

Key management compensation

	2009 Shs '000	2008 Shs '000
Salaries and other short-term employment benefits	**428,552**	**390,704**
Directors' remuneration		
Fees for services as directors	10,684	8,686
Other emoluments (included in key management compensation above)	28,320	61,915
	39,004	**70,601**

Contingent liabilities at 31 December 2009 include contingencies on behalf of companies associated to the directors of Shs 1,298,823,000 (2008 - 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.

Notes (continued)

39. Retirement benefit liability (continued)

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 2009 and that valuation revealed the following financial position.

	2009 Shs '000	2008 Shs '000
Present value of funded obligations	105,675	105,633
Fair value of plan assets	(107,211)	(103,401)
Present value of unfunded obligations/(over funding)	**(1,536)**	**2,232**
Unrecognised actuarial gains/ (losses)	1,536	(2,232)
Liability or asset in the balance sheet	**-**	**-**

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

	2009 Shs '000	2008 Shs '000
At start of year	105,633	-
Acquired on merger with Stanbic Bank Kenya Limited	-	108,025
Current service cost	629	749
Interest cost	10,031	10,105
Actuarial losses	3,019	698
Benefits paid	(13,637)	(13,944)
At end of year	**105,675**	**105,633**

Notes (continued)

39. Retirement benefit liability (continued)

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

	2009 Shs '000	2008 Shs '000
At start of year	103,401	-
Acquired on merger with Stanbic Bank Kenya Limited	-	114,452
Expected return on scheme assets	9,808	10,748
Actuarial gains/ (losses)	7,639	(7,855)
Benefits and expenses paid	(13,637)	(13,944)
At end of year	**107,211**	**103,401**

Plan assets comprise:

	2009 Shs '000	2009 %	2008 Shs '000	2008 %
Equity instruments	17,348	16%	21,958	21%
Debt instruments	53,646	50%	47,365	46%
Property and other	36,217	34%	34,078	33%
	107,211	**100%**	**103,401**	**100%**

The principal actuarial assumptions used in 2009 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

Notes (continued)

40 Contingent liabilities

	Group	
Commitments with respect to:	2009 Shs '000	2008 Shs '000
Guarantees and performance bonds	4,005,942	4,294,423
Acceptances and letters of credit	6,641,888	9,406,901
Others	1,036,791	-
	11,684,621	**13,701,324**

Nature of contingent liabilities

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

Guarantees are generally written by a Group to support performance by a customer to third parties. The Bank 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	
	2009 Shs '000	2008 Shs '000
Statutory reserve	358,706	576,802
Fair value reserve	393,751	(281,558)
Currency translation reserve	(28,911)	(34,960)
Capital reserves	273,371	273,371
Share based payment reserve	13,488	-
Revaluation reserve	301,732	303,669
At end of year	**1,312,137**	**837,324**

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.

Notes (continued)

41. Other reserves (continued)

The statutory reserve represents:

- the surpluses from the life fund whose distribution is subject to restrictions imposed by the Kenya 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.

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

The group has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights.

As at 31 December 2009, the total amount included in share based payment reserve for Group Share Incentive Scheme was Shs 12,266,041 and for Equity Growth Scheme was Shs 1,221,659.

42 Restructuring and Demerger

CfC Stanbic Holdings Limited is in the process of streamlining its group corporate structure. When approved the CfC Life Assurance Limited, The Heritage Insurance Company Limited and their subsidiaries will be constituted as wholly owned subsidiaries of CfC Insurance Holdings Limited (formerly CfC Holdings Limited).

CfC Insurance Holdings Limited will then be separately listed on the Nairobi Stock Exchange. The conclusion of this transaction is subject to a number of approvals from the Insurance Regulatory Authority, the Exchange Control Division of the South African Reserve Bank, the Johannesburg Stock Exchange, the Capital Markets Authority, the NSE, the Minister of Finance and the shareholders.

The Board is of the view that the restructure will mutually benefit both parties through pooling of specialized resources and economies of scale.

Shareholding

Name	Number of shares held	shareholding (%)
1.Stanbic Africa Holdings Ltd. (UK)	113,341,663	41.41%
2.Stanbic Nominees (K) 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	18,160,554	6.64%
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 Government of Kenya	4,342,548	1.59%
9. Beechwood Overseas Ltd	3,749,801	1.37%
10. Jani, Uday Prahlad	3,500,000	1.28%

The distribution of shareholders is as follows:	Number of shareholders	Number of shares held	Shareholding (%)
1 – 500	1,592	330,471	0.12%
501 – 5,000	1,325	2,231,572	0.82%
5,001 – 10,000	426	3,177,825	1.16%
10,001 – 100,000	260	6,966,323	2.54%
100,001 – 1,000,000	24	5,627,410	2.06%
Over 1,000,000	10	255,350,610	93.30%
Total	**3,637**	**273,684,211**	**100%**

To: The Company Secretary
CfC Stanbic Holdings Limited
P O Box 72833–00200
NAIROBI

PROXY FORM

I/We,____,

of P O Box ____,
being a member of CfC STANBIC HOLDINGS LIMITED hereby appoint

____

of ____

or failing him ____

of ____
as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on Friday 21st May 2010 and at any adjournment thereof.

Dated this ________________________ day of __________________ 2010

Signed____________________________________

Name____________________________________

Note: The proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof.