CfC Stanbic Holdings Limited Annual Report

# 2011

CfC Stanbic
A member of Standard Bank Group

# Contents

# Our vision and values

***We aspire to be a leading financial services organisation in Kenya.***

***To realise the vision, we subscribe to the following eight core values:***

### Upholding the highest levels of integrity

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

### Growing our people

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

### Serving our customers

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

### Respecting each other

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

### Delivering to our shareholders

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

### Being proactive

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

### Guarding against arrogance

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

### Working in teams

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

## Results at a glance

**Profit after Tax**
**Shs1,838m**
Up 3%
2010: Shs 1,787m

**Net interest income**
**Shs6,042m**
Up 45%
2010: Shs 4,157m

**Non interest revenue**
**Shs 4,757m**
Up 3%
2010: Shs 4,640m

**Operating expenses**
**Shs7,390m**
Up 17%
2010: Shs 6,314m

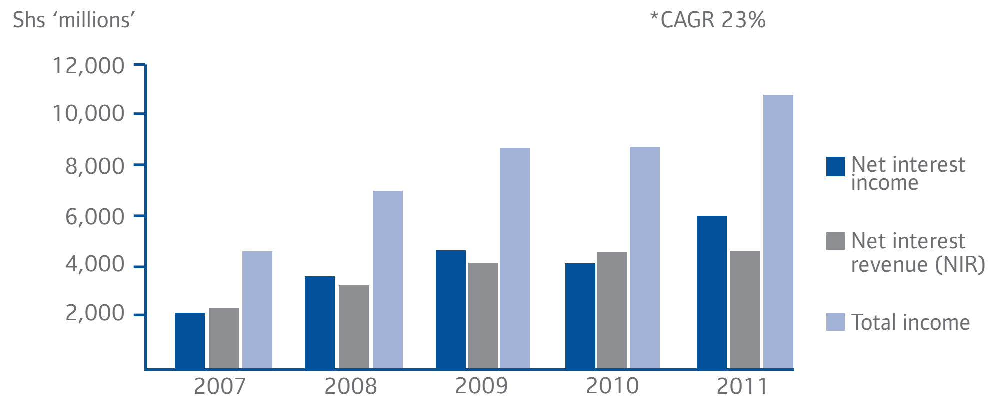
**Total loans**
**Shs 94,885m**
Up 26%
2010: Shs 75,225m

**Total deposits**
**Shs107,681m**
Up 26 %
2010: Shs 85,695m

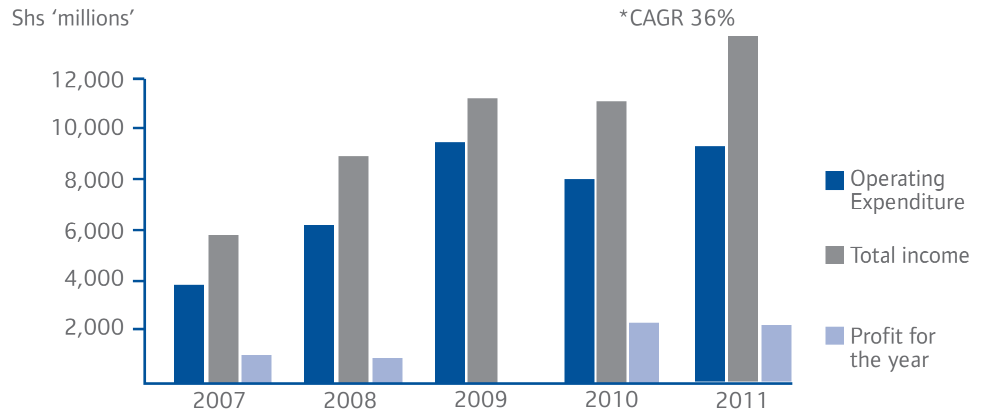
**Cost to income ratio**
**69%**
2010: 74%

**Return on equity (ROE) excluding goodwill**
**18%**
2010: 12%

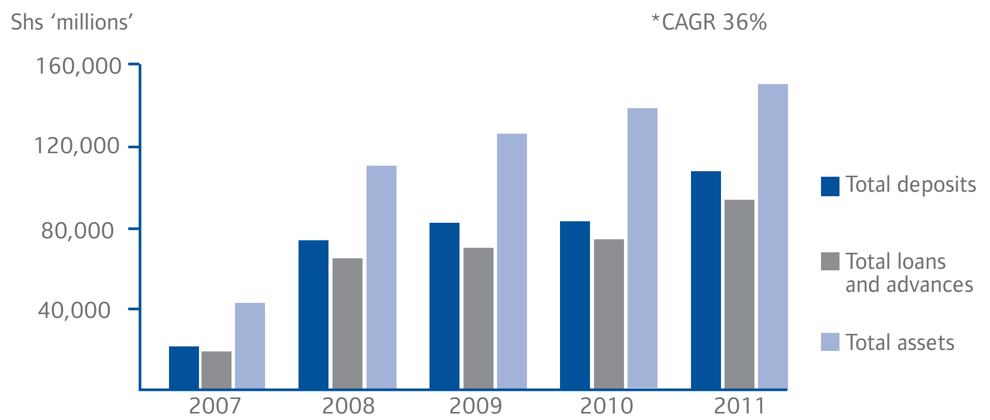
## Income growth trend




## Profitabilty trend

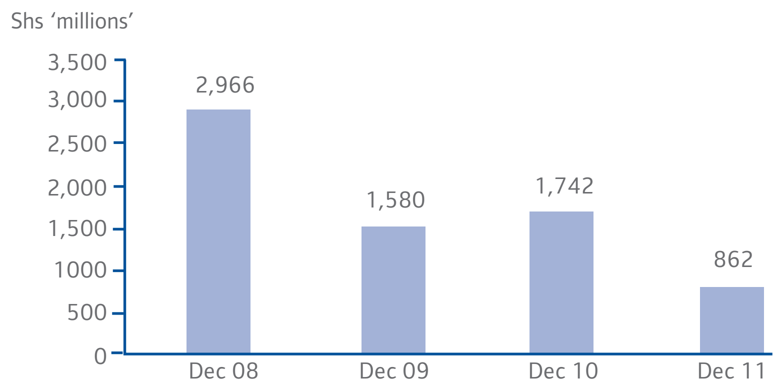



## Balance sheet growth

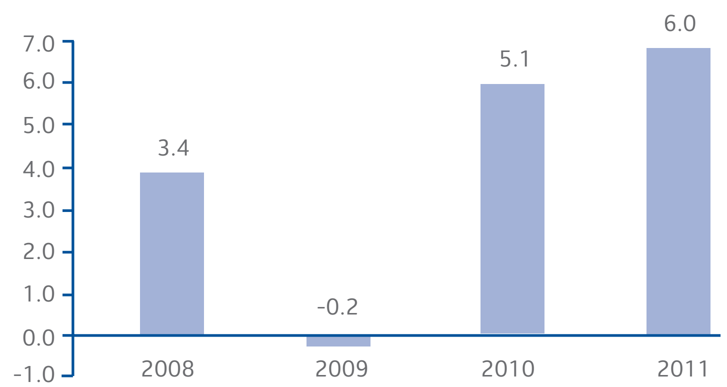



* Cumulative Annual Growth Rate (CAGR)

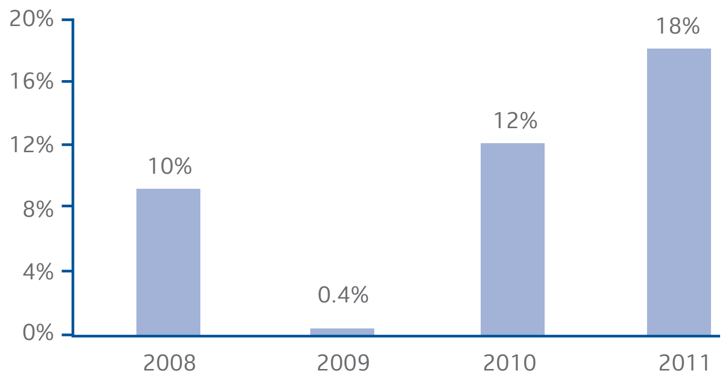
## Non - performing loans




## Earnings per share




## Return on equity (excluding goodwill)



## Five year review

### Statement of financial position

| | 2011 Shs '000 | 2010 Shs '000 | 2009 Shs '000 | 2008 Shs '000 | 2007 Shs '000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with CBK | 7,104,647 | 5,444,892 | 4,606,140 | 6,289,827 | 1,971,627 |
| Government and other securities | 25,462,779 | 21,998,217 | 29,727,224 | 20,194,094 | 13,164,589 |
| **Total loans and advances** | **94,884,596** | **75,224,630** | **70,922,412** | **65,210,086** | **18,926,529** |
| Loans and advances to banks | 30,627,842 | 16,239,669 | 25,081,964 | 20,548,781 | 2,224,009 |
| Loans and advances to customers | 64,256,754 | 58,984,961 | 45,840,448 | 44,661,305 | 16,702,520 |
| Current income tax recoverable | 158,846 | 158,846 | 166,882 | 351,222 | - |
| Deferred income tax asset | 616,128 | - | 11,424 | 280,722 | 147,614 |
| Other assets | 8,853,175 | 1,475,623 | 5,961,542 | 3,823,885 | 5,322,235 |
| Intangible assets - goodwill | 9,349,759 | 10,434,405 | 10,434,405 | 10,434,405 | 1,084,647 |
| Interest in associated companies | - | 100,111 | 337,675 | 236,770 | 172,191 |
| Other intangible assets | 1,373,214 | 1,726,053 | 2,074,927 | 1,610,735 | 483,577 |
| Property and equipment | 2,299,202 | 1,911,102 | 2,962,665 | 2,296,530 | 1,495,241 |
| Prepaid operating lease rentals | 68,669 | 71,622 | 73,654 | 34,023 | 75,702 |
| Investment properties | - | - | 412,000 | 366,500 | 418,829 |
| Assets classified as held for distribution | - | 21,534,701 | - | - | - |
| **Total assets** | **150,171,015** | **140,080,202** | **127,690,950** | **111,128,799** | **43,262,781** |
| **Equity and Liabilities** | | | | | |
| Equity | 19,329,127 | 24,768,615 | 20,341,602 | 19,247,973 | 6,012,969 |
| **Liabilities** | | | | | |
| **Total Deposits** | **107,681,320** | **85,694,598** | **82,534,005** | **73,071,678** | **22,070,935** |
| Deposits from banks | 33,674,186 | 14,269,483 | 21,059,626 | 11,096,605 | 1,972,975 |
| Deposits from customers | 74,007,134 | 71,425,115 | 61,474,379 | 61,975,073 | 20,097,960 |
| Current taxation | 587,723 | 246,827 | - | 257,033 | 32,065 |
| Other liabilities | 8,408,629 | 3,118,581 | 19,493,754 | 16,359,850 | 14,338,048 |
| Derivative liabilities | 6,429,260 | - | 16,228 | 55,383 | - |
| Trading liabilities | 648,671 | 729,153 | - | - | - |
| Borrowings | 7,086,285 | 7,066,362 | 5,256,618 | 2,080,161 | 693,842 |
| Deferred taxation | - | 200,443 | 48,743 | 56,721 | 114,922 |
| Liabilities directly associated with assets classified as held for distribution | - | 18,255,623 | - | - | - |
| **Total equity and liabilities** | **150,171,015** | **140,080,202** | **127,690,950** | **111,128,799** | **43,262,781** |

## Five year review (continued)

### Income statement

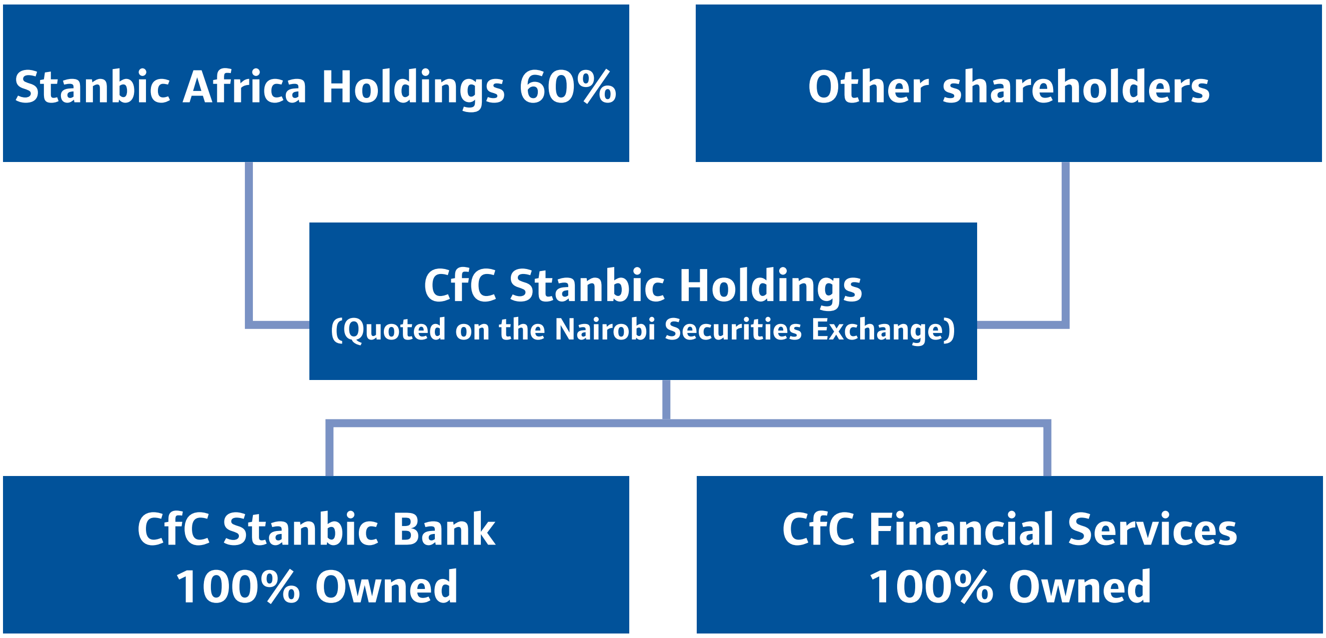
| | 2011 Shs '000 | 2010 Shs '000 | 2009 Shs '000 | 2008 Shs '000 | 2007 Shs '000 |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Interest income | 8,603,450 | 6,079,464 | 6,162,060 | 5,073,229 | 2,805,194 |
| Interest expense | (2,561,426) | (1,922,806) | (2,341,192) | (2,004,391) | (1,276,607) |
| Non-interest revenue (NIR) | 4,756,855 | 4,640,493 | 2,699,343 | 1,844,864 | 842,960 |
| Credit impairment charges | (652,853) | (521,441) | (599,149) | (859,959) | (318,103) |
| Operating expenditure | (7,390,363) | (6,313,759) | (4,837,041) | (3,082,633) | (1,352,248) |
| Profit/ (loss) in associates | 43,238 | 44,016 | 21,635 | 20,709 | - |
| **Profit before tax** | **2,798,901** | **2,005,967** | **1,105,656** | **991,819** | **701,196** |
| Income tax | (1,159,744) | (598,324) | (479,106 | (305,824) | (240,442) |
| **Profit for the year from continuing operations** | **1,639,157** | **1,407,643** | **626,550** | **685,995** | **460,754** |
| Dicontinued operations | | | | | |
| **Profit for the year from discontinued operations** | **199,835** | **379,725** | **(590,622)** | **160,598** | **463,963** |
| **Profit for the year** | **1,838,992** | **1,787,368** | **35,928** | **846,593** | **924,717** |

### Selected ratios

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Return on equity % | 9.51% | 7.22% | 0.18% | 4.16% | 4.80% |
| Return on assets % | 1.22% | 1.28% | 0.03% | 0.66% | 0.83% |
| NIR to total income % | 35.60% | 43.29% | 36.92% | 36.56% | 39.75% |
| Cost to income ratio % | 68.99% | 73.99% | 86.07% | 70.11% | 64.82% |

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

CfC Stanbic Holdings Limited owns 100% of CfC Stanbic Bank Limited and 100% of CfC Stanbic Financial services Limited.




## CfC Stanbic Holdings Limited

### Corporate and Investment Banking (CIB)

CIB offers services to larger corporate, financial institutions and international counter -parties in kenya.

**Gross Revenue**

**Shs. 7,889m**

2010 (6,267m)

### Personal and Business Banking (PBB)

PBB offers banking and other financial services to individual customers and small to medium size enterprises.

**Gross Revenue**

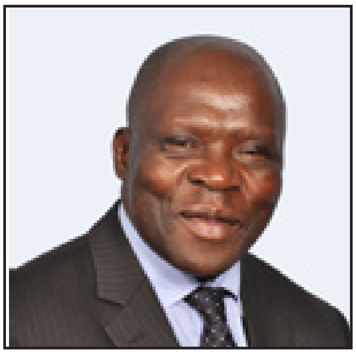
**Shs. 2,953m**

2010 (Kshs 2,530m)

# Corporate information



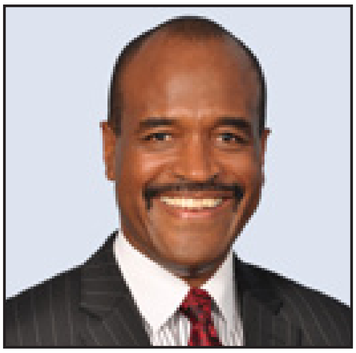
| | |
|---|---|
| Chairman: | Fred N. Ojiambo, SC |
| Managing Director: | K Mbathi |
| Non-Executive Directors: | J G Kiereini<br>J Babsa-Nzibo<br>G R Brackenridge*<br>E W Njoroge<br>R Kimotho<br>GR May**<br>CK Muchene<br>RT Ngobi |
| | * South African<br>** British |
| Secretary: | L Mbindyo<br>P.O. Box 72833<br>00200 Nairobi |
| Auditor: | PricewaterhouseCoopers<br>The Rahimtulla Tower<br>Upper Hill Road<br>P O Box 43963<br>00100 Nairobi |
| Registered Office: | CfC Stanbic Centre<br>Chiromo Road<br>P O Box 72833<br>00200 Nairobi |
| Principal Bankers: | CfC Stanbic Bank Limited<br>Chiromo Road<br>P O Box 30550<br>00100 Nairobi GPO |



Fred N. Ojiambo, SC (62)
Appointed 2010
Chairman

Mr. Ojiambo was appointed the Chairman of the Board on 21 May 2010 having previously served on the CfC Bank Limited Board as a non-executive director. Mr. Ojiambo is a lawyer and holds a Bachelor of Law, L.L.B Hons Degree from the University of Nairobi and a Post Graduate Diploma in Advocacy (Council of Legal Education) from the Kenya School of Law. He has had a long career in private practice and his experience was recognised with an award of Senior Counsel in 2007. Mr. Ojiambo sits on the boards of Bata Shoe Company Limited and Quadrant Services Limited. He is a member of the Law Society of Kenya and the International Bar Association and is also a Senior Partner at Kaplan & Stratton Advocates.

Mr. Mbathi is the Managing Director of CfC Stanbic Holdings Limited, a Director of CfC Stanbic Bank Limited, CfC Stanbic Financial Services Limited, Stanbic Investment Management Services (East Africa) Limited, Chairman of Kenya Tourist Board and member of the University of Nairobi Council. He holds a Bachelor of Arts degree (Economics and Political Science) from University of Michigan, Ann Arbor, Michigan, USA and a Masters of Banking and Finance for Development from Instituto Finafrica - Milan, Italy. He has vast experience in banking which was acquired when serving in various capacities at Commercial Bank of Africa - Nairobi, Merrill Lynch - San Francisco, USA, Barclays Merchant Finance Limited (BMFL) – Nairobi, Citibank N.A. Nairobi Branch, Stanbic Bank Kenya Limited, Ministry of Finance and Planning – Government of Kenya, and Stanbic Bank Uganda Limited.

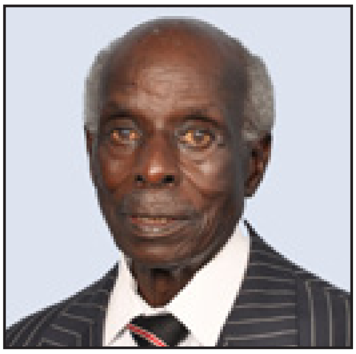


Kitili Mbathi (53)
Appointed 2008
Managing Director

G R Brackenridge (55)
Appointed 2010
Managing Director CfC Stanbic Bank

Mr. Greg Brackenridge was appointed the Managing Director CfC Stanbic Bank Limited on 5th March, 2010. He first joined the Standard Bank Group (Group) in 1992 as General Manager, Corporate and Investment Banking with Stanbic Bank Zimbabwe Limited. He became Managing Director of Stanbic Bank Zimbabwe Limited in 1997 before transferring to the Head Office in Johannesburg as Chief Operating Officer in 2003. In 2004 he took over as Chief Executive, Stanbic Africa and then in 2005, he was appointed Regional Managing Director, West Africa and Managing Director of Stanbic Bank Nigeria Limited. Whilst in Nigeria he successfully completed his mandate to see the Group through the Nigerian re-capitalisation process, build a new in-country leadership team, establish a fully fledged and universal bank and successfully consummate merger with IBTC Chartered Bank Plc..

Mr. Kiereini has served as a Non-Executive Member of the Board of Directors of CfC Stanbic Holdings Limited. He worked in various senior positions in the Kenya civil service for over 30 years rising to the position of Chief Secretary, Head of the civil service and Secretary to the Cabinet. He retired from the Civil Service in 1984 and was appointed Executive Chairman of the Board of Directors of East African Breweries Limited in 1988. He was until his recent retirement the Non-Executive Chairman of the Board of Directors of CMC Holdings Limited and East African Breweries Limited. He is Chairman of the Board of Directors of African Liaison and Consultants Services Limited and an Independent Non-Executive Member of the Board of Directors of several companies including Gambit Holdings Limited, CfC Life Assurance Limited, The Heritage Insurance Company Limited, The Heritage Insurance Company Tanzania Limited, Norfolk Towers Limited, Longonot Place Limited and Unga Group Limited. He attended Makerere University of Uganda and holds a diploma in Administration from the University of Oxford.



J G. Kiereini (82)
Appointed 1995

G R May (69)
Appointed 2008
Chairman Board Audit Commitee

Mr. May is a Director of CfC Stanbic Holdings Limited; CfC Stanbic Bank Limited; The Heritage Insurance Company Limited and CfC Life Assurance Limited; CfC Insurance Holdings Ltd; British American Tobacco (Kenya) Limited and is a Governor of the Kenya Private Sector Alliance. He is a Fellow of the Institute of Chartered Accountants in England and Wales and is a Member of the Institute of Certified Public Accountants of Kenya, and the Institute of Certified Public Secretaries of Kenya. He has had much business experience in Kenya and East Africa having served with PricewaterhouseCoopers as a Partner providing various audit and business advisory services and later as Senior Partner. He is currently the Regional Representative of the Eastern Africa Association, a business information service, based in Nairobi but operating throughout East Africa.

Mr. Edward Njoroge is the Managing Director of Kenya Electricity Generating Company Limited. He started his career with Twiga Chemical Industries in 1975. He then held a senior position with Akile Associates Limited before moving to ABCON Group in 1977. His other directorships include REAL Insurance Company Limited, REAL Insurance Tanzania Limited, the Nairobi Securities Exchange, Access Kenya, Aquatech Industries Limited, Nerifa Holdings Limited, Affiliated Business Contacts Limited, Proctor & Allan EA Limited, Proctor & Allan Uganda Limited, Syndachem East Africa Limited and Syndachem Uganda Limited. He is also a director of Tana & Athi Rivers Development Authority and Kenya Voluntary Development Association. He is also the current President of the Union of Producers, Distributors and Transporters of Electric Power in Africa.  Mr. Njoroge graduated with honours in Bachelor of Science from Makerere University.

Edward W Njoroge  (59)
Appointed 2010

Jane Babsa- Nzibo (52)
Appointed 2010

Mrs. Babsa-Nzibo is currently the Managing Director of Skynet Worldwide Express Limited. In 1994, Mrs Babsa-Nzibo founded the company in Kenya as a locally incorporated company affiliated to Skynet Worldwide International specialising in rapid door-to-door delivery of documents and parcels worldwide. Mrs Babsa-Nzibo is also the Chairperson of the Courier Industry Association of Kenya board and the vice-chairperson of the SOSSA Welfare Group. Mrs Babsa-Nzibo previously worked at DHL Limited as the Regional Sales and Marketing Manager for the East Africa region. Mrs Babsa-Nzibo is also a member of the Marketing Society of Kenya and brings to the Board her business and market experience.

Ms. Kimotho is the Executive Director of Mediamax Network Limited. She is a media owner and has a marketing and communications background. Ms. Kimotho holds a Diploma in Journalism, University of Nairobi, a Management Diploma from Columbia University Graduate School and a Marketing Certificate from the Marketing Society of Kenya.

R Kimotho (56)
Appointed 2008

C K Muchene (54)
Appointed 2011

Mr. Muchene was appointed to the board as a non-executive director of CfC Stanbic Holdings Limited and CfC Stanbic Bank Limited in February 2011.Prior to this appointment, he was the Country Senior Partner of PricewaterhouseCoopers, leading a practice that provides auditing, tax and advisory services to major businesses in the region. Over the last decade, he has been a thought leader and commentator on issues affecting businesses in the region and was one of the founders, and is also a past chairman, of the East African Business Summit. He holds a Bachelor of Commerce degree from the University of Nairobi, is a Fellow of the Institute of Certified Public Accountants of Kenya, a Member of the Institute of Certified Public Secretaries of Kenya and a member of the Institute of Directors. Mr Muchene also serves on the boards of East African Breweries Limited and Kenya Breweries Limited in addition to a number of private companies.

Mrs. Ngobi is a lawyer of over twenty-five years standing, having been admitted as an Advocate of the High Court of Kenya in 1985. She holds a bachelor of laws degree from University of Kent in Canterbury and a Master of Laws degree from University of Cambridge, both in the United Kingdom. Until recently, Mrs. Ngobi was the Area Legal Counsel, for BAT East and Central Africa until June 2010 when she retired from full time employment with BAT but retained her role as the Company Secretary.

R T Ngobi (51)
Appointed 2011

Ms. Lillian Nduku Mbindyo
(Company Secretary)

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

## 2011 will be remembered as a challenging year for the Kenyan banking sector and for the country as a whole.

I am pleased to present the Annual report and Financial Statements for CfC Stanbic Holdings Limited for the year ended 31 December 2011.

2011's performance demonstrates the high level of commitment among the Board, management and staff to strive towards meeting stakeholder expectations. It is reflective of the support the business enjoyed from its stakeholders.

### Restructure and demerger

As noted in last year's report, the Group set out to demerge its insurance business. The insurance business is now separately listed in the Nairobi Securities Exchange as CfC Insurance Holdings.

The results of the Group are now significantly impacted by the results of CfC Stanbic Bank Limited which accounts for 99 percent of the Group's profitability.

The Group's stock broking business, while constituting a small portion of the group's business, continues to show strong performance. The market share of CfC Financial Services increased while the business expanded to Rwanda in the year 2011.

### Operating environment

The economy of Kenya faced challenges during the second half of 2011. The rate of economic growth declined from 4.9% to 3.6% with forecast 2011 full year Gross Domestic Product (GDP) growth rate estimated at 3.0%- 4.0%. The average annual inflation was 14% compared to 4% in 2010. Rising inflation was mainly caused by persistent supply side shocks and increased imported inflation. Higher price levels, on account of rising international oil prices coupled with the weakening of the Kenya Shilling and higher food prices due to poor rains were the main factors driving inflation.

The Monetary Policy Committee hiked the Central Bank Rate by 11 percentage points to 18% during the fourth quarter. The cash reserve ratio was also raised by 50 basis points to 5.25%. These measures were necessary to lower inflation and stabilise the local currency.

Recent monetary tightening actions caused an upward adjustment in interest rates. Short term rates increased as investors sought higher yields amid rising inflation. The 91-day and 182-day T-bill rates closed the year at levels of 19.91% and 20.24%, up 17.38% and 17.51%, in the year 2011, respectively. The stock market also experienced lower transaction volumes due to depressed market sentiment.

The Government through the Central Bank continues to promote the expansion and development of banking services in Kenya. During the year, the Government of Kenya through legislation licensed agency banking that allowed banks to provide banking services using agents. This increased access to banking services for the unbanked population. The implementation of the new cheque clearing system reduced the cost of cheque transactions.

Politically, the implementation of the new constitution is on course and various constitutional offices have been set up. We have generally had a peaceful year in spite of the uncertainty attendant to the International Criminal Court's rulings on the post election violence of 2007/8.

## CfC Stanbic Holdings perfomance

Given the operating environment in 2011, the Group produced acceptable results. These results are in line with the Group's strategy to expand its retail banking business through channel expansion while consolidating its market share for its corporate and investment banking segment by offering innovative products.

A full financial results review is contained in pages 18 to 19 of this report.

## Corporate governance

The Group continues to implement global best practice in the management of the business. We are confident that the business is managed prudently and in compliance with all regulatory obligations. A corporate governance report is included on pages 26 to 28.

## Directorate

The changes to the Board of Directors are highlighted in the corporate governance statement and the Directors' report.

## Outlook for 2012

The financial services sector is expected to remain competitive with a number of key players investing in mobile banking technology and exploring new service channels such as agency banking. A tight monetary policy, the state of the economy, proposed new laws that seek to cap interest rates charged by banks (if passed into law) and the transition of the current Government are likely to shape the performance of this sector in 2012.

In line with growth expectations and for us to strengthen our balance sheet and support expansion of CfC Stanbic Bank to South Sudan the Board obtained approval from the shareholders to offer additional shares to the market through a rights issue. We expect that this will be complete in the year 2012. This is subject to necessary approvals from our regulators.

As a financial services provider that is rooted in Kenya, we are committed to supporting the growth of the Kenyan economy through the provision of relevant financial services to all Kenyans. We believe we have positioned ourselves to remain profitable in the year 2012.

## Appreciation

I wish to express my sincere appreciation to the Board, management and staff for their tireless dedication during the year.

I thank our customers for their steadfast support and continued patronage. We shall endeavour to continuously improve and broaden our offerings.

Finally, I would like to thank the Government and regulatory bodies, for their mutual trust, guidance and support.

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**Fred Ojiambo, SC**
**7 March 2012**

## Challenging global backdrop induced volatility in the Kenyan markets

The global economy had a challenging start in 2011 with a number of global developments having an influence on the Kenyan economy and markets. Doubts about the debt sustainability of some 'peripheral' European Governments caused interest rates to rise significantly. As the European debt crisis rolled on, worries about the sustainability of an already fragile global economic system escalated. As the year wore on, these worries would remain elevated, more so as it became clear that the fiscal austerity programmes that these Governments adopted would improve neither their debt positions nor allow them to reduce budget deficits. In the meantime, the debt crisis played a role in depressing Kenyan exports.

One global development that had a profound influence on the Kenyan economy was the spread of geopolitical risks culminating in a sustained increase in oil prices. The 'Arab spring' caused global benchmark oil prices to rise considerably and stay high for most of 2011. Brent crude fluctuated between USD100/bbl and USD115 /bbl for most of the year having been below USD80/bbl for most of 2010. Naturally, the increase in oil prices resulted in higher fuel prices in country, a factor that contributed to rising inflationary pressures over the course of the year.

The devastation caused by the Japanese earthquake and ensuing Tsunami significantly weakened the global growth trajectory in the first half of 2011. Not only did it disrupt the global manufacturing value chain, but it also heightened global financial stresses. Risk sentiments turned sour and investors ran towards safe haven assets like the US dollar and Swiss Franc, foregoing exposure to risky emerging market assets. As could be expected, this also had a bearing on the performance of the Kenyan shilling.

Another global development that influenced investor attitudes towards the Kenyan shilling was the credit downgrade of the US by major rating agencies. In the period before the actual downgrade the markets were focussed on the political wrangling amongst US law makers about whether to increase the country's debt ceiling and thus allowing the US government to be able to borrow to finance its fiscal deficit.

The loss of confidence that the debate brought might have turned out to have been more destructive than the actual credit downgrade itself. Nonetheless, the downgrade focussed investor attention on the precarious nature of the global economic recovery.

## 2011 characterised by mounting inflation pressures

Even against the unfavourable global backdrop, events in Kenya and the region conspired to induce significant market volatility. 2011 began with inflation benign, at 5.4% year on year in January and interest rates on 91-day treasury bills around 2.5%. By December inflation had risen to 18.9% year on year while the 91-day Treasury bill yield was at 19.9% with overnight interbank interest rates averaging at 25.0% from less than 1.5% at the beginning of the year.

## What contributed to such a steep rise in interest rates and inflation?

A major contributor to the increase in inflation was undoubtedly the increase in fuel prices occasioned by the increase in oil prices. The drought conditions that afflicted the region beginning in 2011 also put significant upward pressure on inflation. Not only did the drought lead to significant increases in food inflation, it also hampered the country's hydro electricity generating capacity, exposing consumers to more expensive thermal generators. But the impact on food supply, giving rise to rationing of maize meal by some retail outlets, was the most pervasive effect. Food inflation rose to 25.0% year on year in December up from 8.6% year on year in January 2011.

Another major contributor to the spiralling inflationary pressures was the depreciation of the shilling. The shilling began 2011 trading around 81 to the US dollar, but depreciated consistently throughout the year to reach a high of 107 in October 2011. In many ways the depreciation of the shilling reflected the strength of the economy. Import demand rose considerably, in part because of rising import prices like oil, but also because of strong investment and consumer spending. As a result the trade deficit kept widening, implying that demand for dollars in the foreign exchange market far outstripped its supply. Inflows of investment funds into the equities and fixed income markets also thus dwindled.

The rising inflationary pressures eventually prompted the Central Bank of Kenya to respond by tightening monetary policy in an effort to quell inflationary pressures and restore confidence in the Kenya shilling. The CBK raised its Central Bank Rate from 6.0% at the beginning of 2011 to 18.0% at the end. The CBK also undertook other measures to reduce the availability of the Shilling in the money and foreign exchange markets, resulting in the increase in market interest rates like the Treasury Bill and overnight interbank rates.

## Significant decline in interest rates in prospect for 2012

A major consideration in the CBK's calculus behind the tightening of Monetary Policy has been moderating the growth rate of credit extended by commercial banks to the private sector. As of October 2011 credit extended to the private sector grew at 34.6% year on year from 21.1% year on year in January 2011. This surge in credit extension is one factor that has boosted domestic spending, spurring import demand. By slowing this down, the CBK can moderate both inflationary pressures and the pressure on the shilling.

It is highly probable that this tightening will succeed in slowing economic activity and inflationary pressures. We estimate economic growth to have slowed down to 3.9% in 2011 and expect it to remain subdued at 3.8% in 2012 from 5.6% in 2010.

At the end of 2011 it was already evident that inflationary pressures were starting to abate. Food inflation seems poised to drop considerably since food supply has improved. Wholesale maize prices have declined by more than 20.0% since July 2011, a testament to the improved rainfall conditions in the country. Thus, we are likely to see inflation reaching 5.5% year on year by December 2012 from 18.9% year on year in December 2011.

Other factors point to lower inflation over the course of 2012. Rainfall patterns have returned to near normal, boosting hydro electric generation capacity, and fuel prices have begun to decline as the shilling has appreciated since October 2011.

As a consequence it is likely that interest rates will fall considerably over the course of 2012. In time, the CBK will begin to ease its monetary policy stance, setting the stage for lower Treasury Bill yields and other market interest rates. In turn, economic activity is likely to pick up towards the end of the year, setting the base for stronger growth in 2013.

## Introduction

In spite of the uncertainty in the environment we operate in, the Group delivered good results. The Group commenced the year operating in a market characterised by excess liquidity, low margins in local currency and a recovering equity market.

This then changed dramatically over the year where interest rates rapidly increased; local currency liquidity tightened and the exchange rate became very volatile reaching a high of Shs 107 to the US dollar.

Against this background, the Group managed to post growth in profit from a diversified business, efficient management of its liquidity position and cost efficiency.

This year's financial performance demonstrates successes in various areas namely:

- Growth of the Personal and Business banking business in CfC Stanbic Bank ;
- Growth of the Transactional Product and Services business within Corporate and Investment Banking (CIB); and
- Sustained performance in the Global markets, and investment banking businesses within CIB.

## Profitability

Profit before tax from continuing operations grew by 40 percent to Shs 2,799 million, an increase of Shs 793 million from prior year. Profit after tax increased by 16 percent from Shs 1,408 million in 2010 to Shs 1,639 million in 2011. This resulted in an increase in earnings per share to shs 5.99 per share from Shs 5.14 per share in 2010.

## Economic factors affecting the results

## Inflation

The average annual inflation was 14% compared to 4% in 2010. Inflation increases the cost of doing business. The Group's operating expenses thus increased in line with inflation in the economy.

## Central Bank Rate

The Central Bank Monetary Policy Committee hiked the Central Bank Rate (CBR) by 11 percentage points to 18% in the fourth quarter. While this was critical to lowering the rate of inflation, the Group's cost of funding increased in the second half of 2011, in line with this increase in CBR.

## Interest rates

Short term rates increased as investors sought higher yields amid rising inflation. Rising interest rates affect the value of financial instruments held at fair value, which are primarily Government securities.

## Key Financial Highlights

| Performance Indicators | 2011 | 2010 |
|---|---|---|
| Total income growth | 22% | 4% |
| Credit impairment charges growth | 25% | 13% |
| Profit before tax growth (continuing operations) | 40% | 81% |
| Gross loans and advances growth | 9% | 31% |
| Deposit growth | 4% | 18% |
| Earnings per share (Shs) | 5.99 | 5.14 |

Net interest income and non-interest revenue increased by Shs 1,885 million and Shs 116 million respectively. In the current year, non-interest income accounted for 47 percent of total operating income as compared to 56 percent in 2010. This decrease was mainly driven by reduction on the number of advisory mandates compared to 2010. Operating costs grew by Shs 1,077 million, a 17 percent increase from the previous year. The cost to income ratio reduced to 69 percent from 74.0 percent in 2010.

## Net interest income

| | 2011 Shs' 000 | 2010 Shs' 000 | Change |
|---|---|---|---|
| Interest income | 8,603,450 | 6,079,464 | 42% |
| Interest expense | (2,561,426) | (1,922,806) | 33% |
| **Net interest Income** | **6,042,024** | **4,156,658** | **45%** |

The growth in net interest income was mainly driven by total assets growth and revision of the CfC Stanbic Bank's base rate in the second half of the year in line with increasing interest rates.

## Net fees and commission income

Net fees and commission income increased from 1,757 million in 2010 to Shs 2,096 million. This was mainly attributable to transactional volumes from a growing customer base and successful uptake of our electronic banking platform, "New Business Online". Revenues earned from cash management in South Sudan and growth of the trade business also contributed to increased fees. CfC Stanbic Financial services also expanded its advisory services to Tanzania and Rwanda boosting fee revenues.

## Trading revenue

Income from trading in foreign exchange and debt securities increased by Shs 135 million. This increase is explained by increased client transaction volumes.

## Other income

Other income decreased by Shs 358 million compared to prior year. Given the high interest rates, net realised gains on sale of financial instruments was lower than prior year. Other income in 2011 also includes profit on sale of an associate company, Stanbic Investment Management Services Limited of Shs 25 million. The Group, through the Bank held a 24% shareholding.

## Impairment losses

| | 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|
| Impairment charge for non-performing loans | 812,360 | 810,022 |
| Impairment charge for performing loans | 490,035 | 101,959 |
| Recoveries during the period | (650,974) | (392,971) |
| Other movements | 1,432 | 2,431 |
| **Net impairment charge on loans and advances** | **652,853** | **521,441** |

The provision for impairment losses charged to the income statement during the year was Shs 653 million compared to Shs 521 million in 2010. Increase in provisions was mainly due to revision of general provisioning methodology to accommodate the current market conditions.

Recoveries improved significantly due to large one off collections as well as a more focused approach on follow up of past due accounts.

### Operating expenses

| | 2011 Shs'000 | 2010 Shs'000 | Change |
|---|---|---|---|
| Staff costs | 2,947,416 | 2,509,024 | 17% |
| Operating expenses | 4,442,947 | 3,804,735 | 17% |
| **Total expenses** | **7,390,363** | **6,313,759** | **17%** |

Total operating expenses for the year were Shs 7,390 million as compared to 6,314 million in 2010.

The increase in cost is consistent with inflation experienced year on year. The 2011 costs include costs for expansion of points of representation and automation and upgrade of our Information Technology infrastructure.

Other operating costs increased to Shs 4,443 million compared to Shs 3,805 million in 2010. The increase is due to costs incurred for new branches and ATMs, full year armotisation of the new core banking system implemented in May 2010 and incremental travel expenses and cost incurred in setting up operations in South Sudan.

Employee compensation and related costs increased by Shs 438 million from Shs 2,509 million in 2010. This was mainly due to annual reviews and an increase in staff head count to support the Group's growth strategy.

## Statement of financial position

Even after demerging the insurance entities, the Group's total assets grew by 7 percent to Shs 150,171 million as at close of 2011. This was largely driven by an increase in loans and advances to customers by Shs 5,272 million and growth in amount placed with other banks by Shs 14,388 million. There was strong growth in the personal and business banking business unit mainly on group schemes and mortgages. Increase in amounts placed with other banks was driven by increase in short term bank deposits.

Customer deposits increased to Shs 74,007 million from Shs 71,425 million. This increase in customer deposits was mainly due to growth in the number of customers.

Shareholders' equity reduced from 24,769 million to Shs 19,329 million. This decrease is mainly due to separation of insurance entities and decrease in available - for - sale reserves due to rising interest rates.

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

## Capital adequacy

The Group's businesses met the regulatory requirements in 2011. In particular, CfC Stanbic Bank's total capital ratio was 19.04 percent (2010: 16.20 percent) of risk-weighted assets, with Core Capital at 12.59 percent (2010: 10.41 percent). The capital adequacy ratios as at 31 December 2011 remain above the stipulated regulatory minimum of 12 percent and 8 percent respectively.


# CASE STUDIES

## A financial services business rooted in Kenya supporting Kenyan businesses

# "The satellite coolers have helped reduce the amount of time farmers spend while transporting milk to the main chilling plant"

Business review

Tanykina Dairy Plant Limited (Tanykina) is a milk chilling hub located in Kipkaren Division, Nandi North District of Nandi County in the Rift Valley Province. It was registered in 2003 and began its operations in July 2005. The hub was established under the East Africa Dairy Development (EADD) Project, a regional industry development program led by Heifer International in partnership with ILRI, TechnoServe; the World Agroforestry Centre (ICRAF) and the African Breeders Service Total Cattle Management. The program is funded by the Bill and Melinda Gates Foundation. The goal of this project is to help some one million people (or 179,000 families) living on small 1-5 acre farms, lift themselves out of poverty through more profitable production and marketing of milk.

Tanykina has seen its membership grow from 694 in 2005 to the current 9,811, out of which 5,048 are active. The company's annual earnings grew from Shs 32 million in 2006 to Shs 219 million in 2010 and the average earning per farmer from Shs 36,000 to Shs 43,000.

The company provides a range of services to its member farmers, including:

- Milk bulking, cooling and marketing
- Agro-vet services,
- Artificial Insemination services,
- Financial Services (FOSA)
- Medical Scheme, and;
- Processing of animal feed

The plant currently collects and markets approximately 30,000 litres of milk per day. The services are provided through 9 cooling plants (satellite coolers) strategically located in the key milk producing areas.

## Financing

CfC Stanbic Bank Limited supported Tanykina through a Shs 7.5 million facility in the form of Vehicle and Asset Finance which was used to put up four satellite coolers. The satellite coolers have helped reduce the amount of time farmers spend transporting milk to the main chilling plant. It ensures that milk is chilled in good time and thus, reduces its chances of getting spoilt. The facility will run for 48 months and repayments are on schedule.

## Market

The bulk chilled milk gives the company bargaining power with the leading milk processors. The chilled milk is sold to leading processors currently, Buzeki and Brookside. When the milk is delivered to the processor's factory the processor pays for the transport. otherwise the processor collects the milk from the chilling hub.

## "In business you know that someone is interested in what you do by how they treat you and deal with your business. I was shocked that all this could be possible in the short time I was introduced to the Bank," she said.

Only the wearer of the shoe knows how best it fits! And for Victoria Itibi, a shoe trader based at the Gikomba Market, Nairobi, the perfect fit has been the financial solution from CfC Stanbic Bank Limited.

Mrs. Itibi has been in the shoe business for over a decade now. The realisation for her was that growth in the sector requires a convenient and flexible financier was a key discovery during her learning curve.

However the search for a financier to support the growing needs of her business has not been easy. It took Mrs. Itibi numerous knocks on many doors with few favourable responses before CfC Stanbic Bank heeded her call.

Mrs. Itibi's story is an all too familiar one among Small and Medium Enterprises (SMEs) in Kenya.

It is not until recently that lending institutions started taking an interest in this previously ignored market segment.

The downside of this neglect for many SMEs has stifled growth and unrealised business objectives, ironically in a business sphere considered the silver bullet to ending poverty in Africa.

It was this search for financing that brought Mrs. Itibi to the door steps of the CfC Stanbic branch in Gikomba.

A thorough but simple documentation process and an assessment of her stores was all she needed to qualify for a Shs 1 million advance from the Bank. With that one step, her fortunes as a shoe trader took a turn for the better as the loan injection gave her business the boost it urgently required.

It took Mrs. Itibi time to absorb the reality that a bank previously thought of as inaccessible to SME's such as her shoe trading business could offer a financial lifeline within such a short period.

Mrs. Itibi now has two stores and the Glory Shop franchise is on the growth path. Stocks are on a steady increase and the working capital has provided a buffer to serve a growing clientele base.

"In business you know that someone is interested in what you do by how they treat you and deal with your business. I was shocked that all this could be possible in the short time I was introduced to the Bank," she said.

She is able to comfortably import a whole container worth of stock into the country from China. This has ensured that her customers do not make orders and wait for the containers to arrive.

"Previously I could group up with other businesswomen to raise enough money to get a container to Mombasa from China. This was at times inconveniencing and led to delays in the business. Now I have no such fears since I can pull it off all alone," says Mrs. Itibi.

## We are proud of our association with Shelter-Afrique spanning over 5 years and involving our 2 business segments. It embodies CfC Stanbic's commitment to be a trusted financial services partner to our clients through long-term relationships established in Kenya and throughout Africa as a whole



Shelter Afrique was established in 1982 by African governments, the African Development Bank, Africa-Reinsurance and CDC, with the mandate of mobilising resources for housing development in Africa.

The Company came into existence against the background of the acute housing shortages prevalent in most African countries and the urgent need for African governments to therefore pool resources to tackle the problem of housing.

### Financing

To date, CfC Stanbic has successfully lead arranged financing for Shelter-Afrique worth over US$55m. This includes the conclusion of Shelter-Afrique's fourth debt capital markets issuance in Kenya in 2011 which resulted in the listing of notes worth KES 2.5bn on the Nairobi Securities Exchange. The success of this issuance depended in no small measure on supportive Capital Markets stakeholders, particularly the investors and regulators and an investment banking team that understands the market.

We are proud of our association with Shelter-Afrique spanning over 5 years and involving our 3 business segments. It embodies CfC Stanbic's commitment to be a trusted financial services partner to our clients through long-term relationships established in Kenya and throughout Africa as a whole.

## CfC Stanbic Bank Financing Africa’s Renewable Energy Projects

# Ensuring our sustainability

## Standard Bank Group Limited: an Overview

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

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

## CfC Stanbic Group: an Overview

The CfC Stanbic Group operates in a highly regulated industry and is committed to complying with legislation, regulation and Codes of Best Practice while seeking to maintain the highest standards of governance, including transparency and accountability.

Whilst the Group continues to nurture a strong culture of governance and responsible risk management in line with 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 ten directors on the Board, two of are executive and eight 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.

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## Directors' appointment, induction and training

The Board, on 1 February, 2011, appointed two non-executive Directors, Ms Ruth Theddesia Ngobi and Mr Charles Kahara Muchene to the Group' s Board of Directors, in order to fill two casual vacancies. Ms. Ngobi and Mr. Muchene were subsequently elected by the shareholders as Directors at the AGM held on May 25, 2011.

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

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 Ethics is provided to new directors on their appointment.

Save for the Directors who retired at the last Annual General Meeting, no Directors have retired or resigned from the Board.

Directors are advised of new laws and regulations and changing risks 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 37, 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:

**CfC Stanbic Holdings Limited – Directors' Attendance, 2011**

| NAME | MARCH 18 | MAY 25 | AUG 19 | NOV 23 |
|---|---|---|---|---|
| FN Ojiambo, SC (Chairman) | P | P | P | P |
| G R Brackenridge | P | P | P | P |
| K Mbathi | P | P | P | P |
| J G Kiereini | P | P | P | P |
| EW Njoroge | P | P | AP | P |
| J B Nzibo | P | P | P | P |
| G R May | P | P | P | P |
| R N Kimotho | P | P | P | P |
| R T Ngobi | P | P | P | P |
| C K Muchene | P | P | P | P |

P = Present; 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 Committee (BAC), Board Risk Committee (BRC), Operational Risk and Compliance Committee (ORCC) and Asset and Liability Committee (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 2011. The Committee meets at least twice a year in accordance with the half-yearly financial reporting period adopted by the Group.

The members attended the meetings as shown here below;

### Directors' BAC attendance, 2011

| NAME | MARCH 14 | AUG 03 | NOV 01 |
|---|---|---|---|
| G R May (Chairman) | P | P | P |
| K Mbathi | P | P | AP |
| EW Njoroge | P | AP | N/A |
| JB Nzibo | P | P | P |
| C K Muchene | N/A | N/A | P |

P = Present; AP = Absent with apology; N/A = Was not a Director/ Member

## Introduction

Our business model focuses on both short term and long term sustainability objectives. Our stakeholders are key components of the sustainability initiatives aimed at creating a sustainable banking business in the Republic of Kenya.

## 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.

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. The Bank is committed to 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 geared towards this objective.

*Teamwork as demonstrated during staff team building initiatives*

## Regulators

The Central Bank of Kenya is our primary regulator and our relationship is one of mutual trust, built through regular and open communication. Various other supervisory bodies also monitor our compliance with legislation, including:

- Nairobi Securities Exchange;
- Capital Markets Authority;
- The South African Reserve Bank, and ;
- Kenya Revenue Authority - among others.

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

## 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 our stakeholders.

## Equator Principles

Under the Equator Principles approved by the Standard Bank Group's Board of Directors in December 2008, projects financed by the Group are required to be both socially responsible and to reflect sound environmental management practices. As a signatory to the Principles, we are bound to ensure that the customers to whom we lend capital, 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 in recognition of our role as a responsible lender looking towards a sustainable future.

## Community

To ensure the sustainability of CfC Stanbic Group as a member of the Standard Bank Group (SBG), we need to look beyond the business itself and toward the broader environment and the societies in which our customers operate.

*CfC Stanbic staff members gave of their time to socially relevant projects- Life Salvage Center in Nakuru*

Our sustainability is influenced by global pressures and the challenges and opportunities faced in operating in the Kenyan market.

It makes sense for us as a provider of financial services in Kenya, to look for ways of doing business that result in a lighter footprint as we help build economic growth.

We believe that working towards this goal presents a real opportunity to drive value in the business.

Creating a sustainable business and extending this thinking to our customers and the markets we operate in, is a continuous journey. We are working hard to improve our systems and capability to understand and benchmark our own direct impacts.

By improving our knowledge of our direct and indirect footprints, we are forming the basis for determining future action to mitigate risk and seek new opportunities.

We are proud of the progress we have made thus far, while acknowledging the hard work which lies ahead.

## Recognition

In March 2011, CfC Stanbic Group's innovative solution to provide a seamless channel for execution of bulk payments in Kenya via mobile banking was feted as the best mobile solution provider by Global Finance Magazine, in a field that featured the world's premier financial services institutions.

CfC Stanbic bank scooped five awards during the capital Markets Awards ceremony in a strong showing that cements

*CfC Stanbic Bank was feted at the 2011 Annual Think Business Capital Markets Awards ceremony*

our credentials as a leading player in Kenya's financial services sector

- Leading custodian - runners up
- Research team of the year - 2nd runners up.
- Best lead transaction advisor of the year- 2nd runners up
- Investment bank of the year- 1st runners up
- Bond deal of the year-1st runners up

## Themes

The following five main themes have been included in this report and elaborated briefly:

- Access to under-banked areas;
- Carbon financing;
- Financial literacy;
- Supporting small and medium enterprises;
- Valuing our people;
- Investing in communities and Employee community involvement.

## Access to the under-banked

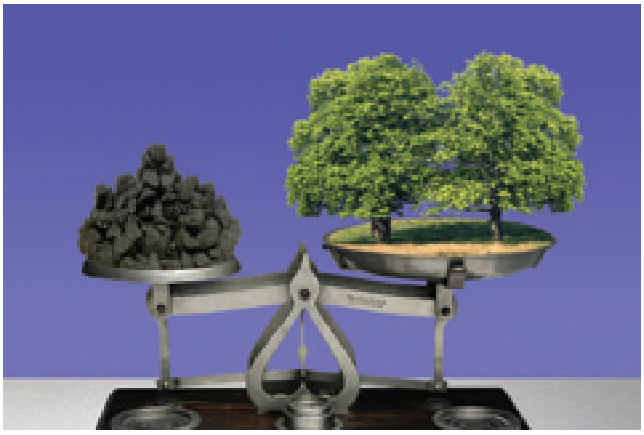
CfC Stanbic Group's mobile payments solution is widely seen as the answer to the challenges faced by huge corporate institutions in expending payments to a large number of people, a good number of whom do not have access to banking services.

CfC Stanbic Group has partnered with mobile- telephony service providers to offer a mobile banking service that enables corporate clients disburse bulk payments such as salaries, dividend payments, per diem allowances and pension payments to various beneficiaries through their mobile phones.

In Kenya, 47% of all money transfer services are currently carried out using mobile phones as opposed to conventional payment channels such as clearing houses, bank branches, automated teller machines (ATMs) and money transfer services such as Western Union.

The payment solution, which was launched in September 2009, is not limited to CfC Stanbic Group's account holders. CfC Stanbic Group's mobile payments solution facilitates payments to anyone who has access to a mobile phone regardless of whether or not they hold an account with the Bank.

## Carbon Financing



*CfC Stanbic Bank is actively involved in the financing of energy efficiency projects in Kenya*

We are committed to actively participating in initiatives that internalise the cost of climate change and generate carbon prices, such as the Clean Development Mechanism (CDM), as well as financing energy efficiency projects in African countries in order to overcome energy shortages and hence generate tradable carbon credits.

## The mechanism

Clients come to CfC Stanbic Bank with 'green' projects. The Bank then structures solutions that allow clients to potentially earn carbon credits.

If a project gets through the registration by the United Nations, and qualifies for carbon credits, the client earns revenue by selling those credits to an intermediary such as CfC Stanbic Bank. In so doing, CfC Stanbic Bank assists clients in taking carbon projects to a level where they can earn credits for the client.

## Carbon Financing Deals French Development Agency (AFD)

In October 2011, CfC Stanbic Bank signed a green energy line of credit with the French Development Agency for onward lending to businesses that wish to invest in renewable energy projects of small hydro, wind, biomass, co-generation and solar energy, as well as in energy efficiency projects especially in the agribusiness and hospitality sectors.

The expected investments should reach 56 Million USD (Shs 4.8 billion) for 20 to 30 Projects and should represent an equivalent of 20 MW capacity.

## Kenya Power and Lighting Company

The Standard Bank signed a deal with Kenya Power and Lighting Company (KPLC) to develop clean energy projects for sale under the UN's CDM. KPLC distributed 1.3 million free energy-saving light bulbs across Kenya in 2010. The contract with Standard Bank for the development of CDM projects will be valid for five years, while the sale of carbon credits for successful projects will continue for the relevant crediting period according to each project. The initiative has helped cut peak electricity demand by 45 megawatts.

## Financial Literacy: 'You and Your Money' Financial Magazine

The levels of financial literacy in Kenya remain markedly low. While the Kenyan economy has registered consistent levels of growth resulting in higher levels of disposable incomes for households, money management remains in the back burner of financial conversations.

In Kenya, publications that fill this financial literacy gap are few with only a limited number offering information on money management for both individuals and Small and Medium Sized Enterprises (SMEs).

*For its role in financial literacy, the bank received the award for Best Corporate Publication in 2011 from the Public Relations Society of Kenya.*

As a premier financial institution operating within the Kenyan economy, CfC Stanbic Bank sees financial literacy as its own unique way of engaging the Kenyan market through relevant financial publications such as You and Your Money.

You and Your Money Financial Magazine was voted the Best Corporate Publication by the Public Relations Society of Kenya for its role in raising the levels of financial literacy as well as for being an innovative platform for creating corporate visibility.

## SOS Children's Village Financial Literacy Forum

*SOS Children's Village day with CfC Stanbic Bank staff*

The financial literacy programme with SOS Children's Village is the first of its kind for the Bank and is an extension of the CfC Stanbic Bank's community engagement initiatives that aim to use education as a tool of empowerment.

Youth from Nairobi's SOS Children's Village and the neighboring community had a two day training session on personal finance. The goal is to nurture and create social transformational leaders who will act as change agents within their communities and play a part in nation building.

The programme is expected to provide the beneficiaries with a holistic education and impart them with the right skills, values and mindsets aimed at making them responsible and accountable citizens of this country.

## Supporting Small and Medium Enterprises (SMEs)

CfC Stanbic Bank has a team within the Personal and Business Banking segment devoted to supporting Small and Medium Sized Enterprises (SMEs). This team reviews the Bank's existing offerings to SMEs and provides new and supportive services to meet the needs of this market. With a majority of businesses failing during their first two years of operation, the teams focus is on new businesses with a view to providing financial and non-financial services and tools.

Extensive work is being done to revise how the Bank funds these businesses, including how they are assessed for loans and finding relevant capital-funding solutions.

## BizAIDS Training Programme

The rising prominence of the SME sector as the engine for the Kenyan economy and the road map to financial freedom for Kenya's unemployed youth is now on the firm focus of financial institutions within the Kenyan economy.

CfC Stanbic Bank is working with the Pan African Business Coalition on HIV/Aids, to support the delivery of the BizAIDS training programme to these Micro and Small Enterprises, through selected National Business Coalitions in Africa.

BizAIDS aims to improve business skills among SMEs while educating business owners on health matters such as HIV/Aids, Malaria and Tuberculosis. The BizAIDS workshops have been held in Nairobi, Mombasa, Kisumu and Nakuru.

## Valuing our people

CfC Stanbic Bank aims to establish strong and supportive people practices and processes that leverage and harness the contributions and diversity of our people, so that our employees enjoy an improved experience in all their interactions and engagements within the Bank and the Group.

In 2011, focus areas included leadership development, performance management, recruitment, remuneration, talent management, coaching and mentoring, as well as, training and development.

*The Bank's senior management took time out to mentor students at the University of Nairobi*

The successful implementation of our people management approach helps establish a more positive employee experi ence that will in turn deliver a better customer experience that ultimately contributes to our competitiveness. In this regard:

- We undertook talent reviews in each business area to determine future talent requirements;
- Kicked off the 'True Blue' initiative to recognise and the celebrate the successes of employees; and
- Stepped up staff involvement in community outreach activities.

## Investing in Communities and Employee Involvement

We understand that as a responsible organisation, we do not operate in isolation. We are also aware that our growth as a financial institution operating within the Kenyan economy hinges on our role as a socially-conscious entity. Economic mobility and social stability are key pillars that CfC Stanbic Holdings is keen on promoting within the Kenyan economy. We see ourselves as catalysts of positive change within the wider community and seek ways to play our part to support various causes.

Supporting education is one of the key pillars of our Corporate Social Responsibility initiatives. Through our various programmes, we seek to provide the beneficiaries with a holistic education and impart them with the right skills, values and mindset aimed at making them responsible and accountable citizens of the country.

Our grass-roots focused corporate social investments seek to connect us with the community while raising our brand and profile within our target markets.

## CSI Highlights

### Mater 2011 Heart Run

The Annual Mater Heart Run is an event that seeks to raise funds for surgical operations for children with heart conditions. It took place on Saturday 14th May 2011. Towards this cause, the Bank sponsored staff members to be part of the CfC Stanbic Bank Team during the Run.

### Palmhouse Foundation Sponsorship and Mentorship Programme

The Bank has sponsored 16 students in an initiative that caters for their entire four (4) years of secondary school education.The Palm House Foundation has a mentorship programme that will provide staff with an opportunity to mentor students.

### SOS Villages- House Number 13 and 2 Sponsorship

The Group officially kicked off its CSR programme in the year under review by sponsoring a house at the SOS Villages in Nairobi. The sponsorship will go towards the upkeep and education of the 20 children who live in the house.

### Five-Day Fund Raiser Drought Response Initiative


*CfC Stanbic contributed Shs 2.3 million in a staff driven funds drive to the Kenya for Kenyans initiative*

The Bank kicked off an initiative amongst members of staff to raise funds for famine stricken Kenyans in the Northern part of the country. The 'Five Day Fundraiser' raised Shs 1.3 million which the Bank matched to raise a total of Shs 2.3 million. The Bank's CSR committee presented the cheque to the Kenya Red Cross Society on Thursday 25 August 2011.

### CfC Stanbic Bank Scholarship Fund


*The bank launches the CfC Stanbic Bank Scholarship Fund in partnership with the United States International University- Africa*

The first two university students sponsored through the CfC Stanbic Bank Scholarship Fund at the United States International University (USIU) reported to campus on 29 August 2011. The students are both pursuing Bachelor of Science Degrees in Accounting.

### Sinai Disaster Response Initiative

*CfC Stanbic staff responded to the Sinai Fire tragedy through donation of foodstuffs and clothes to the survivors*

CfC Stanbic Bank members of staff donated food stuffs and clothing to the victims of the Sinai Fire tragedy that claimed over a hundred lives and left scores of families homeless in Nairobi, Kenya. The items were handed over to the Kenya Red Cross Society at Tom Mboya Social Hall, Nairobi – the temporary home set up by the Kenya Red Cross Society to provide shelter to the victims.

## Other initiatives and Partners

Other initiatives and partnership programmes undertaken have covered the following:

- Oyola Primary School class construction
- Taraja Boys Home
- El Shaddai Children's Centre
- Arise Children's Development Centre
- Kenya Community Centre for Learning
- Missionaries of Charity Brothers Home
- Pumwani Maternity Hospital
- Botoro ECK High School
- Life Salvage International Centre
- Nairobi Greenline Conservation
- NEST Children's Home
- Naivasha Children's Centre

## Introduction

The effective management of risk is critical to the earnings and financial position of CfC Stanbic Group. On this basis, a culture that encourages sound economic decision-making that adequately balances risk and reward is embedded in all our banking activities.

A description of the Group's approach to risk management covering a summary of the overall methodology and the management of individual types of risks is expounded herebelow.

## Risk management approach

The Group's approach to risk management is based on a well-established governance process and relies both on individual responsibility and collective oversight that is supported by comprehensive reporting. This approach balances stringent corporate oversight with independent risk management structures within the business units.

The Group has completed the implementation of governance standards for all major risk types. All the standards are applied consistently across the Group and are approved by the Board. These standards form an integral part of the Bank's governance infrastructure, reflecting the expectations and requirements of the Board in respect of key areas of control right across the Group. The standards ensure alignment and consistency in the manner that major risk types across the Bank are identified, measured, managed, controlled, and reported.

The Group's internal audit function independently audits the adequacy and effectiveness of the Bank's risk management, control and governance processes. The head of internal audit reports and provides independent assurance to the Board Audit Committee and has unrestricted access to the Managing Director and the Chairman of the Board Audit Committee.

## Risk appetite and tolerance

Risk appetite is the quantum of risk the Group is willing to accept in the normal course of business in pursuit of its strategic and financial objectives. Risk taken within "appetite" may rise to expected losses, but expected earnings should cover these. Risk tolerance is an assessment of the maximum risk the Bank is willing to sustain for short periods of time. It emphasises the "downside" of the risk distribution, and the Bank's capacity to survive unexpected losses.

The capacity to absorb unexpected losses depends on having sufficient capital and liquidity available to avoid insolvency. Risk tolerance typically provides a useful upper boundary for the Bank's risk appetite.

The Group's Board of Directors has ultimate responsibility for risk management, which includes evaluating key risk areas and ensuring the processes for risk management and systems of internal control are implemented. It has delegated its risk-related responsibilities, primarily to four committees: the board risk committee; the operational risk and compliance management committee; the audit committee and the credit committee, with each committee focusing on different aspects of risk management.

## Basel II

The Basel II Capital Adequacy Framework (Basel II) is defined by the Bank of International Settlements (BIS) and aims to encourage banks, through lower capital requirements, to improve their risk management process.

The Standard Bank Group adopted Basel II effective from 1st January 2008. As a result, all its operations world-wide have had to align their processes to ensure that the Group complies with the Basel II requirements as required by the South African Reserve Bank (SARB), the Group regulator.

CfC Stanbic Group is committed and continues to create awareness in readiness for the Basel II accord implementation by the local regulator, the Central Bank of Kenya.

## Risk management in banking activities

The management of all risks that are significant to CfC Stanbic Group and the general banking industry in Kenya are discussed below.

## Credit risk

Credit risk is the risk that a counterparty will be unable to pay principle and interest in full, when it falls due.

The Group has set in place comprehensive resources, expertise and controls to ensure efficient and effective management of credit risk, specifically in the banking activities described herebelow:

- In lending transactions, credit risk arises through non-performance by counter- party for credit facilities utilised. These facilities are typically loans and advances, including the advancement of securities and contracts to

support customer obligations such as letters of credit and guarantees.
- In trading activities; credit risk arises due to non-performance by counter - party for payments linked to trading related financial obligations.

## Approach to managing credit risk

Credit risk is managed by means of a governance structure with clearly-defined mandates and delegated authorities as well as the use of relevant credit assessment tools in the evaluation of new loan commitments and outstanding facilities for the customers under the respective business units as discussed further herebelow.

## Corporate and Investment Banking (CIB)

The use of risk rating models combined with an in-depth knowledge and understanding of each customer is essential in assessing the credit risk of each CIB counter - party. A consistent credit rating framework is in place to assist the Group in making credit decisions on new commitments and in managing the portfolio of existing exposures. The probabilities of default under these models are an important component of the formal credit assessment of new and existing business. The validation and on-going enhancement of these models is a continuous focus area to ensure that the tools used in these credit assessments remain relevant and adequate.

## Personal and Business Banking (PBB)

The nature of the product and strength of historical data is the fundamental area under credit risk management for the Personal and Business Banking customers. A diverse range of performance analysis techniques are applied across product sets and potential credits in recognition of the differing asset, maturity and individual or business profiles. Plans are also underway to implement the use of risk rating models in assessing risk for PBB customers.

Collection forms a key component of the credit cycle. The underlying principle is to collect appropriately and promptly using available technologies as the main driver. All credit portfolios are closely monitored on a regular basis to evaluate the level of risk assumed against expected risk levels.

## Liquidity risk

Liquidity risk arises if the Group has insufficient funds or marketable assets available to fulfil its current or future cash flow obligations at the least possible cost.

The nature of banking and trading activities results in a continuous exposure to liquidity risk. The Group's liquidity risk management framework however is designed to measure and manage the liquidity position at various levels to ensure that all payment obligations can be met under both normal and stressed conditions.

## Approach to managing liquidity risk

The following elements are incorporated as part of a cohesive liquidity management process:

- Maintaining a structurally sound statement of financial position;
- Foreign currency liquidity management;
- Ensuring the availability of sufficient contingency liquidity;
- Preserving a diversified funding base;
- Undertaking regular liquidity stress testing;
- Maintaining adequate liquidity contingency plans; and
- Short-term and long-term cash flow management.

The cumulative impact of the above-referred elements is monitored on a monthly basis by the Group's Asset and Liability Committee (ALCO) while the process is underpinned by a system of extensive internal and external controls. The latter includes the application of purpose-built technology, documented processes and procedures, independent oversight by risk management and regular independent reviews and evaluations of the effectiveness of the system.

Active liquidity and funding management is an integrated effort across a number of functional areas. Short-term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and ALCO requirements. Long-term funding needs are derived from the projected balance sheet structures and positions are regularly updated to ensure the Group's adherence to all funding regulations.

Liquidity contingency plans are designed to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The plans incorporate an extensive early warning indicator methodology supported by a clear and decisive crisis response strategy.

## Market risk

Market risk arises from a decrease in the market value of a portfolio of financial instruments caused by an adverse move in market variables such as equity, bond and commodity prices; currency exchange rates, interest rates and credit spreads, and implied volatilities on all of the above.

Market risk exposures as a result of trading activities are contained within the Group's Corporate and Investment Banking (CIB) trading operations. The Board grants general authority to take on market risk exposure to the ALCO. The Group manages market risk through a range of market risk and capital risk limits. It uses a suite of risk measurement methodologies and tools to establish limits, including Value at Risk (VaR), Securities revaluation models (Present Value at One - PV01), stress testing, loss triggers and other basic risk management measures.

## Market risk exposure on banking operations

Banking-related market risk exposure principally involves the management of the potential-adverse effect of interest rate movements on net interest income and the economic value of equity. This structural interest rate risk is caused by the differing re-pricing characteristics of banking assets and liabilities. The governance framework adopted for the management of structural interest rate risk mirrors that of liquidity risk management in terms of committee structures and the setting of standards, policies and limits. This is also true for the monitoring process and internal controls.

### Operational risk

Operational risk is the risk of loss suffered as a result of inadequacy of, or a failure in internal processes, people, systems or external events.

The Group recognises the significance of operational risk, which is inherent in all areas of its business. The Group's operational risk governance standard codifies the core governing principles for operational risk management and defines a common framework with the basic components for the identification, assessment, and management, monitoring and reporting of operational risk.

This common framework defines the minimum requirements whilst ensuring an element of flexibility for each business unit's particular operating environment. This framework is further supported by a set of comprehensive operational risk management policies.

### Approach to managing operational risk

The Group's approach to managing operational risk is to adopt practices that are fit for the purpose to increase the efficiency and effectiveness of the Group's resources, minimise losses and effectively utilise opportunities. This approach is aligned to the Group's enterprise risk management framework and adopts the sound practices recommended by various sources, including the Basel II Accord's "Sound Practices for the Management and Supervision of Operational Risk."

The independent operational risk functions perform control and oversight roles, including the setting of appropriate policies,governance standards and tools. The tools include:

- A centralised operational loss database providing management reports used to identify improvements to processes and controls arising from loss trends;
- Risk and control self-assessment through which existing and potential future risks and their related controls are identified and assessed; and
- Key risk indicators, which measure specific factors to provide an early warning that proactively address potential exposures.

The Group further maintains a comprehensive insurance programme to cover losses from fraud, theft, professional liability claims and damage to physical assets and operates a comprehensive internal audit programme on the entire Group's operations. Resources to support fraud prevention continue to be enhanced while the implementation and continous review of the adequacy of the monitoring and control processes on all Group transactions continues to be a focus area.

The Group has a forensic services unit, which is mandated by the audit committee, and is responsible for the application of a prudent fraud risk management practice throughout the Group. The strategic approach focuses on fraud prevention, detection, investigation and whistle blowing activities. The Group maintains a zero tolerance approach towards fraud and dishonesty.

## Business continuity management

Business Continuity Management (BCM) is defined as a holistic management process that identifies potential impacts that threaten an organisation; provides a framework for building resilience and the effective response that safeguards the interests of its key stakeholders, reputation, brand and value creating activities.

Business Continuity ensures timely availability of all key processes, which are required to support essential activities and customer services in the event of a disruption of business.

In September 2011, the Group performed a disaster recovery system functionality tests and will continue to enhance this, in order to ensure preparedness in the event of a disaster.

## Compliance risk

Compliance is an independent core risk management activity which also has unrestricted access to the Managing Director and the Chairman of the Board Audit Committee. The Group is subject to extensive supervisory and regulatory regimes, and while the executive management remains responsible for overseeing the management of the Group's compliance risk, group compliance actively engages with management and the compliance officers within subsidiaries to proactively support the generation of legal, ethical and profitable business.

The Group operates a centralised compliance risk management structure run by a fully equipped specialised unit that grants oversight on all compliance related matters. The compliance unit provides training leadership and guidance on compliance with money laundering, terrorist financing, occupational health and safety and emerging legislative developments.

## Money laundering control

Legislation pertaining to money laundering and terrorist financing control imposes significant record keeping and customer identification requirements on financial institutions, as well as obligations to detect, prevent and report money laundering and terrorist financing. To this end, anti - money laundering training is carried out for all the staff and the Group has in place the necessary processes and systems to comply with "The Proceeds of Crime and Anti-Money Laundering Act 2009."

## Occupational health and safety

The health and safety of employees, clients and other stakeholders continues to be a priority. The Group aims to effectively identify, reduce or control accidents or injuries to employees, contractors and clients. The framework ensures compliance with current legislation and that occupational health and safety procedures are closely linked to the operational needs of the business.

## Taxation risk

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

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

The identification and management of tax risk is the primary objective of the Group's tax and regulatory function. This objective is achieved through the application of a tax risk matrix approach which measures the fulfilment of tax responsibilities against the specific requirements of each category of tax to which the Group is exposed, in the context of the various types of activity the Group conducts.

## Reputational risk

The safeguarding of the Group's reputation is of paramount importance to its continued operations and is the responsibility of every member of staff. Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events. CfC Stanbic Group's strong reputation is dependent upon the way in which it conducts its business, but it can also be affected by the way in which its clients, to whom it provides financial services, conduct themselves.

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

Reputational risks are considered and assessed by the Board; the Group's Board Audit Committee and executive management.

## Business risk

Business risk is the risk of adverse outcomes resulting from a weak competitive position or from a choice of strategy, markets, products, activities or structures. The major potential sources of business risk include revenue volatility due to factors such as macro- economic factors, inflexible cost structures, uncompetitive products or pricing, and structural inefficiencies.

It is not cost effective to attempt to eliminate all business risks and it would not, in any event, be possible to do so. Events of small significance are expected to occur and are accepted as inevitable. Events of material significance are rare and the Group seeks to reduce the risk from these through a framework that is consistent with its expected risk profile and appetite.

## Internal audit assurance

The internal audit function operates under a mandate from the Audit Committee and has the authority to determine the scope and extent of work to be performed. The Internal Audit's primary objective is the provision of assurance to the audit committee on the quality of controls in the Group's operational activities. It assists the executive management teams in meeting their business objectives by examining the Group's activities, assessing the risks involved and evaluating the adequacy and effectiveness of processes, systems and controls to manage these risks.

A risk based audit approach has been adopted. Material or significant control weaknesses aong with planned management remedial actions are reported to the Board Audit Committee. These issues are tracked to ensure that agreed remedial actions have been implemented. Overdue issues are reported to the audit committee on a quarterly basis.

## Capital adequacy: Minimum requirements

The capital adequacy ratio reflects the capital strength of an entity compared to the minimum requirement set out by the regulator.

CfC Stanbic Group is required to meet the Central Bank of Kenya's capital requirements, set at a minimum capital adequacy ratio of 8% (based on core capital). These regulations are based on guidelines for International Settlements.

## Qualifying capital

Qualifying capital is divided into two tiers; i.e. primary and secondary.

**Primary capital (Tier I)** comprises funds raised through the issue of ordinary shares; non-redeemable, non-cumulative preference shares; retained earnings and reserves (other than regulatory reserves).

**Secondary capital (Tier II)** comprises cumulative preference shares; certain subordinated loan funding and statutory loan loss reserves.

## Risk - weighted assets

Risk - weighted assets are determined by applying credit risk conversion factors to the principal amounts of both on and off-balance sheet financial instruments. The credit risk conversion factor is determined in accordance with the relative credit risk of the counter- party. Included in the overall risk-weighted assets is a notional risk-weighting for trading assets, based on the market, counterparty and large exposure risks.


CfC
Stanbic
Bank
A member of
Standard Bank Group

The directors submit their report together with the audited financial statements for the year ended 31 December 2011, in accordance with section 157 of the Kenyan Companies Act, which requires disclosure of the state of affairs of the Group and the Company.

## Principal activities

The Group is engaged in the business of banking, insurance, wealth management and stock broking.
Insurance businesses were part of the group from the period 1 January 2011 to 21 April 2011, after which they were demerged as part of the Group restructuring process. See note 12 in the financial statements for further details.

## Results and dividends

The profit for the year of Shs 1,838,992,000 (2010: Shs 1,787,368,000) has been added to retained earnings.

The Directors have resolved not to recommend payment of dividend in the year 2011.

## Share capital

The total number of shares as at 31 December 2011 was 273,684,211 (2010: 273,684,211), ordinary shares of Shs 5 each.

## Directors

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

| | |
|---|---|
| F.N Ojiambo SC | |
| K Mbathi | |
| J G Kiereini | |
| J Babsa-Nzibo | |
| G R May** | |
| R Kimotho | |
| G R Brackenridge* | |
| E W Njoroge | |
| R T Ngobi | (Appointed: 01 February 2011) |
| C K Muchene | (Appointed: 01 February 2011) |

* - South African        ** - British

## Events subsequent to the end of the reporting period

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

## Auditor

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

**BY ORDER OF THE BOARD**
**L Mbindyo**
**SECRETARY**
**7 March 2012**

# Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors of a company 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.

**Fred N Ojiambo, SC**
**Chairman**

**K. Mbathi**
**Managing Director**

**7 March 2012**

# 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 45 to 129. These financial statements comprise the consolidated statement of financial position at 31 December 2011 and the consolidated statement of comprehensive income, Consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended; together with the statement of financial position of the company standing alone as at 31 December 2011 and the statement of comprehensive income and 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 consolidated financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act and for such internal control, as the directors determine necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

*Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the company at 31 December 2011 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

## Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

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

pwc

Certified Public Accountants
March 2012
Nairobi

# Consolidated and Company Income Statement

| | Note | Group 31 December 2011 Shs'000 | Group 31 December 2010 Shs'000 | Company 31 December 2011 Shs'000 | Company 31 December 2010 Shs'000 |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| **Net interest income** | | 6,042,024 | 4,156,658 | - | - |
| Interest income | 6 | 8,603,450 | 6,079,464 | - | 5,807 |
| Interest expense | 7 | (2,561,426) | (1,922,806) | - | (5,807) |
| Credit impairment charges | 13 | (652,853) | (521,441) | - | - |
| **Net interest income after loan impairment charges** | | **5,389,171** | **3,635,217** | **-** | **-** |
| **Non-interest revenue** | | **4,756,855** | **4,640,493** | **221,744** | **301,034** |
| Net fee and commission revenue | | 2,095,809 | 1,757,431 | - | - |
| Fee and commission revenue | 8 | 2,350,880 | 1,865,722 | - | - |
| Fee and commission expense | 9 | (255,071) | (108,291) | - | - |
| Trading revenue | 10 | 2,513,521 | 2,378,023 | - | - |
| Other revenue | 11 | 147,525 | 505,039 | 221,744 | 301,034 |
| Share of profit from associates | 25 | 43,238 | 44,016 | - | - |
| **Total income** | | **10,189,264** | **8,319,726** | **221,744** | **301,034** |
| Operating expenses | | **(7,390,363)** | **(6,313,759)** | **(101,650)** | **(43,856)** |
| Staff costs | 14 | (2,947,416) | (2,509,024) | - | (6,410) |
| Other operating expenses | 15 | (4,442,947) | (3,804,735) | (101,650) | (37,446) |
| **Profit before income tax** | | **2,798,901** | **2,005,967** | **120,094** | **257,178** |
| Income tax expense | 16 | (1,159,744) | (598,324) | - | - |
| **Profit for the year from continuing operations** | | **1,639,157** | **1,407,643** | **120,094** | **257,178** |
| **Discontinued operations** | | | | | |
| Profit for the year from discontinued operations (attributable to equity holders of the company) | 12 | **199,835** | **379,725** | - | - |
| **Profit for the year** | | **1,838,992** | **1,787,368** | **120,094** | **257,178** |
| **Profit attributable to :** | | | | | |
| Owners of the parent | | 1,738,853 | 1,604,773 | 120,094 | 257,178 |
| Non-controlling interest | | 100,137 | 182,595 | - | - |
| | | **1,838,992** | **1,787,368** | **120,094** | **257,178** |
| **Earnings per share basic and diluted** | | | | | |
| **From continuing operations(Shs)** | | **5.99** | **5.14** | **0.44** | **0.94** |
| **From discontinued operations(Shs)** | | **0.73** | **1.39** | **-** | **-** |

# Consolidated and Company Statement of Comprehensive Income

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2011 Shs'000 | 31 December 2010 Shs'000 | 31 December 2011 Shs'000 | 31 December 2010 Shs'000 |
| **Profit for the year** | **1,838,992** | **1,787,368** | **120,094** | **257,178** |
| **Other comprehensive income for the year, net of tax** | **(1,596,988)** | **1,904,698** | **120,094** | **257,178** |
| Exchange differences on translation of foreign operations | - | (3,437) | - | - |
| Gains on fair valuation of available - for- sale financial assets | (2,281,412) | 2,050,231 | - | - |
| Deferred tax (charge) / credit on revaluation of available - for - sale financial assets | 684,424 | (178,219) | - | - |
| Impairment loss on available - for - sale equity securities charged through income statement | - | 32,153 | - | - |
| Gains on property revaluations | - | 18,058 | - | - |
| Other comprehensive expense | - | (14,088) | - | - |
| **Total comprehensive income for the year** | **242,004** | **3,692,066** | **120,094** | **257,178** |
| **Total Comprehensive income attributable to:** | | | | |
| Owners of the parent | 141,867 | 2,687,764 | 120,094 | 257,178 |
| Non-controlling interests | 100,137 | 1,004,302 | - | - |
| **Total comprehensive income for the year** | **242,004** | **3,692,066** | **120,094** | **257,178** |
| **Total comprehensive income attributable to equity shareholders arises from** | | | | |
| Continuing operations | 42,169 | 1,823,487 | 120,094 | 257,178 |
| Discontinued operations | 199,835 | 1,868,579 | - | - |
| | **242,004** | **3,692,066** | **120,094** | **257,178** |

# Consolidated and Company Statement of Financial position

| | Note | Group As at 31 December 2011 Shs'000 | Group As at 31 December 2010 Shs'000 | Company As at 31 December 2011 Shs'000 | Company As at 31 December 2010 Shs'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash, banks and Central Bank of Kenya balances | 19 | 7,104,647 | 5,444,892 | 47,453 | 859 |
| Financial investments | 21 | 21,818,882 | 19,058,210 | - | - |
| Pledged assets | 20 | 3,643,897 | 2,940,007 | - | - |
| Derivative assets | 30 | 6,377,410 | 29,508 | - | - |
| Loans and advances | 23 | 94,884,596 | 75,224,630 | - | - |
| Loans and advances to banks | | 30,627,842 | 16,239,669 | - | - |
| Loans and advances to customers | | 64,256,754 | 58,984,961 | - | - |
| Balances due from group companies | 37 | - | - | 10,866 | 243,009 |
| Other assets | 24 | 2,475,765 | 1,446,115 | 10,950 | - |
| Investment in subsidiaries and associates | 25 | - | 100,111 | 14,294,644 | 14,294,644 |
| Property and equipment | 26 | 2,299,202 | 1,911,102 | 166 | 5,138 |
| Prepaid operating lease | 27 | 68,669 | 71,622 | - | - |
| Intangible assets - goodwill | 28 | 9,349,759 | 10,434,405 | - | - |
| Other intangible assets | 28 | 1,373,214 | 1,726,053 | - | - |
| Current tax recoverable | | 158,846 | 158,846 | 140,031 | 140,031 |
| Deferred income tax asset | 34 | 616,128 | - | - | - |
| Assets classified as held for distribution | 12 | - | 21,534,701 | - | 661,505 |
| **Total assets** | | **150,171,015** | **140,080,202** | **14,504,110** | **15,345,186** |
| **Equity and liabilities** | | | | | |
| **Equity** | | **19,329,127** | **24,768,615** | **14,180,197** | **15,147,776** |
| **Equity attributable to company's equity holders** | | **19,329,127** | **21,833,761** | **14,180,197** | **15,147,776** |
| Ordinary share capital | 29 | 1,368,421 | 1,368,421 | 1,368,421 | 1,368,421 |
| Ordinary share premium | 29 | 13,586,847 | 13,586,847 | 13,586,847 | 13,586,847 |
| Revenue reserves | | 5,289,343 | 4,676,820 | (775,071) | 192,508 |
| Other reserves | 40 | (915,484) | 2,201,673 | - | - |
| **Non controlling interest** | | **-** | **2,934,854** | **-** | **-** |
| **Total liabilities** | | **130,841,888** | **115,311,587** | **323,913** | **197,410** |
| Derivative liabilities | 30 | 6,429,260 | - | - | - |
| Trading liabilities | 22 | 648,671 | 729,153 | - | - |
| Deposits and current accounts | 31 | 107,681,320 | 85,694,598 | - | - |
| Deposits from banks | | 33,674,186 | 14,269,483 | - | - |
| Deposits from customers | | 74,007,134 | 71,425,115 | - | - |
| Borrowings | 32 | 7,086,285 | 7,066,362 | - | - |
| Other liabilities | 33 | 8,408,629 | 3,118,581 | 103,296 | 18,914 |
| Balances due to group companies | 37 | - | - | 220,617 | 178,496 |
| Current income tax payable | | 587,723 | 246,827 | - | - |
| Deferred income tax liability | 34 | - | 200,443 | - | - |
| Liabilities directly associated with assets classified as held for distribution | 12 | - | 18,255,623 | - | - |
| **Total equity and liabilities** | | **150,171,015** | **140,080,202** | **14,504,110** | **15,345,186** |

The financial statements on pages 45 to 129 were approved for issue by the Board of Directors on 7 March 2012 and signed on its behalf by:

Fred N Ojiambo, SC
Chairman

K. Mbathi
Managing Director

G.R. May
Director

Lillian Mbindyo
Secretary

# Consolidated Statement of Changes in Equity

| Year ended 31 December 2011 | Note | Share Capital Shs'000 | Share Premium Shs'000 | Capital Reserve Shs'000 | Statutory Reserve Shs'000 | Fair value Reserve Shs'000 | Reval-uation reserve Shs'000 | Currency Translation Reserve Shs'000 | Share-based Payment Reserve Shs'000 | Revenue Reserve Shs'000 | Non-controlling Interest Shs'000 | Total equity Shs'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At start of year | | 1,368,421 | 13,586,847 | 288,173 | 246,329 | 1,534,664 | 132,461 | (32,348) | 32,394 | 4,676,820 | 2,934,854 | 24,768,615 |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **(316,213)** | **(1,596,988)** | **-** | **-** | **-** | **2,055,068** | **100,137** | **242,004** |
| Income for the year | | - | - | - | - | - | - | - | - | 1,738,855 | 100,137 | 1,838,992 |
| **Other comprehensive income:** | | | | | | | | | | | | - |
| Transfer from statutory reserves | | - | - | - | (316,213) | - | - | - | - | 316,213 | - | - |
| Available-for-sale financial assets net of tax | | - | - | - | - | (1,596,988) | - | - | - | - | | (1,596,988) |
| **Total other comprehensive income** | | **-** | **-** | **-** | **(316,213)** | **(1,596,988)** | **-** | **-** | **-** | **316,213** | **-** | **(1,596,988)** |
| Contribution and distributions to owners | | | | | | | | | | | | |
| 2010 final dividend - paid | 18 | - | - | - | - | - | - | - | - | (220,220) | - | (220,220) |
| Distribution of investment | | - | - | - | - | - | - | - | - | (867,453) | - | (867,453) |
| Share based payment reserve | 40 | - | - | - | - | - | - | - | 32,805 | - | - | 32,805 |
| Reserve distribution upon demerger | | - | - | (288,173) | (7,962) | (926,332) | (46,642) | 32,348 | - | (354,872) | (3,034,991) | (4,626,624) |
| **Total contributions by and distributions to owners** | | **-** | **-** | **(288,173)** | **(7,962)** | **(926,332)** | **(46,642)** | **32,348** | **32,805** | **(1,442,545)** | **(3,034,991)** | **(5,681,492)** |
| **At end of year** | | **1,368,421** | **13,586,847** | **-** | **(77,846)** | **(988,656)** | **85,819** | **-** | **65,199** | **5,289,343** | **-** | **19,329,127** |

# Consolidated Statement of Changes in Equity

| Year ended 31 December 2010 | Note | Share Capital Shs'000 | Share Premium Shs'000 | Capital Reserve Shs'000 | Statutory Reserve Shs'000 | Fair value Reserve Shs'000 | Reval-uation reserve Shs'000 | Currency Translation Reserve Shs'000 | Share-based Payment Reserve Shs'000 | Revenue Reserve Shs'000 | Non controlling Interest Shs'000 | Total equity Shs'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At start 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 |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **149,421** | **1,202,884** | **12,318** | **(3,437)** | **-** | **1,326,578** | **1,004,302** | **3,692,066** |
| Income for the year | | - | - | - | - | - | - | - | - | 1,604,773 | 182,595 | 1,787,368 |
| **Other comprehensive income:** | | | | | | | | | | | | |
| Gains on revaluation of land and buildings | | - | - | - | - | - | 9,590 | - | - | - | 8,468 | 18,058 |
| Transfer from statutory reserves | | - | - | - | 149,421 | - | - | - | - | (275,467) | 126,046 | - |
| Available-for-sale financial assets net of tax | | - | - | - | - | 1,202,884 | - | - | - | - | 701,281 | 1,904,165 |
| Currency translation differences | | - | - | - | - | - | - | (3,437) | - | - | - | (3,437) |
| Other comprehensive income for the year, net of tax | | - | - | - | - | - | 2,728 | - | - | (2,728) | (14,088) | (14,088) |
| **Total other comprehensive income** | | **-** | **-** | **-** | **149,421** | **1,202,884** | **12,318** | **(3,437)** | **-** | **(278,195)** | **821,707** | **1,904,698** |
| Special Dividend paid in 2010 | | - | - | - | - | - | - | - | - | - | (143,680) | (143,680) |
| Share based payment reserve | 40 | - | - | - | - | - | - | - | 18,906 | - | - | 18,906 |
| Share capital injection by non-controling interest | | - | - | - | - | - | - | - | - | - | 859,721 | 859,721 |
| Other effects of group restructuring | | - | - | 14,802 | (261,798) | (61,971) | (181,589) | - | - | 165,860 | 324,696 | - |
| **Total contributions by and distributions to owners** | | **-** | **-** | **14,802** | **(261,798)** | **(61,971)** | **(181,589)** | **-** | **18,906** | **165,860** | **1,040,737** | **734,947** |
| **At end of year** | | **1,368,421** | **13,586,847** | **288,173** | **246,329** | **1,534,664** | **132,461** | **(32,348)** | **32,394** | **4,676,820** | **2,934,854** | **24,768,615** |

# Company Statement of Changes in Equity

| Year ended 31 December 2011 | Share capital Shs'000 | Share Premium Shs'000 | Revenue Reserve Shs'000 | Total Shs'000 |
|---|---|---|---|---|
| At start of year | **1,368,421** | **13,586,847** | **192,508** | **15,147,776** |
| **Other comprehensive income for the year** | **-** | **-** | **120,094** | **120,094** |
| Income for the year | - | - | 120,094 | 120,094 |
| Dividend paid | - | - | (220,220) | (220,220) |
| Distribution of investment | - | - | (867,453) | (867,453) |
| **Total contributions by and distributions to owners** | **-** | **-** | **(1,087,673)** | **(1,087,673)** |
| **At end of year** | **1,368,421** | **13,586,847** | **(775,071)** | **14,180,197** |

| Year ended 31 December 2010 | Share capital Shs'000 | Share Premium Shs'000 | Revenue Reserve Shs'000 | Total Shs'000 |
|---|---|---|---|---|
| At start of year | 1,368,421 | 13,586,847 | (64,670) | 14,890,598 |
| **Other comprehensive income for the year** | **-** | **-** | **257,178** | **257,178** |
| income for the year | - | - | 257,178 | 257,178 |
| **Total contributions by and distributions to owners** | **-** | **-** | **-** | **-** |
| **At end of year** | **1,368,421** | **13,586,847** | **192,508** | **15,147,776** |

# Consolidated Statement of Cash Flows

| | Note | 31 December 2011 Shs '000 | 31 December 2010 Shs '000 |
|---|---|---|---|
| **Cash flows generated from operating activities** | **35(a)** | **3,417,118** | **3,073,328** |
| Income tax paid | | (1,286,333) | (575,383) |
| **Net cash generated from operating activities before changes in operating assets** | | **2,130,785** | **2,497,945** |
| **Changes in operating assets and liabilities** | | **(4,280,802)** | **(6,471,899)** |
| Loans and advances to customers | | (5,271,793) | (14,291,249) |
| Other assets | | (1,029,650) | 1,952,070 |
| Cash ratio requirement | | (852,087) | (396,102) |
| Financial investments | | (4,999,339) | (5,683,420) |
| Customer deposits | | 2,582,019 | 10,679,889 |
| Other liabilities | | 5,290,048 | 1,266,913 |
| **Net cash used in operating activities** | | **(2,150,017)** | **(3,973,954)** |
| **Cash flow (used)/from investing activities** | | **(436,257)** | **332,415** |
| Additions to property and equipment | 26(a) | (587,905) | (358,561) |
| Additions to intangible assets | 28 | (22,305) | (200,549) |
| Proceeds from the sale of equipment | | 5,426 | 5,234 |
| Dividend from associates | 25 | 44,016 | 10,129 |
| Proceeds from the disposal of associate | | 124,511 | - |
| Investment in associate | | - | (3,263) |
| Dividend received from subsidiaries | | - | - |
| Investment by non-controlling interest | | - | 879,425 |
| **Cash flows (used)/from financing activities** | | **(406,245)** | **2,166,064** |
| Dividends paid to non-controlling interest | | - | (143,680) |
| Dividends paid to equityholders of parent | | (426,168) | - |
| Proceeds from borrowings and shareholder loan | | 19,923 | 2,309,744 |
| Decrease in cash equivalents as a result of demerger | 12(c) | (5,138,689) | - |
| Currency translation differences | | - | (8,654) |
| **Net decrease in cash and cash equivalents** | | **(8,131,208)** | **(1,484,129)** |
| **Cash and cash equivalents at 1 January** | | **8,604,115** | **10,088,244** |
| **Cash and cash equivalents at 31 December** | **35 (b)** | **472,907** | **8,604,115** |

## 1 General information

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

CfC Stanbic Centre
Chiromo Road
P O Box 72833
00200 Nairobi

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

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

## 2 Summary of significant accounting policies

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

### a. Basis of preparation

The consolidated and company financial statements ('financial statements') are prepared in accordance with International Financial Reporting Standards (IFRS) and the Kenyan Companies Act. The financial statements have been prepared under the historical cost convention, as modified 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.

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

**Changes in accounting policies and disclosures**

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

*(i) New and amended standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the financial period beginning 1 January 2011.

| Standard | **Title** |
|---|---|
| IAS 1 | Presentation of financial statements |
| IAS 24 | Related party disclosures |
| IFRS 7 | Financial instruments: Disclosures |

## 2 Summary of significant accounting policies (continued)

### a. Basis of preparation (continued)

*(i) New and amended standards adopted by the Group (continued)*

- The amendment to IAS 1, 'Presentation of financial statements' is part of the 2010 Annual Improvements and clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of this amendment has no significant impact as the Group and Company was already disclosing the analysis of other comprehensive income on its statement of changes in equity.

- The amendment to IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

  The amended definition means that some entities will be required to make additional disclosures, e.g., an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity. Related party disclosures have increased following adoption of this amendment.

- The amendments to IFRS 7, 'Financial Instruments - Disclosures' are part of the 2010 Annual Improvements and emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment has also removed the requirement to disclose the following;

  - Maximum exposure to credit risk if the carrying amount best represents the maximum exposure to credit risk;
  - Fair value of collaterals; and
  - Renegotiated assets that would otherwise be past due but not impaired.

The application of the above amendment has simplified financial risk disclosures made by the Group and Company.

- Other amendments and interpretations to standards became mandatory for the year beginning 1 January 2011 but had no significant effect on the Group's financial statements

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

Numerous new standards, amendments and interpretations to existing standards have been issued but are not yet effective. Below is the list of new standards that are likely to be relevant to the Group and Company.

| Standard | Title | Applicable for financial years beginning on/after |
|---|---|---|
| IAS 1 | Presentation of financial statements | 1 July 2012 |
| IAS 19 | Employee benefits | 1 January 2013 |
| IFRS 9 | Financial instruments | 1 January 2015 |
| IFRS 10 | Consolidated financial statements | 1 January 2013 |
| IFRS 12 | Disclosure of interests in other entities | 1 January 2013 |
| IFRS 13 | Fair value measurement | 1 January 2013 |

- *IAS 1, Presentation of financial statements*

  The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. Entities will be required to separate items presented in Other Comprehensive Income (OCI) into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

## 2 Summary of significant accounting policies (continued)

- *IAS 1, Presentation of financial statements*
  The title used by IAS 1 for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income', though IAS 1 still permits entities to use other titles.

- IAS 19, Employee benefits
  The impact on the Group and Company will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur, to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/(asset). The Group and Company has yet to assess the full impact of the amendments.

- IFRS 9, 'Financial instruments'
  IFRS 9 was issued in November 2009 and October 2010 and replaces those parts of IAS 39 relating to the classification and measurement of financial instruments.

  IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch. The Group and Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

- IFRS 10, 'Consolidated financial statements'
  This is a new standard that replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess.

  The revised definition of control focuses on the need to have both power and variable returns before control is present. The Group will need to consider the new guidance.

- IFRS 12, 'Disclosure of Interests in other entities'
  IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including interests in subsidiaries, associates, joint arrangements, special purpose entities and other off statement of financial position vehicles. The Group is yet to assess IFRS 12's full impact.

- IFRS 13, 'Fair value measurement'
  IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across all IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess IFRS 13's full impact.

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

## 2 Summary of significant accounting policies (continued)

### b) Consolidation

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

*(i) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. 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 Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition- by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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.

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

## 2 Summary of significant accounting policies (continued)

*(i) Subsidiaries (continued)*

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

*(ii) Changes in ownership interests in subsidiaries without change of control*

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

*(iii) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are re-classified to profit or loss.

*(iv) Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting. Under the equity method, the investments are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is re-classified to profit or loss as appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

## 2 Summary of significant accounting policies (continued)

*(iv) Associates (continued)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement. Dilution gains and losses arising from investments in associates are recognised profit or loss.

### c) Functional currency and translation of foreign currencies

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Kenyan Shillings (Shs), which is the CfC Stanbic Holdings Limited's presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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 other comprehensive income.

*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each income statement amount are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

## 2 Summary of significant accounting policies (continued)

### c) Functional currency and translation of foreign currencies (continued)

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Management Board.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

### e) Revenue and expenditure

**Banking activities**

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

**Net interest income**

Interest income and expense (with the exception of those borrowing costs that are 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.

## 2 Summary of significant accounting policies (continued)

### 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.

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

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

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

### Dividend income

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

### f) Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cash flows consist of cash and balances with central banks and other short term highly liquid investments with 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.

## 2 Summary of significant accounting policies (continued)

### g) 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.

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.

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

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is 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 and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or

## 2 Summary of significant accounting policies (continued)

### Financial assets and liabilities designated at fair value through profit or loss (continued)

- the financial assets consist of debt host and an embedded derivatives that must be separated.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as trading revenue under non-interest revenue.

Interest income and expense and dividend income and expenses on financial assets held for trading are included in trading revenue. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in profit or loss.

### 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 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).

*(ii) Recognition and measurement*

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group and Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of other income when the Group’s right to receive payments is established.

Changes in the fair value of monetary and non monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

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.

## 2 Summary of significant accounting policies (continued)

*(iii) 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.

## 2 Summary of significant accounting policies (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.

*(iv) 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.

*(v) 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.

## 2 Summary of significant accounting policies (continued)

*(v) Derecognition of 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.

*(vi) Derivative financial instruments*

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the income statement. These derivatives are trading derivatives and are classified as a current asset or liability.

### h) Financial guarantee contracts

A Financial guarantee contracts are contracts that require the Group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, 'Employee benefits', and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Group.

### i) 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.

## 2 Summary of significant accounting policies (continued)

### j) Intangible Assests

#### Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### 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.

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.

## 2 Summary of significant accounting policies (continued)

### (k) 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 listed hereunder:

| | |
|---|---|
| Leashold 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.

### (l) 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.

## 2 Summary of significant accounting policies (continued)

### (l) Impairment of non-financial assets (continued)

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

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

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

### (m) 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.

## 2 Summary of significant accounting policies (continued)

### (n) Provisions and contingent liabilities

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

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

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

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

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

### (o) 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 income statement 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 statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting 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.

## 2 Summary of significant accounting policies (continued)

*(ii) Defined benefit plan (continued)*

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 are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over vesting period

The assets of the plan are held in a separate trustee administered fund. The amount recognised in the statement of financial position 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.

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.

### (p) Current income tax

*(i) Current income tax*

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

*(ii) Deferred income tax*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## 2 Summary of significant accounting policies (continued)

*(ii) Deferred income tax (continued)*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabiltites and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

### q) Non-current assets held for sale and disposal groups

Non-current assets, or disposal groups comprising assets and liabilities that 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.

### (r) Classification of insurance contracts

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

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

**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

## 2 Summary of significant accounting policies (continued)

### General insurance business (continued)

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.

### (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 reporting 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 re-calculated at each reporting 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

## 2 Summary of significant accounting policies (continued)

### (t) Claims (continued)

occurring prior to the reporting 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.

### (v) Liability adequacy test

At each reporting 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).

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.

## 2 Summary of significant accounting policies (continued)

### (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.

### (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.

## 2 Summary of significant accounting policies (continued)

Employee entitlements to annual leave are recognised when they accrue to employees.

A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the reporting date.

### (ee) Share capital

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

### (ff) 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.

### (gg) 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.

### (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.

## 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. 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 28.

### d) Income taxes

Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred 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.

## 4 Segmental reporting

The Group is currently organised into three business units, namely: 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 statement of financial position 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. The 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 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 which provides residential accommodation loans to individual customers;
- Instalment sales and finance leases comprising two areas; i.e instalment finance in the consumer market, mainly vehicles, and secondly; financing of vehicles and equipment in the business market;
- Card products, which provides card facilities to individuals and businesses;
- Transactional and lending products, specifically, transactions in products associated with the various points of contact channels such as ATMs, Internet, and branches. It also 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, specifically, project finance, advisory services, structured finance, structured trade finance, corporate lending, primary markets and property finance, and ;
- Wealth Management and 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 contributed 35% percent of the total deposits as at December 2011. The interest expense paid to this customer is reported under the Corporate and Investment Banking segment

## 4. Segmental reporting (continued)

### Results by business units

| | 31 December 2011 CIB Shs' 000 | PBB Shs' 000 | Insurance Shs' 000 | Total Shs' 000 |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Net interest income | 3,768,484 | 2,273,540 | - | 6,042,024 |
| Non interest revenue | 4,076,892 | 679,963 | - | 4,756,855 |
| Income from associates | 43,238 | - | - | 43,238 |
| Impaiments on loans and advances | (139,421) | (513,432) | - | (652,853) |
| Staff cost | (1,206,166) | (1,741,250) | - | (2,947,416) |
| Operating expenses | (2,226,270) | (2,216,677) | - | (4,442,947) |
| **Profit before tax** | **4,316,757** | **(1,517,856)** | - | **2,798,910** |
| Taxation | (1,564,711) | 404,967 | | (1,159,744) |
| **Profit after taxation** | **2,752,046** | **(1,112,889)** | **-** | **1,639,157** |
| **Discontinued operations** | | | | |
| Profit for the year from discontinued operations | - | - | 199,835 | 199,835 |
| **Profit for the year** | **2,752,046** | **(1,112,889)** | **199,835** | **1,838,992** |

| | CIB Shs' 000 | PBB Shs' 000 | Insurance Shs' 000 | Total Shs' 000 |
|---|---|---|---|---|
| Assets | 113,270,424 | 36,900,591 | - | 150,171,015 |
| Loans and advances | 69,592,607 | 25,291,989 | - | 94,884,596 |
| Derivative assets | 6,377,410 | - | - | 6,377,410 |
| Customer deposits | 49,604,053 | 24,403,081 | - | 74,007,134 |
| Property and equipment | 849,969 | 1,449,233 | - | 2,299,202 |
| Intangibles | 5,393,106 | 5,329,867 | - | 10,722,973 |
| Total liabilities | 101,357,603 | 29,484,285 | - | 130,841,888 |
| Borrowings | 4,418,251 | 2,668,034 | - | 7,086,285 |
| Derivative liabilities | 6,429,260 | - | - | 6,429,260 |
| Additions to property and equipment | 217,336 | 370,569 | - | 587,905 |
| Additions to intangible assets | 11,218 | 11,087 | - | 22,305 |
| Depreciation and amortisation for the year | 273,769 | 297,274 | - | 571,043 |

## 4. Segmental reporting (continued)

### Results by business units (continued)

| | 31 December 2010 | | | |
|---|---|---|---|---|
| | CIB Shs' 000 | PBB Shs' 000 | Insurance Shs' 000 | Total Shs' 000 |
| **Continuing operations** | | | | |
| Net interest income | 2,379,141 | 1,777,517 | - | 4,156,658 |
| Non interest revenue | 3,887,509 | 752,984 | - | 4,640,493 |
| Income from associates | 44,016 | - | - | 44,016 |
| Impaiments on loans and advances | (156,936) | (364,505) | - | (521,441) |
| Staff cost | (1,241,133) | (1,267,891) | - | (2,509,024) |
| Operating expenses | (1,671,477) | (2,133,258) | - | (3,804,735) |
| **Profit before tax** | **3,241,120** | **(1,235,153)** | **-** | **2,005,967** |
| Taxation | (941,418) | 343,094 | - | (598,324) |
| **Profit after taxation** | **2,299,702** | **(892,059)** | **-** | **1,407,643** |
| **Discontinued operations** | | | | |
| Profit for the year from discontinued operations | - | - | 379,725 | 379,725 |
| **Profit for the year** | **2,299,702** | **(892,059)** | **379,725** | **1,787,368** |

| | CIB Shs' 000 | PBB Shs' 000 | Insurance Shs' 000 | Total Shs' 000 |
|---|---|---|---|---|
| Assets | 88,810,729 | 29,734,772 | 21,534,701 | 140,080,202 |
| Loans and advances | 56,265,161 | 18,959,469 | - | 75,224,630 |
| Investments in associates | 100,111 | - | - | 100,111 |
| Customer deposits | 68,795,394 | 16,899,204 | - | 85,694,598 |
| Property and equipment | 1,101,607 | 809,495 | - | 1,911,102 |
| Intangibles | 5,530,713 | 6,629,745 | - | 12,160,458 |
| Total liabilities | (74,671,549) | (22,384,415) | (18,255,623) | (115,311,587) |
| Borrowings | (2,814,652) | (4,251,710) | - | (7,066,362) |
| Derivative assets | 29,508 | - | - | 29,508 |
| Additions to property and equipment | 154,395 | 203,272 | 9,361 | 367,028 |
| Additions to intangible assets | 101,424 | 99,125 | - | 200,549 |
| Depreciation and amortisation for the year | 249,852 | 379,988 | - | 629,840 |

## 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-referred risks; the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group; to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly in order to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

### a) Capital management

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

- To comply with the capital requirements set by the regulator; i.e the 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:

| | 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|
| Total borrowings | - | - |
| Less: cash and cash equivalents | (47,453) | (859) |
| Net debt | - | - |
| Total equity | 14,180,197 | 15,147,776 |
| **Total capital** | **14,180,197** | **15,147,776** |

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 statement of financial position, 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 statement of financial position assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

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

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

## 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 statement of financial position items;
- A core capital (tier 1) of not less than 8% of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 12% of its total risk adjusted assets plus risk adjusted off statement of financial position items.

Off-statement of financial position credit related commitments and forwards are converted to credit risk equivalents using credit conversion factors, designed to convert these items into statement of financial position equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets.

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

| | 2011<br>Kshs'000 | 2010<br>Kshs'000 |
|---|---|---|
| Tier 1 capital (Core capital) | | |
| Share capital | 2,441,375 | 2,441,375 |
| Share premium | 534,118 | 534,118 |
| Retained earnings | 7,179,049 | 4,939,952 |
| **Total Tier 1 capital (Core capital)** | **10,154,542** | **7,915,445** |
| Tier 2 capital | | |
| Statutory credit risk reserve | 124,232 | 440,445 |
| Borrowings | 5,077,271 | 3,957,722 |
| **Total Tier 2 capital** | **5,201,503** | **4,398,167** |
| **Total capital (Tier 1 + Tier 2)** | **15,356,045** | **12,313,612** |
| Risk - Weighted assets | | |
| On-balance sheet | 72,268,822 | 65,584,422 |
| Off-balance sheet | 8,386,609 | 10,419,602 |
| **Total risk - weighted assets** | **80,655,431** | **76,004,024** |
| Capital adequacy ratios | | |
| Core capital / total risk - weighted assets | 12.59% | 10.41% |
| Minimum regulatory requirement | 8.00% | 8.00% |
| Total capital / total risk - weighted assets | 19.04% | 16.20% |
| Minimum regulatory requirement | 12.00% | 12.00% |

## 5. Financial risk management (continued)

### Capital management: Insurance division

No capital management disclosures relating to 2011 have been made in these financial statements, as all the entities in the Insurance division were demerged in the year.

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

As at 31 December 2010, the Insurance Act required each insurance company to hold a minimum level of paid up

| | Regulatory Shs' 000 | CfC Life Shs' 000 | Heritage Insurance Shs' 000 |
|---|---|---|---|
| General insurance business | 300,000 | 460,000 | 350,000 |
| Long-term insurance business | 150,000 | 152,340 | 150,000 |

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 2010 is illustrated below:

### CfC Life Assurance Limited

| | Long-term business 2010 Shs'000 | Short-term business 2010 Shs'000 |
|---|---|---|
| Admitted assets | 13,073,715 | 396,415 |
| Admitted liabilities | (11,162,949) | (330,898) |
| **Solvency margin** | **1,910,766** | **65,517** |
| **Required margin** | **558,147** | **114,812** |

## 5. Financial risk management (continued)

### Capital management - Insurance division (continued)

### Heritage Insurance Company (K) Limited

| | Long-term business 2010 Shs'000 | Short-term business 2010 Shs'000 |
|---|---|---|
| **Total admitted assets** | **1,832,603** | **2,953,372** |
| Total admitted loabilities | (1,621,276) | (2,664,410) |
| Add: 5% of admitted assets | (81,064) | - |
| Add: 15% of previous year's net written premium for general business | - | (234,898) |
| **Total liabilities & minimum requirement** | **(1,702,340)** | **(2,899,308)** |
| **Solvency margin** | **130,263** | **54,064** |

The Group had short term insurance operations in Tanzania the 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 Shs).

| | 2010 Shs' 000 |
|---|---|
| Admitted assets | (996,810) |
| Admitted liabilities | (915,077) |
| **Solvency Margin** | **81,733** |
| **Required margin** | **81,733** |

### (b) Credit risk

CfC Stanbic Holdings 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 counterparty 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 reporting date.

## 5. Financial risk management (continued)

### b) Credit risk (continued)

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 statement of financial position date.

**Maximum exposure to credit risk before collateral held or other credit enhancements**

Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 39.

**Credit exposures classified in terms of maturity:**

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>Shs '000 | 2010<br>Shs '000 | 2011<br>Shs '000 | 2010<br>Shs '000 |
| Neither past due nor impaired | 181,320,035 | 173,171,180 | 161,847 | 243,009 |
| Past due but not impaired | 5,595,203 | 2,460,029 | - | - |
| Impaired | 861,523 | 1,887,696 | - | - |
| | **187,776,761** | **177,518,905** | **161,847** | **243,009** |

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

### Credit risk management: Banking division

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

The exposure to any one borrower including banks is further restricted by sub-limits covering on - and off-statement of financial position 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

## 5. Financial risk management (continued)

### Credit risk management: Banking division (continued)

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 counterparty level, the Bank reflects three components:

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

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

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

**Collateral**

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

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

Whereas 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.

## 5. Financial risk management (continued)

### Credit risk management : Banking division (continued)
### Derivatives (continued)

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.

### 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 reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements 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 statement of financial position at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two 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)

*(iii) Impairment and provisioning policy (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.

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Bank considers three components: (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

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 (the Basel Committee) and 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 reporting date (the 'incurred loss model') rather than expected losses.

### (a) Probability of default ("PD")

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 internally and combine statistical historical analysis of loan loss roll rates. They are validated, where appropriate, by comparison with externally available data. The rating methods are subject to and periodic validation and recalibration so that they reflect the latest projection in the light of all actually observed defaults.

### (b) Exposure at default ("EAD")

EAD is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

### (c) Loss given default/loss severity ("LGD")

Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

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

The Bank has established separate credit management functions for each market segment. Credit exposure to the corporate sector is usually in the form of short and long-term loans and advances but may include exposures arising from derivative contracts. In these sectors, credit risk management is characterised by a close working relationship between the counterparty, the customer relationship team and an independent credit evaluation manager. The credit evaluation manager bases his lending decision on an in-depth knowledge of the counterparty and the industry in which it operates, as well as an assessment of the creditworthiness of the counterparty based on a review of the audited financial statements and underlying risk parameters.

## 5. Financial risk management (continued)

*(i) Corporate and Investment Banking (CIB)*

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

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

*(ii) Personal and Business Banking (PBB)*

The bank's business banking (BB) portfolio is segmented into four tiers. Credit exposure for BB customers is in the form of short, long term, and revolving loans and advances. Application scoring techniques are now being applied in the origination, assessment and approval process for loans within specified parameters. Structured / higher value lows for Tier I/II, BB customers are managed through relationship officers supported by an independent credit evaluation manager. The credit evaluation manager bases his lending decision on an in-depth knowledge of the counterparty and the industry in which it operates, as well as an assessment of the creditworthiness of the counterparty based on a review of the audited financial statements and underlying risk parameters.

The underlying methodology for personal banking credit extension is determined by the nature of the product. Application scoring techniques are widely applied in personal loans, vehicle and asset finance, and home loans. In the branch network, credit is extended through a combination of application and behavioural scoring methodologies for low value/high volume loans. Conventional and intuitive methods are applied to loans in excess of scoring limits and these decisions are taken in a centralised credit environment.

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.

*(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*

Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 39.

## 5. Financial risk management (continued)

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

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

74% of the total maximum exposure is derived from loans and advances to banks and customers (2010: 73%); 20% represents investments in debt securities (2010: 21%).

- 88% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2010:97%);
- 88% of the loans and advances portfolio are considered to be neither past due nor impaired (2010: 97%); and
- 88% of all the debt securities, which the Bank has invested in, are issued by the Central Bank of Kenya on behalf of the Government of Kenya which has B+ rating (2010: 65%).

*(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.

The Bank holds the following types of collateral as security and other credit enhancements in respect to credit risk exposure.

| **Personal and Business Banking** | |
|---|---|
| Mortgage lending | First ranking legal charge over the property financed. |
| Instalment sales | Joint registration of vehicles. |
| Other loans and advances | Debentures over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees |

| **Corporate and Investment Banking** | |
|---|---|
| Corporate lending | All assets debenture over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees. |

*(vii) Credit quality*

The credit quality of financial assets is managed by the Bank using the Bank's internal credit rating system. The credit rating system utilises both quantitative and qualitative information in arriving at the credit rating. Financial information is used and is key in arriving at the credit rating of individual borrowers. The qualitative information used in generating the credit rating includes quality of management, account operation and the industry in which the customer operates. The key consideration though remains the ability of the customer to meet its financial obligation from its cash flow. The table below summaries the credit quality of loans and advances in terms of maturity.

| | **2011 Shs '000** | **2010 Shs '000** |
|---|---|---|
| Neither past due nor impaired | 59,070,946 | 56,255,343 |
| Past due but not impaired | 5,595,203 | 2,032,372 |
| Impaired | 861,523 | 1,742,050 |
| **Gross** | **65,527,672** | **60,029,765** |

## 5. Financial risk management (continued)

**Credit risk management: Banking division (continued)**

*(vii) Credit quality (continued)*

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

| Loans and advances to customers | Performing Loans | | | Non - Performing Loans | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Standard 2011 Kshs'000 | Special mention 2011 Kshs'000 | Total performing 2011 Kshs'000 | Sub-standard 2011 Kshs'000 | Doubtful 2011 Kshs'000 | Loss 2011 Kshs'000 | Total Non-performing 2011 Kshs' 000 | Total loans 2011 Kshs' 000 | Present value of expected cashflows 2011 Kshs' 000 |
| **Personal and Business Banking** | | | | | | | | | |
| - Mortgage lending | 8,466,133 | 289,443 | 8,755,576 | 72,200 | - | 3,370 | 75,570 | 8,831,146 | 61,507 |
| - Instalment sales and finance leases | 5,498,705 | 730,585 | 6,229,290 | 114,924 | 32,503 | 41,353 | 188,780 | 6,418,070 | 61,177 |
| - Card debtors | 350,295 | 40,659 | 390,954 | | - | 24,874 | 24,874 | 415,828 | |
| - Other loans and advances | 9,453,697 | 483,525 | 9,937,222 | 148,635 | 11,126 | 274,588 | 434,349 | 10,371,571 | 118,217 |
| Corporate and Investment Banking | | | | | | | | | |
| - Corporate lending | 33,349,934 | 6,003,174 | 39,353,108 | 637 | 70,380 | 66,932 | 137,949 | 39,491,057 | 28,039 |
| **Total recognised loans and advances to customers** | **57,118,764** | **7,547,386** | **64,666,150** | **336,396** | **114,009** | **411,117** | **861,522** | **65,527,672** | **268,940** |

## 5. Financial risk management (continued)

**Credit risk management: Banking division (continued)**

*(vii) Credit quality (continued)*

| Loans and advances to customers | Performing Loans: Standard 2010 Kshs'000 | Performing Loans: Special mention 2010 Kshs'000 | Performing Loans: Total performing 2010 Kshs'000 | Non - Performing Loans: Sub-standard 2010 Kshs'000 | Non - Performing Loans: Doubtful 2010 Kshs'000 | Non - Performing Loans: Loss 2010 Kshs'000 | Non - Performing Loans: Total Non-performing 2010 Kshs' 000 | Total loans 2010 Kshs' 000 | Present value of expected cashflows 2010 Kshs' 000 |
|---|---|---|---|---|---|---|---|---|---|
| **Personal and Business Banking** | | | | | | | | | |
| - Mortgage lending | 6,418,473 | 520,149 | 6,938,622 | 122,545 | - | 2,435 | 124,980 | 7,063,602 | 103,069 |
| - Instalment sales and finance leases | 3,542,805 | 609,916 | 4,152,721 | 161,274 | 58,684 | 44,549 | 264,507 | 4,417,228 | 62,181 |
| - Card debtors | 285,901 | 24,894 | 310,795 | - | - | 6,694 | 6,694 | 317,489 | 1,551 |
| - Other loans and advances | 6,694,647 | 373,838 | 7,068,485 | 310,673 | 102,318 | 217,108 | 630,099 | 7,698,584 | 373,708 |
| Corporate and Investment Banking | | | | | | | | | |
| - Corporate lending | 39,313,517 | 503,575 | 39,817,092 | 552,716 | 89,840 | 73,214 | 715,770 | 40,532,862 | 345,035 |
| **Total recognised loans and advances to customers** | **56,255,343** | **2,032,372** | **58,287,715** | **1,147,208** | **250,842** | **344,000** | **1,742,050** | **60,029,765** | **885,544** |

## 5. Financial risk management (continued)

### Credit risk management: Insurance division

No credit risk disclosures relating to 2011 have been made in these financial statements, as the entities in the Insurance division were demerged in the year.

The Group has exposure to credit risk, which is the risk that a counterparty 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 counterparty, or groups of counter-parties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

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

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

## 5. Financial risk management (continued)

### Credit risk management: insurance division (continued)

The amount that best represents the insurance companies' maximum exposure to credit risk at 31 December 2010 is made up as follows:

**Maximum exposure to credit risk before collateral held**

| | 2010 Shs '000 |
|---|---|
| Reinsurance receivables | 210,057 |
| Insurance receivables | 505,609 |
| Reinsurers' share notified claims | 922,811 |
| Government securities held-to-maturity | 2,349,654 |
| Government securities available-for-sale | 5,161,681 |
| Deposits with financial institutions | 2,181,279 |
| Corporate bonds | 1,825,553 |
| Commercial paper | 770 |
| Mortgage loans | 1,146,736 |
| Other receivables | 441,463 |
| Cash at bank | 582,666 |
| | **15,328,279** |

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).

**Financial assets that are neither past due or impaired**

**Insurance receivables are summarised as follows:**

| | 2010 Shs '000 |
|---|---|
| Neither past due nor impaired | 77,952 |
| Past due but not impaired | 427,657 |
| Impaired | 145,646 |
| **Gross** | **651,255** |
| Less: allowance for impairment | (145,646) |
| **Net** | **505,609** |

**Insurance receivables past due but not impaired:**

| | 2010 Shs '000 |
|---|---|
| Past due but not impaired: | |
| - by up to 30 days | 110,155 |
| - by 31 to 60 days | 62,991 |
| - by 61 to 150 days | 136,039 |
| - by 151 to 360 days | 118,473 |
| **Total past due but not impaired** | **427,658** |

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 as per the 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 the income statement.

## 5. Financial risk management (continued)

### (a) Foreign exchange risk (continued)

| | Increase in Currency rate in % 2011 | Effect on profit before tax 2011 Shs '000 | Effect on profit after tax 2011 Shs '000 | Increase in currency rate in % 2010 | Effect on profit before tax 2010 Shs '000 | Effect on profit after tax 2010 Shs '000 |
|---|---|---|---|---|---|---|
| USD | 5 | (215,522) | (150,865) | 6 | (423,201) | (296,241) |
| GBP | 5 | (55,680) | (38,976) | 1 | (233) | (163) |
| EUR | 3 | (21,721) | (15,205) | 2 | 7,014 | 4,910 |
| Others | 5 | 2,456 | 1,719 | 10 | 31,127 | 21,789 |

| | Decrease in Currency rate in % 2011 | Effect on profit before tax 2011 Shs '000 | Effect on profit after tax 2011 Shs '000 | Decrease in currency rate in % 2010 | Effect on profit before tax 2010 Shs '000 | Effect on profit after tax 2010 Shs '000 |
|---|---|---|---|---|---|---|
| USD | 5 | 215,522 | 150,865 | 6 | 423,201 | 296,241 |
| GBP | 5 | 55,680 | 38,976 | 1 | 233 | 163 |
| EUR | 3 | 21,721 | 15,205 | 2 | (7,014) | (4,910) |
| Others | 5 | (2,456) | (1,719) | 10 | (31,127) | (21,789) |

### (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 2011<br>Currency | Increase in of basis points | Sensitivity net interest income Shs '000 | Decrease in of basis points | Sensitivity net interest income Shs '000 |
|---|---|---|---|---|
| Shs | 400 | 252,220 | 400 | (540,295) |
| Others | 75 | 39,251 | 75 | (36,692) |

## 5. Financial risk management (continued)

### Market risk management: Banking division (continued)

| Year ended 31 December 2010<br>Currency | Increase in of basis points | Sensitivity net interest income Shs '000 | Decrease in of basis points | Sensitivity net interest income Shs '000 |
|---|---|---|---|---|
| Shs | 400 | 484,805 | 400 | (796,962) |
| Others | 75 | 37,986 | 75 | (65,656) |

### Market risk management - Insurance division

*(i) Foreign exchange risk*

As at 31 December 2011, the Group was not exposed to foreign exchange risk as the insurance entities were demerged in April 2011.

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.

If the Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, as at 31 December 2010, the post tax profit for the period would have been Shs 7,050,000 higher/lower, mainly as a result of US dollar investments, receivables and bank balances.

*(ii) Price risk*

As at 31 December 2011, the Group was not exposed to price risk as the insurance entities were demerged in April 2011.

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 2010, 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 200,068,535 higher/lower.

*(iii) Cash flow and fair value interest rate risk*

As at 31 December 2011, the Group was not exposed to cash flow and fair value interest rate risk as the insurance entities were demerged in April 2011.

Fixed interest rate financial instruments expose the Group to fair value interest rate risk. Variable interest rate

## 5. Financial risk management (continued)

### Market risk management: Insurance division (continued)

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

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

For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in interest rate will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment.

The level of the reduction of the level of interest rate that would have triggered an adjustment as at 31 December 2010 is an interest rate of 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: the Company

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

| 31 December 2011 | Up to 1 month Shs'000 | 1 – 6 Months Shs'000 | 6 – 12 Months Shs'000 | Total Shs'000 |
|---|---|---|---|---|
| Cash and bank balances | 47,453 | - | - | 47,453 |
| Other assets | - | - | 150,981 | 150,981 |
| Balances due from Group companies | - | - | 10,866 | 10,866 |
| **Total assets** | **47,453** | **-** | **161,847** | **209,300** |
| Borrowings | - | - | - | - |
| Other liabilities | 103,296 | - | - | 103,296 |
| Balances due to Group companies | - | - | 220,617 | 220,617 |
| **Total liabilities** | **103,296** | **-** | **220,617** | **323,913** |
| **Net liquidity gap** | **(55,843)** | **-** | **(58,770)** | **(114,613)** |

## 5. Financial risk management (continued)

### Liquidity risk: the Company (continued)

| 31 December 2010 | Up to 1 month Shs'000 | 1 – 6 Months Shs'000 | 6 – 12 Months Shs'000 | Total Shs'000 |
|---|---|---|---|---|
| Cash and bank balances | 859 | - | - | 859 |
| Other assets | - | - | - | - |
| Balances due from Group companies | - | - | 243,009 | 243,009 |
| **Total assets** | **859** | **-** | **243,009** | **243,868** |
| Borrowings | - | - | - | - |
| Other liabilities | 18,914 | - | - | 18,914 |
| Balances due to Group companies | - | - | 178,496 | 178,496 |
| **Total liabilities** | **18,914** | **-** | **178,496** | **197,410** |
| **Net liquidity gap** | **(18,055)** | **-** | **64,513** | **46,458** |

### 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 (ALCO) 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 processes, as carried out within the Bank and monitored by a separate team in Treasury, includes the following:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met, including replenishment of funds as they mature or as 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 statement of financial position 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 herebelow presents the cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the reporting 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.

## 5. Financial risk management (continued)

### Liquidity risk management: Banking division (continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection; loans and advances to 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.

| | 2011 Up to 1 month Shs '000 | 2011 1 – 6 months Shs '000 | 2011 6 - 12 months Shs '000 | 2011 1 - 5 years Shs '000 | 2011 Over 5 years Shs '000 | 2011 Total Shs '000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and balances with Central Bank | 3,103,632 | - | - | - | 3,998,955 | 7,102,587 |
| Investment securities | 15,838 | 306,234 | 5,509,283 | 23,819,394 | - | 29,650,749 |
| Loans and advances to banks | 12,611,404 | 7,351,252 | 10,743,865 | - | - | 30,706,521 |
| Loans and advances to customers | 16,110,271 | 2,097,556 | 1,649,265 | 24,107,959 | 46,618,523 | 90,583,574 |
| Derivative assets | 47,792 | 1,242,229 | 1,014,690 | 4,045,057 | 27,642 | 6,377,410 |
| | **31,888,937** | **10,997,271** | **18,917,103** | **51,972,410** | **50,645,120** | **164,420,841** |
| **Financial liabilities** | | | | | | |
| Derivative liabilities | 15,849 | 1,445,689 | 1,306,036 | 3,634,044 | 27,642 | 6,429,260 |
| Trading liabilities | 611,738 | - | 27,080 | - | 9,853 | 648,671 |
| Deposits from banks | 24,814,186 | - | 2,647,916 | 6,282,387 | - | 33,744,489 |
| Deposits from customers | 52,803,950 | 20,360,099 | 1,328,105 | 3,998 | - | 74,496,152 |
| Subordinated bonds | - | - | 425,091 | 6,107,085 | 2,550,625 | 9,082,801 |
| Other liabilities | 7,960,659 | - | - | - | - | 7,960,659 |
| **Total recognised financial instruments** | **86,206,382** | **21,805,788** | **5,734,228** | **16,027,514** | **2,588,120** | **132,362,032** |

## 5. Financial risk management (continued)

### Liquidity risk management: Banking division (continued)

| | 2010 Up to 1 month Shs '000 | 2010 1 – 6 months Shs '000 | 2010 6 - 12 months Shs '000 | 2010 1 - 5 years Shs '000 | 2010 Over 5 years Shs '000 | 2010 Total Shs '000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and balances with Central Bank | 2,297,038 | - | - | - | 3,146,868 | 5,443,906 |
| Investment securities | 6,831,989 | 5,457,779 | 567 | 9,472,082 | 2,788,243 | 24,550,660 |
| Loans and advances to banks | 11,357,899 | 2,530,424 | 1,713,885 | 743,371 | - | 16,345,579 |
| Loans and advances to customers | 21,383,455 | 5,142,926 | 2,775,016 | 21,527,409 | 22,673,125 | 73,501,931 |
| Derivative assets | 29,508 | - | - | - | - | 29,508 |
| | **41,899,889** | **13,131,129** | **4,489,468** | **31,742,862** | **28,608,236** | **119,871,584** |
| **Financial liabilities** | | | | | | |
| Trading liabilities | 729,153 | - | - | - | - | 729,153 |
| Deposits from banks | 14,207,965 | 64,964 | - | - | - | 14,272,929 |
| Deposits from customers | 60,908,224 | 10,649,894 | 1,266,232 | 76,196 | - | 72,900,546 |
| Subordinated bonds | - | 404,841 | 414,701 | 2,819,611 | 5,235,454 | 8,874,607 |
| Other Liabilities | 2,113,262 | - | - | - | - | 2,113,262 |
| **Total recognised financial instruments** | **77,958,604** | **11,119,699** | **1,680,933** | **2,895,807** | **5,235,454** | **98,890,497** |
| **Net liquidity gap** | **(36,058,715)** | **2,011,430** | **2,808,535** | **28,847,055** | **23,372,782** | **20,981,087** |

## 5. Financial risk management (continued)

### Liquidity risk management: Insurance division

The Group was not exposed to liquidity risk in respect to the Insurance division as the insurance entities were demerged in April 2011.

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 31 December 2010.

| As at 31 December 2010<br>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 | 777,726 | 1,276,310 | 2,321,517 | 1,150,223 | 5,525,776 |
| Payable under deposit | | | | | |
| Administration | 232,037 | 1,008,761 | 4,460,773 | 3,001,702 | 8,703,273 |
| Outstanding claims | 191,187 | 68,197 | - | - | 259,384 |
| Creditors arising from reinsurance | 81,895 | 197,389 | - | - | 279,284 |
| Other payables | 857,939 | 37,809 | - | - | 895,748 |
| **Total financial liabilities(expected Maturity)** | **2,140,784** | **2,588,466** | **6,782,290** | **4,151,925** | **15,663,465** |

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 Securities Exchange and the Dar es Salaam Stock Exchange

## 6 Interest income

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 Shs' 000 | 2010 Shs' 000 | 2011 Shs' 000 | 2010 Shs' 000 |
| Interest on loans, advances and short-term funds | 7,408,802 | 4,890,069 | - | - |
| Government securities- available-for-sale | 925,084 | 786,982 | - | - |
| Placements and other bank balances | 244,063 | 387,158 | - | - |
| Other | 25,501 | 15,255 | - | 5,807 |
| | **8,603,450** | **6,079,464** | **-** | **5,807** |

## 7 Interest expense

| | Group 2011 Shs' 000 | Group 2010 Shs' 000 | Company 2011 Shs' 000 | Company 2010 Shs' 000 |
|---|---|---|---|---|
| Current accounts | 87,370 | 157,280 | - | - |
| Savings and deposit accounts | 1,705,920 | 1,247,254 | - | - |
| Deposits and placements from other banks | 148,333 | 97,964 | - | - |
| Other interest-bearing liabilities | 619,803 | 420,308 | - | 5,807 |
| | **2,561,426** | **1,922,806** | **-** | **5,807** |

## 8 Fee and commission revenue

| | Group | |
|---|---|---|
| | 2011 Shs' 000 | 2010 Shs' 000 |
| Account transaction fees | 963,595 | 606,392 |
| Knowledge-based fees and commission | 367,108 | 303,482 |
| Electronic banking fees | 317,847 | 229,190 |
| Foreign currency service fees | 120,246 | 117,247 |
| Documentation and administration fees | 436,708 | 469,962 |
| Trust and asset management fees | - | 42,595 |
| Other | 145,376 | 96,854 |
| | **2,350,880** | **1,865,722** |

## 9 Fee and commission expense

| | Group | |
|---|---|---|
| | 2011 Shs'000 | 2010 Shs'000 |
| Card based commission | 57,581 | 101,326 |
| Knowledge based fees and commission | 76,426 | 6,964 |
| Other bank - related fees and commission | 121,064 | 1 |
| | **255,071** | **108,291** |

## 10 Trading revenue

| | Group | |
|---|---|---|
| | 2011 Shs'000 | 2010 Shs'000 |
| Foreign exchange | 1,766,267 | 1,389,137 |
| Debt securities | 747,254 | 988,886 |
| | **2,513,521** | **2,378,023** |

## 11 Other revenue

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 Shs'000 | 2010 Shs'000 | 2011 Shs'000 | 2010 Shs'000 |
| Gain on disposal of property and equipment | 1,525 | - | 1,524 | - |
| Gain on disposal of available for sale investments | 110,125 | 485,697 | - | - |
| Gain on diposal of investment in associate | 25,178 | - | - | - |
| Dividend income | - | - | 220,220 | 301,034 |
| Other revenue | 10,697 | 19,342 | - | - |
| | **147,525** | **505,039** | **221,744** | **301,034** |

## 12 Non current assets held for sale and discontinued operations

CfC Stanbic Holdings Limited (CSHL) was the holding company of the following main entities: CfC Stanbic Bank Limited (100%); CfC Life Assurance Company Limited (100%); the Heritage Insurance Company Limited (64%) and CfC Financial Services Limited (100%).

In 2009, CSHL began restructuring its group corporate structure. The restructuring process was completed in April 2011. The consequence of the restructuring was to consolidate the insurance businesses under one holding company (the CfC Insurance Holdings Limited (CfCIH)) and list CfCIH on the Nairobi Securities Exchange (NSE) separate from CSHL.

The restructuring was broken into five main stages. As at 31 December 2010, the first four stages had been completed and the consolidated financial statements of CSHL at that date reflected the restructuring upto that stage.
The last stage of the restructuring was completed in April 2011 and CfCIH was listed on the Nairobi Securities Exchange in April 2011. This last stage involved CfCIH being demerged from CSHL through a distribution as dividend in specie to CSHL's shareholders of the entire shareholding of CSHL in CfCIH.

### (a) Results of discontinued operations

An analysis of the income statement of discontinued operations, and the result recognised on the demerger of the insurance entities is as follows;

| | 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|
| Total Income | 982,301 | 3,152,003 |
| Expense | (737,659) | (2,527,145) |
| **Profit before tax of discontinued operations** | **244,642** | **624,858** |
| Tax | (44,807) | (245,133) |
| **Profit after tax of discontinued operations** | **199,835** | **379,725** |

## 12 Non current assets held for sale and discontinued operations

### (b) Asset and related liabilities held for distribution

Assets and related liabilities for entities that were demerged to CfCIH as the holding company have been classified as "Assets classified as held for distribution" and "Liabilities directly associated with assets classified as held for distribution" in the prior year comparatives.

A breakdown of these assets and liabilities is shown herebelow:

**Assets and related liabilities held for distribution**

| | Group 31 December 2011 Shs'000 | Company 31 December 2011 Shs'000 | Group 31 December 2010 Shs'000 | Company 31 December 2010 Shs'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and bank balances | - | - | 1,852,006 | - |
| Financial investments | - | - | 13,427,579 | - |
| Loans and advances | - | - | 1,487,335 | - |
| Loans and advances to banks | - | - | 340,599 | - |
| Loans and advances to customers | - | - | 1,146,736 | - |
| Other assets | - | - | 2,563,357 | - |
| Investment in subsidiaries and associates | - | - | 313,179 | 661,505 |
| Property and equipment | - | - | 1,177,966 | - |
| Investment properties | - | - | 460,000 | - |
| Prepaid operating lease | - | - | 671 | - |
| Other intangible assets | - | - | 167,050 | - |
| Current tax recoverable | - | - | 71,429 | - |
| Deferred income tax asset | - | - | 14,129 | - |
| **Assets classified as held for distribution** | **-** | **-** | **21,534,701** | **661,505** |
| **Total liabilities** | **-** | **-** | **-** | **-** |
| Borrowings | - | - | 500,000 | - |
| Other liabilities | - | - | 17,642,086 | - |
| Balances due to group companies | - | - | - | - |
| Current income tax payable | - | - | 33,432 | - |
| Deferred income tax liability | - | - | 80,105 | - |
| **Liabilities directly associated with assets classified as held for distribution** | **-** | **-** | **18,255,623** | **-** |

### (c) Cashflows as a result of demerged entities

| | 2011 Shs '000 |
|---|---|
| Cash | (2,489,603) |
| Treasury bills and bonds | (2,143,300) |
| Loans and advances to customers | (340,599) |
| Increase in net asset value of demerged entities | (199,835) |
| Currency translation differences | 34,648 |
| **Decrease in cash and cash equivalents as a result of demerger** | **(5,138,689)** |

## 13 Credit impairment charge

| | Group 2011 Shs'000 | Group 2010 Shs'000 |
|---|---|---|
| Net credit impairments raised for loans and advances | 1,303,827 | 914,412 |
| Recoveries on loans and advances | (650,974) | (392,971) |
| | **652,853** | **521,441** |
| **Comprising:** | | |
| Net credit impairment charges for non-performing loans | 162,818 | 419,482 |
| Credit impairments for non-performing loans | 813,792 | 812,453 |
| Recoveries on loans and advances | (650,974) | (392,971) |
| Credit impairments for performing loans | 490,035 | 101,959 |
| | **652,853** | **521,441** |

## 14 Staff costs

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 Shs'000 | 2010 Shs'000 | 2011 Shs'000 | 2010 Shs'000 |
| Salaries and allowances | 2,554,094 | 2,249,253 | - | 6,410 |
| Retirement benefit costs | 171,175 | 178,173 | - | - |
| National Social Security Fund | 2,004 | 2,125 | - | - |
| Other staff costs | 220,143 | 79,473 | - | - |
| | **2,947,416** | **2,509,024** | **-** | **6,410** |

## 15 Other operating expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 Shs'000 | 2010 Shs'000 | 2011 Shs'000 | 2010 Shs'000 |
| Amortisation - intangible assets | 375,139 | 293,899 | - | - |
| Audit fees | 12,667 | 11,725 | 2,877 | 2,311 |
| Depreciation (Note 26) | 195,904 | 183,920 | 1,145 | 2,582 |
| Write off of property and equipment | - | 182 | - | - |
| Directors' fees | 8,553 | 7,113 | 8,553 | 7,113 |
| Amortisation of prepaid operating lease (Note 27) | 2,953 | 126 | - | - |
| Premises | 345,046 | 315,379 | - | 1,621 |
| Information technology and communication | 546,108 | 817,185 | - | 2,259 |
| Professional fees | 443,033 | 459,718 | 19,200 | 2,644 |
| Marketing and advertising costs | 246,665 | 206,827 | - | - |
| Security expenses | 211,052 | 143,716 | - | - |
| Travel and entertainment costs | 195,875 | 136,841 | - | - |
| Processing costs | 66,832 | 35,740 | - | - |
| Stationery and printing costs | 110,964 | 75,615 | - | - |
| Insurance costs | 90,211 | 54,700 | - | - |
| Administration and membership fees | 19,653 | 14,999 | - | - |
| Training expenses | 90,905 | 114,842 | - | - |
| Bank charges | 115,993 | 59,516 | - | - |
| Deposit Protection Scheme contribution | 116,841 | 104,136 | - | - |
| Other expenses | 1,248,553 | 768,556 | 69,875 | 18,916 |
| | **4,442,947** | **3,804,735** | **101,650** | **37,446** |

## 16 Income tax expense

| | Group 2011 Shs'000 | Group 2010 Shs'000 |
|---|---|---|
| Current income tax | 1,449,859 | 648,846 |
| Deferred income tax (Note 34) | (467,485) | 46,454 |
| Previous year deferred tax over provision | - | (96,976) |
| Previous year current tax under provision | 177,370 | - |
| | **1,159,744** | **598,324** |

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

| | Group 2011 Shs'000 | Group 2010 Shs'000 |
|---|---|---|
| **Profit before income tax** | **2,798,901** | **2,005,967** |
| Tax at statutory tax rate of 30% (2010 – 30%) | 839,670 | 601,790 |
| Tax effect of: | - | |
| Income not subjected to tax | (52,370) | (120,543) |
| Expenses not deductible for tax purposes | 195,074 | 214,053 |
| Previous year current and deferred tax under/(over) provision | 177,370 | (96,976) |
| **Income tax expense** | **1,159,744** | **598,324** |

## 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 2011 Shs'000 | Group 2010 Shs'000 | Company 2011 Shs'000 | Company 2010 Shs'000 |
|---|---|---|---|---|
| Earnings (Continuing operations) 'Kshs 000' | 1,639,157 | 1,407,643 | 120,094 | 257,178 |
| Earnings (discontinued operations) 'Kshs 000' | 199,835 | 379,725 | - | - |
| **Number of shares** | | | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 273,684 | 273,684 | 273,684 | 273,684 |
| **Earnings per share basic and diluted** | | | | |
| Continuing operations(Kshs) | 5.99 | 5.14 | 0.44 | 0.94 |
| Discontinued operations(Kshs) | 0.73 | 1.39 | - | - |

The calculation of basic and diluted earnings per share is based on both continuing operations and discontinued operations attributable to the ordinary equity holders of the parent entity. There were no potentially dilutive shares as at 31 December 2011 (2010: nil) and therefore basic earnings per share is the same as the diluted earnings per share.

## 18 Dividend

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. Dividend proposed is as follows.

| | Group | |
|---|---|---|
| | 2011 Shs'000 | 2010 Shs'000 |
| Proposed dividend | - | 220,220 |
| Number of shares in thousands | 273,684 | 273,684 |
| **Dividend per share** | **-** | **0.80** |

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.

## 19 Cash and balances with banks

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 Shs'000 | 2010 Shs'000 | 2011 Shs'000 | 2010 Shs'000 |
| Cash and bank balances | 1,507,194 | 1,315,158 | 47,453 | 859 |
| Balances with Central Bank of Kenya | 5,597,453 | 4,129,734 | - | - |
| | **7,104,647** | **5,444,892** | **47,453** | **859** |

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 | |
|---|---|---|
| | 2011 Shs'000 | 2010 Shs'000 |
| Securities pledged as collateral | 3,643,897 | 2,940,007 |
| **Debt securities - pledged as collateral** | **3,643,897** | **2,940,007** |

Dated pledged assets had a redemption value at 31 December 2011 of Shs 4,098,500,000 (2010 - Shs 2,661,470,212).

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

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

## 21 Financial investments

| | Group 2011 Shs'000 | Group 2010 Shs'000 |
|---|---|---|
| Financial investments - trading assets (note 21(a)) | 9,554,983 | 4,549,458 |
| Financial investments - Fair value through profit or loss (note 21(a)) | 5,359,619 | 6,801,037 |
| Financial investments - available for sale (note 21(b)) | 6,876,109 | 7,627,715 |
| Financial investments - held to maturity (note 21(c)) | 28,171 | 80,000 |
| | **21,818,882** | **19,058,210** |

### (a) Financial investments – fair value through profit or loss

| | Group 2011 Shs'000 | Group 2010 Shs'000 |
|---|---|---|
| **Classification** | | |
| Listed securities-trading | 9,554,983 | 4,549,458 |
| Unlisted securities -Fair value through profit or loss | 5,359,619 | 6,801,037 |
| | **14,914,602** | **11,350,495** |

| **Maturity analysis** | 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|
| Maturing within 12 months | 4,464,213 | 10,635,594 |
| Maturing after 12 months | 10,394,774 | 701,744 |
| Undated securities | 55,615 | 13,157 |
| | **14,914,602** | **11,350,495** |

The maturities represent periods to contractual redemption of trading assets recorded. Dated trading assets had a redemption value at 31 December 2011 of Shs 14,875,282,000 (2010 - Shs 11,315,214,065).Trading assets are debt securities issued by the Central Bank of Kenya on behalf of the Government of Kenya. The weighted average effective interest yield on debt securities held for trading at 31 December 2011 was 5.0% (2010 – 5.6%)

### (b) Financial investments - available-for-sale

| **Classification** | Group 2011 Shs'000 | Group 2010 Shs'000 |
|---|---|---|
| Listed | 6,876,109 | 7,627,715 |
| | **6,876,109** | **7,627,715** |
| **Comprising** | | |
| Government securities | 6,459,077 | 7,064,587 |
| Corporate bonds | 417,032 | 563,128 |
| | **6,876,109** | **7,627,715** |

## 21. Financial investments (continued)

### (b) Financial investments - available-for-sale (continued)

**Maturity analysis**

| | 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|
| Maturing within 12 months | 1,034,777 | 1,531,121 |
| Maturing after 12 months | 5,841,332 | 6,096,594 |
| | **6,876,109** | **7,627,715** |

The weighted average effective interest yield on available-for-sale investment dated securities at 31 December 2011 was 12.76% (2010: 10.88%)

### (c) Financial investments - held to maturity

| | Group | |
|---|---|---|
| | 2011 Shs'000 | 2010 Shs'000 |
| Unlisted | 28,171 | 80,000 |
| | **28,171** | **80,000** |

**Marturity analysis**

| | 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|
| Maturing within 12 months | - | 60,000 |
| Maturing after 12 months | 28,171 | 20,000 |
| | **28,171** | **80,000** |

## 22 Trading liabilities

| | 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|
| Trading liabilities – designated at fair value through profit or loss | 648,671 | 729,153 |
| | **648,671** | **729,153** |
| **Maturity analysis** | | |
| Redeemable on demand | - | - |
| Maturing within 1 month | 648,671 | 729,153 |
| | **648,671** | **729,153** |

## 23 Loans and advances

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

### (a) Loans and advances to banks

| | Group | |
|---|---|---|
| | 2011<br>Shs '000 | 2010<br>Shs '000 |
| Balances with banks | 30,627,842 | 16,239,669 |

The weighted average effective interest rate during the year for deposits due from banking institutions at 31 December 2011 was 0.26% (2010: 1.91%)

### (b) Loans and advances to customers

| | Group | |
|---|---|---|
| | 2011<br>Shs '000 | 2010<br>Shs '000 |
| **Gross loans and advances to customers** | **65,527,672** | **60,029,765** |
| Mortgage lending | 8,881,421 | 7,295,747 |
| Term lending | 31,207,686 | 29,765,832 |
| Installment sales | 8,922,297 | 8,593,042 |
| Overdrafts and other demand lending | 16,516,268 | 14,375,144 |
| **Credit impairment for loans and advances** | **1,270,918** | **1,044,804** |
| Impairments for non-performing loans (Note 23(d)) | 592,583 | 856,504 |
| Impairments for performing loans | 678,335 | 188,300 |
| **Net loans and advances** | **64,256,754** | **58,984,961** |
| **Maturity analysis** | | |
| Redeemable on demand | 13,989,342 | 19,734,287 |
| Maturing within 1 month | 2,100,993 | 1,634,888 |
| Maturing after 1 month but within 6 months | 2,038,961 | 5,010,482 |
| Maturing after 6 months but within 12 months | 1,514,875 | 2,566,098 |
| Maturing after 12 months | 44,612,583 | 30,039,206 |
| | **64,256,754** | **58,984,961** |

The weighted average effective interest rate on loans and advances to customers as at 31 December 2011 was 12%. (2010:11%).

## 23 Loans and advances (continued)

### (c) Segmental analysis: industry

| | Group | | | |
|---|---|---|---|---|
| | 2011 Shs'000 | % | 2010 Shs'000 | % |
| Agriculture | 9,816,341 | 15% | 8,234,342 | 14% |
| Manufacturing | 9,848,985 | 15% | 10,359,550 | 18% |
| Electricity and water | 358,489 | 1% | 4,435,398 | 8% |
| Building and construction | 725,589 | 1% | 670,445 | 1% |
| Wholesale, retail trade and restaurants | 8,612,467 | 13% | 4,315,826 | 7% |
| Transport and communication | 10,550,961 | 16% | 8,405,637 | 14% |
| Finance and insurance | 2,491,808 | 4% | 1,574,816 | 3% |
| Real estate and business service | 2,890,538 | 4% | 3,277,626 | 6% |
| Other activities and social service | 18,961,576 | 30% | 17,711,321 | 30% |
| | **64,256,754** | **100%** | **58,984,961** | **100%** |

### (d) Impairment reserve for the year ended 31 December 2011

| | Non-performing loans Shs'000 | Portfolio impairment Shs'000 | Group Total Shs'000 |
|---|---|---|---|
| At 1 January 2011 | 856,504 | 188,300 | 1,044,804 |
| Amounts written off during the year as uncollectable | (497,198) | - | (497,198) |
| Amounts recovered during the year | (580,054) | - | (580,054) |
| Provision for loans impairment | 812,360 | 490,035 | 1,302,395 |
| Off market loans impairment | 971 | - | 971 |
| **At 31 December 2011** | **592,583** | **678,335** | **1,270,918** |

### (d) Impairment reserve for the year ended 31 December 2010

| | Non- performing loans Shs'000 | Portfolio impairment Shs'000 | Total Shs'000 |
|---|---|---|---|
| At 1 January 2010 | 873,239 | 86,341 | 959,580 |
| Amounts written off during the year as uncollectable | (487,495) | - | (487,495) |
| Amounts recovered during the year | (340,963) | - | (340,963) |
| Provision for loans impairment | 810,022 | 101,959 | 911,981 |
| Off market loans impairment | 1,701 | - | 1,701 |
| **At 31 December 2010** | **856,504** | **188,300** | **1,044,804** |

## 23 Loans and advances (continued)

### (e) Loan impairment charge

| | 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|
| Loans impairment for non-performing loans (note 23 (d)) | 812,360 | 810,022 |
| Loans impairment for performing loans (note 23 (d)) | 490,035 | 101,959 |
| Amounts recovered during the period (note 23 (d)) | (580,054) | (340,963) |
| Recoveries of amounts previously written off | (70,920) | (52,008) |
| Unwinding of accrual of interest | 955 | 1,673 |
| Amount written off through income statement | 477 | 758 |
| **Net loans impairment charge on loans and advances** | **652,853** | **521,441** |

### (f) Impaired loans and advances

| | 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|
| Impaired loans and advances | 861,523 | 1,742,050 |
| Provision for impairment losses (note 23 (d)) | (592,583) | (856,504) |
| **Recoverable amount of impaired loans and advances** | **268,940** | **885,546** |
| **Interest in suspense** | **181,925** | **190,325** |

## 24 Other assets

| | Group 2011 Shs'000 | 2010 Shs'000 | Company 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|---|---|
| Uncleared effects | 1,218,300 | 880,480 | - | - |
| Trade receivables and prepayments | 442,658 | 239,168 | - | - |
| Others | 814,807 | 326,467 | 10,950 | - |
| | **2,475,765** | **1,446,115** | **10,950** | **-** |

## 25 Investment in subsidiaries and associates

### Associates

| | Group 2011 Shs' 000 | Group 2010 Shs' 000 |
|---|---|---|
| At 1 January | 100,111 | 337,675 |
| Additions | - | 3,263 |
| Currency translation adjustment | - | (21,500) |
| Share of profit after tax | 43,238 | 44,016 |
| Dividends | (44,016) | (10,129) |
| Share of fair value (losses)/gains | - | 4,173 |
| Transfer to assets held for distribution | - | (257,387) |
| Disposal of investment | (99,333) | - |
| **At 31 December** | **-** | **100,111** |

The Group had a beneficial interest of 24.42% in Stanbic Investment Management Services (East Africa) Limited (incorporated in Kenya). The associate was disposed to Liberty Holdings Limited on 1 November 2011, as part of the wider Standard Bank Group restructuring exercise. The reporting date of the associates' financial statements is 31 December. Investment in associates has been accounted for using the equity method of accounting.

### Subsidiaries

| Company | Beneficial ownership | Country of Incorporation | Company 2011 Shs'000 | Company 2010 Shs'000 |
|---|---|---|---|---|
| CfC Stanbic Bank Limited | 100% | Kenya | 14,129,114 | 14,129,114 |
| CfC Stanbic Financial Services Limited | 100% | Kenya | 165,530 | 165,530 |
| | | | **14,294,644** | **14,294,644** |

## 26 Property and equipment

| (a) Group<br>Cost / valuation | Land and premises Shs'000 | Equipment furniture & fittings Shs'000 | Motor vehicles Shs'000 | Total Shs'000 |
|---|---|---|---|---|
| **At 1 January 2011** | **403,932** | **2,667,742** | **130,679** | **3,202,353** |
| Additions | - | 534,731 | 53,175 | 587,905 |
| Disposals | - | (75) | (14,500) | (14,575) |
| **At 31 December 2011** | **403,932** | **3,202,398** | **169,354** | **3,775,683** |
| **Depreciation** | | | | |
| At 1 January 2011 | 23,470 | 1,196,281 | 71,500 | 1,291,251 |
| Charge for the year | 13,393 | 157,806 | 24,705 | 195,904 |
| Disposals | - | - | (10,674) | (10,674) |
| **At 31 December 2011** | **36,863** | **1,354,087** | **85,531** | **1,476,481** |
| **Net book value at 31 December 2011** | **367,069** | **1,848,311** | **83,823** | **2,299,202** |

As at 31 December 2011, there were no items of property and equipment pledged by the Group to secure liabilities.

Buildings were revalued as at 31 December 2010, 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.

## 26 Property and equipment (continued)

### (a) Group (continued)

| Cost / valuation | Land and premises Shs'000 | Equipment furniture & fittings Shs'000 | Motor vehicles Shs'000 | Total Shs'000 |
|---|---|---|---|---|
| **At 1 January 2010** | **1,105,410** | **3,248,973** | **178,398** | **4,532,781** |
| Additions | 5,664 | 327,143 | 24,860 | 357,667 |
| Disposals | - | (9,661) | (6,873) | (16,534) |
| Eliminated on write off | - | (11,934) | - | (11,934) |
| Revaluation | 31,558 | - | - | 31,558 |
| Reclassification | 2,867 | (9,150) | 32,482 | 26,199 |
| Currency translation | - | (2,565) | (787) | (3,352) |
| Transfer to assets held for distribution (Note 12) | (741,567) | (875,064) | (97,401) | (1,714,032) |
| **At 31 December 2010** | **403,932** | **2,667,742** | **130,679** | **3,202,353** |
| **Depreciation** | | | | |
| **At 1 January 2010** | **23,895** | **1,431,997** | **114,224** | **1,570,116** |
| Eliminated on write off | - | (11,064) | (688) | (11,752) |
| Charge for the year | 7,856 | 244,423 | 30,655 | 282,934 |
| Disposals | - | (5,452) | (5,848) | (11,300) |
| Currency adjustment | - | (2,035) | (647) | (2,682) |
| Transfer to assets held for distribution (Note 12) | (8,281) | (461,588) | (66,196) | (536,065) |
| **At 31 December 2010** | **23,470** | **1,196,281** | **71,500** | **1,291,251** |
| **Net book value at 31 December 2010** | **380,462** | **1,471,461** | **59,179** | **1,911,102** |

| Analysis of property and equipment classified As held for distribution | Land and premises Shs'000 | Equipment furniture & fittings Shs'000 | Motor vehicles Shs'000 | Total Shs'000 |
|---|---|---|---|---|
| Cost / valuation | 741,567 | 875,064 | 97,401 | 1,714,032 |
| Less : accumulated depreciation | (8,281) | (461,589) | (66,196) | (536,066) |
| **Net book value** | **733,286** | **413,475** | **31,205** | **1,177,966** |

As at 31 December 2011, there were no items and equipment pledged by the Group to secure liabilities

## 26 Property and equipment (continued)

### (b) Property and equipment (company)

| | Computer Equipment Shs '000 | Motor vehicles Shs '000 | Total Shs'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2011 | 1,659 | 14,500 | 16,159 |
| Disposals | | (14,500) | (14,500) |
| **At 31 December 2011** | **1,659** | **-** | **1,659** |
| **Depreciation** | | | |
| At 1 January 2011 | 1,354 | 9,667 | 11,021 |
| Charge for the year | 139 | 1,007 | 1,146 |
| Disposals | - | (10,674) | (10,674) |
| **At 31 December 2011** | **1,493** | **-** | **1,493** |
| **Net book value at 31 December 2011** | **166** | **-** | **166** |

| | Computer Equipment Shs '000 | Motor vehicles Shs '000 | Total Shs'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2010 | 1,659 | 14,500 | 16,159 |
| **At 31 December 2010** | **1,659** | **14,500** | **16,159** |
| **Depreciation** | | | |
| At 1 January 2010 | (1,188) | (7,250) | (8,438) |
| Charge for the year | (166) | (2,417) | (2,583) |
| **At 31 December 2010** | **(1,354)** | **(9,667)** | **(11,021)** |
| **Net book value at 31 December 2010** | **305** | **4,833** | **5,138** |

As at 31 December 2011 and 31 December 2010, there were no items of property and equipment pledged by the Company to secure liabilities.

## 27 Prepaid operating lease

| | Group | |
|---|---|---|
| **Cost** | **2011 Shs'000** | **2010 Shs'000** |
| At 1 January | 85,499 | 86,818 |
| Reclassification | - | (319) |
| Transfer to assets held for distribution (Note 12) | - | (1,000) |
| **At 31 December** | **85,499** | **85,499** |
| **Amortisation** | | |
| At 1 January | 13,877 | 13,164 |
| Charge for the year | 2,953 | 126 |
| Reclassification | - | 916 |
| Transfer to assets held for distribution (Note 12) | - | (329) |
| **At 31 December** | **16,830** | **13,877** |
| **Net book value at 31 December** | **68,669** | **71,622** |

## 27 Prepaid operating lease (continued)

| Prepaid leases classified as held for distribution | Shs '000 | Total Shs'000 |
|---|---|---|
| Cost / Valution | 1,000 | 1,000 |
| Less: accumilated depreciation | (329) | (329) |
| **Net book value** | **671** | **671** |

## 28 Intangible assets

| Cost | Software Shs'000 | Other intangible assets Shs'000 | 2011 Total Shs'000 |
|---|---|---|---|
| At 1 January | 1,463,888 | 1,099,059 | 2,562,947 |
| Additions | 22,305 | - | 22,305 |
| **At 31 December** | **1,486,193** | **1,099,059** | **2,585,252** |
| **Amortisation** | | | |
| At 1 January | 542,117 | 294,782 | 836,899 |
| Charge for the year | 224,776 | 150,363 | 375,139 |
| **At 31 December** | **766,893** | **445,145** | **1,212,038** |
| **Net book value at 31 December** | **719,300** | **653,914** | **1,373,214** |

| Cost | Software Shs'000 | Other intangible assets Shs'000 | 2010 Total Shs'000 |
|---|---|---|---|
| At 1 January 2010 | 1,621,096 | 1,099,059 | 2,720,155 |
| Additions | 200,549 | - | 200,549 |
| Reclassifications to other receivables | (35,593) | - | (35,593) |
| Transfer to assets held for distribution (Note 12) | (322,845) | - | (322,845) |
| **At 31 December 2010** | **1,463,207** | **1,099,059** | **2,562,266** |
| **Amortisation** | - | - | |
| At 1 January 2010 | 482,200 | 163,028 | 645,228 |
| Charge for the year | 215,026 | 131,754 | 346,780 |
| Transfer to assets held for distribution (Note 12) | (155,795) | - | (155,795) |
| **At 31 December 2010** | **541,431** | **294,782** | **836,213** |
| **Net book value at 31 December 2010** | **921,776** | **804,277** | **1,726,053** |

## 28 Intangible assets (continued)

| Analysis of intangibles classified as held fo distribution | Software Shs'000 | Total Shs'000 |
|---|---|---|
| Cost | 322.845 | 322,845 |
| Less : accumilated depreciation | (155,795) | (155,795) |
| **Net book Value** | **167,050** | **167,050** |

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** | |

**Intangible assets - goodwill**

| | Group | |
|---|---|---|
| **Cost** | **2011 Shs '000** | **2010 Shs '000** |
| At 1 January | 10,434,405 | 10,434,405 |
| Goodwill for demerged insurance entities | (1,084,646) | - |
| **At 31 December** | **9,349,759** | **10,434,405** |

During the year, the Group assessed the recoverable amount of goodwill and determined that goodwill associated with the business was not impaired. The recoverable amount of the business was assessed by reference to the cash generating unit's value-in-use. A discount factor of 10% per annum (2010: 10% per annum) was applied in the value-in-use model.

## 29 Ordinary share capital

**Authorised share capital**

| | Group and Company | |
|---|---|---|
| | **Number of shares (thousands)** | **Ordinary shares Shs '000** |
| Balance as at 1 January 2011 | 273,684 | 1,368,421 |
| Additions during the year | 200,000 | 1,000,000 |
| **Balance as at 31 December 2010, 1 January 2011 and 31 December 2011** | **473,684** | **2,368,421** |
| **Issued ordinary shares** | | |
| Balance as at 1 January 2010 | 273,684 | 1,368,421 |
| **Balance as at 31 December 2010, 1 January 2011 and 31 December 2011** | **273,684** | **1,368,421** |

## 29 Ordinary share capital (continued)

### Ordinary share premium

| | 2011 Shs '000 | 2010 Shs '000 |
|---|---|---|
| At January | 13,586,847 | 13,586,847 |
| **At 31 December** | **13,586,847** | **13,586,847** |

## 30 Derivative assets and liabilities

| (a) Derivative assets | Within 1 year Kshs'000 | Maturing after 1 year but within 2 years Kshs'000 | Fair value of Assest Kshs'000 | Notional amount Kshs'000 |
|---|---|---|---|---|
| Derivatives held for trading - "forwards"assets | 4,447,378 | 1,930,032 | 6,377,410 | 43,247,878 |
| **At 31 December 2011** | **4,447,378** | **1,930,032** | **6,377,410** | **43,247,878** |
| Derivatives held for trading - "forwards"assets | 29,508 | - | 29,508 | 35,419,929 |
| **At 31 December 2010** | **29,508** | **-** | **29,508** | **35,419,929** |

| (b) Derivative liabilities | Within 1 year Kshs'000 | Maturing after 1 year but within 2 years Kshs'000 | Fair value of liabilities Kshs'000 | Notional amount Kshs'000 |
|---|---|---|---|---|
| Derivatives held for trading - "forwards" liabilities | 5,041,332 | 1,387,928 | 6,429,260 | 36,354,923 |
| **At 31 December 2011** | **5,041,332** | **1,387,928** | **6,429,260** | **36,354,923** |

All derivatives are classified as derivatives held for trading.

### Fair values

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

### Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The amount cannot be used to assess the market risk associated with the position and should be used only as a means of assessing the Group's participation in derivative contracts.

## 30 Derivative assets and liabilities (continued)

### 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.

## 31 Deposits and current accounts

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

| | Group | |
|---|---|---|
| | 2011 Shs'000 | 2010 Shs'000 |
| **Deposits from banks** | **33,674,186** | **14,269,483** |
| **Deposits from customers** | **74,007,134** | **71,425,115** |
| Current accounts | 37,302,464 | 34,491,282 |
| Call deposits | 5,567,683 | 6,903,840 |
| Savings accounts | 2,027,687 | 1,168,080 |
| Term deposits | 29,109,300 | 28,861,913 |
| | **107,681,320** | **85,694,598** |

### Maturity analysis of deposits from customers

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

| | Group | |
|---|---|---|
| | 2011 Shs'000 | 2010 Shs'000 |
| Repayable on demand | 45,016,369 | 43,297,521 |
| Maturing within 1 month | 622,116 | 16,206,518 |
| Maturing after 1 month but within 6 months | 11,028,070 | 10,599,899 |
| Maturing after 6 months but within 12 months | 11,533,202 | 1,248,483 |
| Maturing after 12 months | 5,807,377 | 72,694 |
| | **74,007,134** | **71,425,115** |

## 32 Borrowings

### At 31 December 2011

| | Notional value Kshs'000 | Carrying value Kshs'000 | Interest Rate | Date of Issue | Maturity date |
|---|---|---|---|---|---|
| CfC Stanbic Bond | 2,402,093 | 2,389,205 | 12.50% | 07 July 2009 | 07 July 2016 |
| CfC Stanbic Bond | 97,907 | 96,388 | 182 day Treasury Bill+ 175bps | 07 July 2009 | 07 July 2016 |
| CfC Stanbic Bond | 2,500,000 | 2,500,497 | 7.25% | 27 Dec 2010 | 22 Dec 2014 |
| CfC Bond | 400,000 | 400,000 | 91 day Treasury Bill + 175bps | 31 Oct 2005 | 31 Oct 2012 |
| IFC Loan* | 850,000 | 850,112 | 6 month libor + 400bps | 15 June 2009 | 30 June 2019 |
| Shareholders' loan | 850,000 | 850,083 | 3 Month libor + 300bps | 30 June 2008 | 30 June 2018 |
| **Total** | **7,100,000** | **7,086,285** | | | |

* IFC - International Finance Corporation

### At 31 December 2010

| | Notional value Kshs'000 | Carrying value Kshs'000 | Interest Rate | Date of Issue | Maturity date |
|---|---|---|---|---|---|
| CfC Stanbic Bond | 2,052,638 | 2,053,461 | 12.50% | 07 July 2009 | 07 July 2016 |
| CfC Stanbic Bond | 97,907 | 97,918 | 182 day Treasury Bill + 175bps | 07 July 2009 | 07 July 2016 |
| CfC Stanbic Bond | 2,500,000 | 2,501,975 | 7.25% | 27 Dec 2010 | 22 Dec 2014 |
| CfC Bond | 800,000 | 796,834 | 91 day Treasury Bill + 175bps | 31 Oct 2005 | 31 Oct 2012 |
| IFC Loan* | 808,000 | 808,100 | 6 month libor + 400bps | 15 June 2009 | 30 June 2019 |
| Shareholders' loan | 808,000 | 808,074 | 3 Month libor + 300bps | 30 June 2008 | 30 June 2018 |
| **Total** | **7,066,545** | **7,066,362** | | | |

The shareholder 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 on any interest payment date thereafter.

The second tranche of the CfC Stanbic Bond was issued in December 2010 (Shs 2,500,000,000). The bond has a 4 year term. The weighted average effective interest rate on borrowings as at 31 December 2011 was 8.45% (2010: 4.93%).

## 33 Other liabilities

| | Group 2011 Shs'000 | Group 2010 Shs'000 | Company 2011 Shs'000 | Company 2010 Shs'000 |
|---|---|---|---|---|
| Sundry creditors and accruals | 1,072,952 | 2,279,206 | 52,198 | - |
| Margin on gurantees and letters of credit | 5,338,495 | 463,531 | - | - |
| Unpresented bank drafts | 121,557 | 167,070 | - | - |
| Other liabilities | 1,875,625 | 208,774 | 51,098 | 18,914 |
| | **8,408,629** | **3,118,581** | **103,296** | **18,914** |

## 34 Deferred tax asset / (liability)

| | 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|
| At start of year | (200,443) | (48,743) |
| Charge to income statement (note 16) | 467,485 | (46,454) |
| Charge to other comprehensive income | 684,424 | (178,219) |
| Consolidation adjustment | (333,900) | 399 |
| Eliminated on deconsolidation | (1,438) | 72,574 |
| **At end of year** | **616,128** | **(200,443)** |

| Year ended 31 December 2011 | 1.1.2011 Shs'000 | Consolidation adjustment Shs'000 | Credited to income statement Shs'000 | Credited to OCI Shs'000 | Eliminated on deconsolidation Shs'000 | 31.12.2011 Shs'000 |
|---|---|---|---|---|---|---|
| **Arising from:** | | | | | | |
| Property and equipment | (236,228) | - | 50,606 | - | - | (185,622) |
| Unrealised gain on bonds | (199,414) | - | 53,950 | 684,424 | - | 538,960 |
| Portfolio impairment | 65,277 | - | 127,342 | - | - | 192,619 |
| Revaluation surplus | (36,779) | - | - | - | - | (36,779) |
| Other provisions | 206,701 | - | 102,044 | - | (1,438) | 307,307 |
| Group intangible assets | - | (333,900) | 133,543 | - | - | (200,357) |
| **Net deferred asset / (liability)** | **(200,443)** | **(333,900)** | **467,485** | **684,424** | **(1,438)** | **616,128** |

## 34 Deferred tax asset / (liability) (continued)

| Year ended 31 December 2010 | 1.1.2010 Shs'000 | Consolidation adjustment Shs'000 | Credited / (charged) to income statement Shs'000 | Credited to OCI Shs'000 | Net asstes held for Shs'000 | 31.12.2010 Shs'000 |
|---|---|---|---|---|---|---|
| **Arising from:** | | | | | | |
| Property and equipment | (59,724) | 27,637 | (165,714) | - | (38,427) | (236,228) |
| Unrealised gain on bonds | (54,602) | 50,983 | (17,576) | (178,219) | - | (199,414) |
| Portfolio impairment | 25,902 | 2,793 | 36,582 | - | - | 65,277 |
| Revaluation surplus | (13,716) | (25,857) | (8,788) | - | 11,582 | (36,779) |
| Investment properties fair value gains | (77,270) | (20,896) | (4,333) | - | 102,499 | - |
| Other provisions | 100,295 | 3,044 | 113,040 | - | (9,678) | 206,701 |
| Currency translation | (1,176) | 841 | 335 | - | - | - |
| **Net deferred (liability) / asset** | **(80,291)** | **38,545** | **(46,454)** | **(178,219)** | **65,976** | **(200,443)** |

The company did not have transactions and balances that attract deferred tax as at 31 December 2011.

## 35 Notes to the cashflow statement

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

| | Group 2011 Shs'000 | Group 2010 Shs'000 |
|---|---|---|
| **Profit before taxation** | **2,798,901** | **2,630,825** |
| Depreciation (Note 26(a)) | 195,904 | 282,934 |
| Amortisation of intangible asset (Note 28) | 375,139 | 346,780 |
| Write off and net reclassification of property and equipment | - | 182 |
| Amortisation of operating lease prepayments (Note 27) | 2,953 | 126 |
| Profit on sale of equipment | (1,525) | (275) |
| Fair value adjustment for investment property | - | (60,606) |
| Fair value adjustment for derivative assets and liabilities | 81,357 | (45,736) |
| Share of results of associates | (43,238) | (99,808) |
| Share based payment reserve | 32,805 | 18,906 |
| Gain on disposal of associate | (25,178) | - |
| | **3,417,118** | **3,073,328** |

## 35 Notes to the cashflow statement (continued)

### (b) Analysis of balances of cash and cash equivalents as shown in the statement of financial position and notes

| | 2011 Shs '000 | 2010 Shs '000 |
|---|---|---|
| Cash, banks and Central Bank of Kenya balances | 3,105,692 | 4,150,030 |
| Treasury bills and bonds | 413,559 | 2,143,300 |
| Loans and advances to banks | 30,627,842 | 16,580,268 |
| Deposits from banks | (33,674,186) | (14,269,483) |
| | **472,907** | **8,604,115** |

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.

## 36 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. This level includes listed equity securities an the Nairobi Securities Exchange.

Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| At 31 December 2011 | Note | Level 1 Kshs'000 | Level 2 Kshs'000 | Level 3 Kshs'000 | Total Kshs'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Trading assets | 21 | 39,864 | 14,874,738 | - | 14,914,602 |
| Financial investments | 21 | - | 6,904,280 | - | 6,904,280 |
| Pledged assets | 20 | - | 3,643,897 | - | 3,643,897 |
| | | **39,864** | **25,422,915** | **-** | **25,462,779** |
| **Comprising:** | | | | | |
| Held-for-trading | 21 | 39,864 | 9,515,119 | - | 9,554,983 |
| Designated at fair value through profit or loss | 21 | - | 5,359,619 | - | 5,359,619 |
| Available-for-sale | | - | 10,520,006 | - | 10,520,006 |
| | | **39,864** | **25,394,744** | **-** | **25,434,608** |
| Derivative assets | 30 | - | 6,377,410 | - | 6,377,410 |
| | | - | **6,377,410** | **-** | **6,377,410** |
| **Comprising:** | | | | | |
| Held-for-trading | | - | 6,377,410 | - | 6,377,410 |
| | | **-** | **6,377,410** | **-** | **6,377,410** |
| **Liabilities** | | | | | |
| Trading liabilities | 22 | - | 648,671 | - | 648,671 |
| | | **-** | **648,671** | **-** | **648,671** |
| **Comprising:** | | | | | |
| Designated at fair value through profit or loss | 22 | - | 648,671 | - | 648,671 |
| | | **-** | **648,671** | **-** | **648,671** |

## 36 Fair value of financial instruments (continued)

| At 31 December 2010 | Note | Level 1 Kshs'000 | Level 2 Kshs'000 | Level 3 Kshs'000 | Total Kshs'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Trading assets | 21 | 13,157 | 11,337,338 | - | 11,350,495 |
| Financial investments | 19 | - | 7,627,715 | - | 7,627,715 |
| Pledged assets | 20 | - | 2,940,007 | - | 2,940,007 |
| | | **-** | **21,905,060** | **-** | **21,918,217** |
| **Comprising:** | | | | | |
| Held-for-trading | 21 | 13,157 | 4,536,301 | - | 4,549,458 |
| Designated at fair value through profit and loss | 21 | - | 6,801,037 | - | 6,801,037 |
| Available-for-sale | | - | 10,567,722 | - | 10,567,722 |
| | | **-** | **21,905,060** | **-** | **21,918,217** |
| Derivative assets | 31 | - | 29,805 | - | 29,508 |
| | | **-** | **29,805** | **-** | **29,508** |
| **Comprising:** | | | | | |
| Held-for-trading | | - | 29,508 | - | 29,508 |
| | | - | **29,508** | **-** | **29,508** |
| **Liabilities** | | | | | |
| Trading liabilities | 18 | - | 729,153 | - | 729,153 |
| | | - | **729,153** | **-** | **729,153** |
| **Comprising:** | | | | | |
| Designated at fair value through profit and loss | | - | 729,153 | - | 729,153 |
| | | **-** | **729,153** | **-** | **729,153** |

## 37 Related party transactions

CfC Stanbic Holdings Limited is a subsidiary of Stanbic Africa Holdings Limited (SAHL), incorporated in the United Kingdom. The ultimate parent of SAHL is Standard Bank Group Limited, which is incorporated in South Africa. There are other companies which are related to CfC Stanbic 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:

### Group

| | 2011 Shs ' 000 | 2010 Shs ' 000 |
|---|---|---|
| Amounts due from the Standard Bank Group | 26,538,493 | 14,115,973 |
| Interest income earned on the above | 462,119 | 249,988 |
| Amounts due to the Standard Bank Group | 1,135,265 | 4,983,639 |
| Interest expenses incurred on the above | 67,005 | 32,801 |

| Company | 2011 Shs ' 000 | 2010 Shs ' 000 |
|---|---|---|
| Amounts due from CfC Insurance Holdings limited | 10,866 | 243,009 |
| Amounts due to group companies | 220,617 | 178,496 |

## 37 Related party transactions (continued)

### Loans and advances

Included in loans and advances are amounts advanced to certain companies in which directors are involved either as shareholders or directors (associated companies). In addition, there are contingent liabilities including guarantees and letters of credit, which have been issued to associated companies. The balances as at 31 December 2011 are as shown below:

### Directors' associated companies

| | 2011 Shs '000 | 2010 Shs '000 |
|---|---|---|
| At 1 January | 1,921,377 | 1,068,922 |
| Net movement for the year | (793,911) | 852,455 |
| **At 31 December** | **1,127,466** | **1,921,377** |

### Employees

| | 2011 Shs '000 | 2010 Shs '000 |
|---|---|---|
| At 1 January | 1,711,726 | 1,332,213 |
| Net movement for the year | 732,405 | 379,513 |
| **At 31 December** | **2,444,131** | **1,711,726** |

### Deposits

| | 2011 Shs '000 | 2010 Shs '000 |
|---|---|---|
| At 1 January | 1,699,094 | 1,615,004 |
| Net movement for the year | (1,371,599) | 84,090 |
| **At 31 December** | **327,495** | **1,699,094** |

### Key management compensation

| | 2011 Shs '000 | 2010 Shs '000 |
|---|---|---|
| **Salaries and other short-term employment benefits** | **298,483** | **222,648** |
| **Directors' remuneration** | | |
| Fees for services as directors | 8,553 | 7,113 |
| Other emoluments (included in key management compensation above) | 57,847 | 64,477 |
| | **66,400** | **71,590** |

Contingent liabilities at 31 December 2011 include contingencies on behalf of companies associated to the directors of Shs 1,365,489,000 (2010 - Shs 561,343,000).

## 37 Related party transactions (continued)

The Group incurred the following related party expenses;

| | 2011 Shs '000 | 2010 Shs '000 |
|---|---|---|
| Franchise fees | 305,819 | 331,937 |
| Information technology | 215,070 | 396,398 |
| Other operating costs | 30,982 | 50,997 |
| | **551,871** | **779,332** |

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

## 38 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.

After the merger in June 2008 ("Effective Date") of CfC Bank Limited and Stanbic Bank Kenya Limited, there have been effectively two schemes in operation running parallel to each other; namely Stanbic Bank Kenya Limited Staff Retirement Benefits Scheme ("SBK Scheme") and the CfC Bank Limited Staff Retirement Benefits Scheme ("CfC Scheme").

The CfC Bank Limited Staff Retirement Benefits Scheme was incorporated in 01 January 1975 and it operates on a defined contribution basis.

Until 30 September 2001, the Stanbic Bank Kenya Staff Pension and Life Assurance 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 Bank (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 portion of the fund with the actuarial reserves / liabilities calculated on the defined benefits basis as at 30 September 2001 forming the opening balances in the members' defined contribution fund credit.

Pensions have continued to be paid to existing pensioners from the Scheme Fund and the terms for benefit provision to deferred pensioners have been retained on a defined benefits basis. Accordingly, the pension benefits payable to all the existing pensioners and deferred pensioners will continue to be met from the resources of the Scheme Fund. The consulting actuaries carried out an actuarial review of the Scheme as at 31 December 2011 and that valuation revealed the following financial position, for the defined benefit component of the fund.

## 38 Retirement benefit liability (continued)

| | 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|
| Present value of funded obligations | 81,579 | 103,738 |
| Fair value of plan assets | (88,356) | (113,271) |
| Present value of unfunded obligations/(over funding) | (6,777) | (9,533) |
| Unrecognised actuarial remeasurements | 6,777 | 9,533 |
| Liability or asset in the statement of financial position | - | - |
| **The movement in the defined benefit obligation over the year was as follows:** | | |
| At start of year | 103,738 | 105,675 |
| Current service cost | 1,288 | 1,761 |
| Interest cost | 9,756 | 9,924 |
| Actuarial remeasurements | (19,559) | 1,000 |
| Benefits paid | (13,644) | (14,622) |
| **At end of year** | **81,579** | **103,738** |

**Plan assets comprise**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Shs'000 | % | Shs'000 | % |
| Equity instruments | 12,038 | 14 | 22,911 | 20 |
| Debt instruments | 42,012 | 47 | 50,989 | 45 |
| Property and other | 34,306 | 39 | 39,371 | 35 |
| | **88,356** | **100** | **113,271** | **100** |

**principal actuarial assumptions used in 2011 were as follows:**

| | |
|---|---|
| Rate of return on investments / discount benefit obligation | 10% p. a. compound |
| Rate of pension increases | 0% p.a. |
| Mortality in retirement | a (55) Males /Females ultimate |
| Mortality in retirement | A1949 /52 Ultimate |

**Five year summary**

| | 2011 Shs'000 | 2010 Shs'000 | 2009 Shs'000 | 2008 Shs'000 | 2007 Shs'000 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | 81,579 | 103,738 | 105,675 | 105,633 | 108,025 |
| Fair value of plan assets | (88,356) | (113,271) | (107,211) | (103,401) | (114,452) |
| **(Surplus)/deficit in plan** | **(6,777)** | **(9,533)** | **(1,536)** | **2,232** | **(6,427)** |

## 39 Contingent liabilities

| Commitments with respect to: | 2011 Shs'000 | 2010 Shs'000 |
|---|---|---|
| Irrevocable letters of credit | 2,957,900 | 5,309,701 |
| Irrevocable unutilised facilities | 37,416,158 | 61,321,409 |
| Guarantees | 8,971,675 | 4,882,015 |
| Acceptances | 3,492,993 | 1,862,418 |
| | **52,838,726** | **73,375,543** |

### 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.

## 40 Other reserves

| | Group | |
|---|---|---|
| | 2011 Shs '000 | 2010 Shs '000 |
| Statutory reserve | (77,846) | 246,329 |
| Fair value reserve | (988,656) | 1,534,664 |
| Currency translation reserve | - | (32,348) |
| Capital reserves | - | 288,173 |
| Share based payment reserve | 65,199 | 32,394 |
| Revaluation reserve | 85,819 | 132,461 |
| **At end of year** | **(915,484)** | **2,201,673** |

Fair value reserve represents the surplus or losses arising on fair valuation of available for sale financial instruments.

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

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

## 40 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

- A statutory 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 2011, the total amount included in share-based payment reserve for Group Share Incentive Scheme was Shs 58,791,000 (2010 - Shs 31,172,000) and for Equity Growth Scheme was Shs 6,408,000 (2010 - Shs 1,221,659).

The share-based arrangement is accounted for as equity settled in the consolidated financial statements of the parent. The company measures the services received from the employees, by reference to the grant date fair value, and recognised as an expense over the vesting period, with a corresponding credit to equity.

# Notice of Annual General Meeting

**Notice is hereby given** that the Fifty-Seventh Annual General Meeting of the Members of CfC Stanbic Holdings Limited will be held on 25 May 2012, at CfC Stanbic Centre, Chiromo Road, Nairobi, at 11.00am 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 2011 and the Directors' and Auditor's Report thereon.
3. To consider, and if thought fit, approve the recommendation by the directors for no payment of dividend for the year ended 31 December 2011.
4. To elect Directors:

   (i) In accordance with Article 110 of the Company's Articles of Association, Mr Edward W. Njoroge retires by rotation and, being eligible, offers himself for re-election.

   (ii) In accordance with Article 110 of the Company's Articles of Association, Mrs Jane Babsa-Nzibo retires by rotation and, being eligible, offers herself for re-election.

   (iii) In accordance with Article 110 of the Company's Articles of Association, Mr Jeremiah G. Kiereini, a director who is over 70 years, retires by rotation.

5. To approve the Directors' remuneration for the year ended 31 December 2011 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. Any other business for which due notice has been given.

**BY ORDER OF THE BOARD**

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**Lillian Mbindyo**
**Company Secretary**
**Date: 23 March 2012**

*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.*

**The ten largest shareholdings in the company and the respective number of shares held at 31 December 2011 are as follows:**

| Name | Number of shares held | shareholding (%) |
|---|---|---|
| 1. Stanbic Africa Holdings Ltd. (UK) | 113,341,663 | 41.41% |
| 2. CfC Stanbic Nominees (K) Ltd non-resident account 00901 | 50,868,863 | 18.59% |
| 3. African Liason and Consultant Services Ltd | 43,063,683 | 15.73% |
| 4. Sovereign Trust Ltd | 10,745,554 | 3.93% |
| 5. Standard Chartered nominees non-resident A/C 9867 | 7,078,550 | 2.59% |
| 6. Archer & Wilcock Nominees Limited | 6,125,000 | 2.24% |
| 7. Kingsway Nominees Limited | 5,198,498 | 1.90% |
| 8. The Government of Kenya | 4,342,548 | 1.59% |
| 9. Jani, Uday Prahlad | 3,500,000 | 1.28% |
| 10. Standard Chartered Nominees non-resident account 9866 | 2,211,500 | 0.81% |

**The distribution of shareholders is as follows:**

| | Number of shareholders | Number of shares held | Shareholding (%) |
|---|---|---|---|
| 1 – 500 | 1,626 | 336,934 | 0.12% |
| 501 – 5,000 | 1,293 | 2,175,324 | 0.79% |
| 5,001 – 10,000 | 407 | 3,064,711 | 1.12% |
| 10,001 – 100,000 | 277 | 7,519,075 | 2.75% |
| 100,001 – 1,000,000 | 30 | 7,555,307 | 2.76% |
| Over 1,000,000 | 14 | 253,032,860 | 92.46% |
| **Total** | **3,647** | **273,684,211** | **100.00%** |

# Proxy Form

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

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 25 May 2012 and at any adjournment thereof.

Dated this____________________ day of ____________________ 2012

Signed____________________

Name____________________

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