CfC Stanbic Holdings Limited

Annual report 2012

Let us show you Kenya

CfC Stanbic

A member of Standard Bank Group

Contents

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.

Stanbic Africa Holdings 60%

Other shareholders 40%

CfC Stanbic Holdings
(Quoted on the Nairobi Securities Exchange)

CfC Stanbic Bank
100% Owned

CfC Financial Services
100% Owned

CfC Stanbic Holdings Limited

Corporate and Investment Banking (CIB)

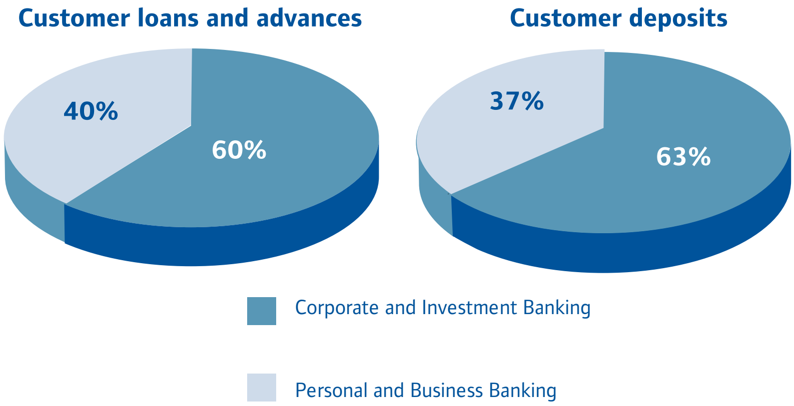
CIB offers services to larger corporates, financial institutions and international counterparties in Kenya and East Africa

Gross revenue
Shs. 10,220m
Up 30% from 2011

Personal and Business Banking (PBB)

PBB offers banking and other financial services to individuals and small to medium size enterprises

Gross revenue
Shs. 3,872m
Up 31% from 2011



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
Shs 3,010m
Up 64%

Net interest income
Shs 6,543m
Up 8%

Non interest revenue
Shs 7,550m
Up 59%

Operating expenses
Shs 8,869m
Up 20%

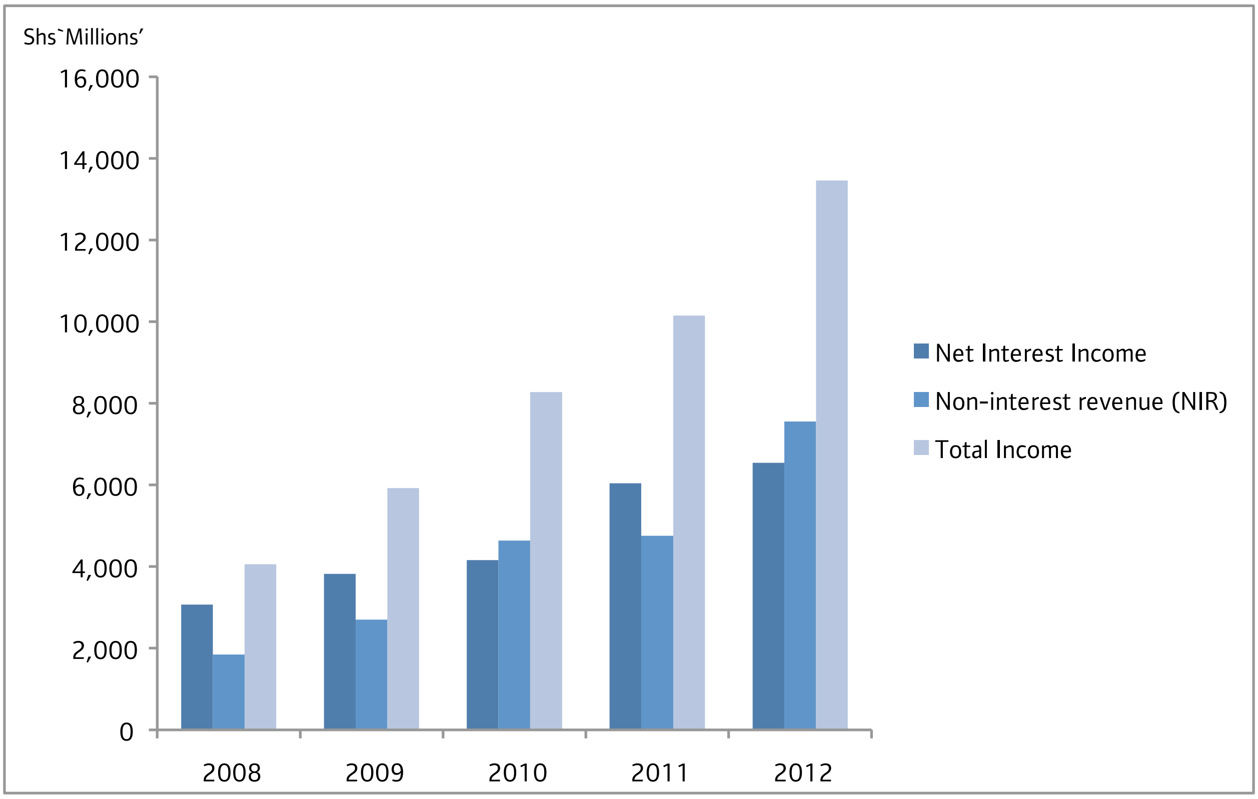
Customer loans
Shs 66,150m
Up 3%

Customer deposits
Shs 74,907m
Up 1%

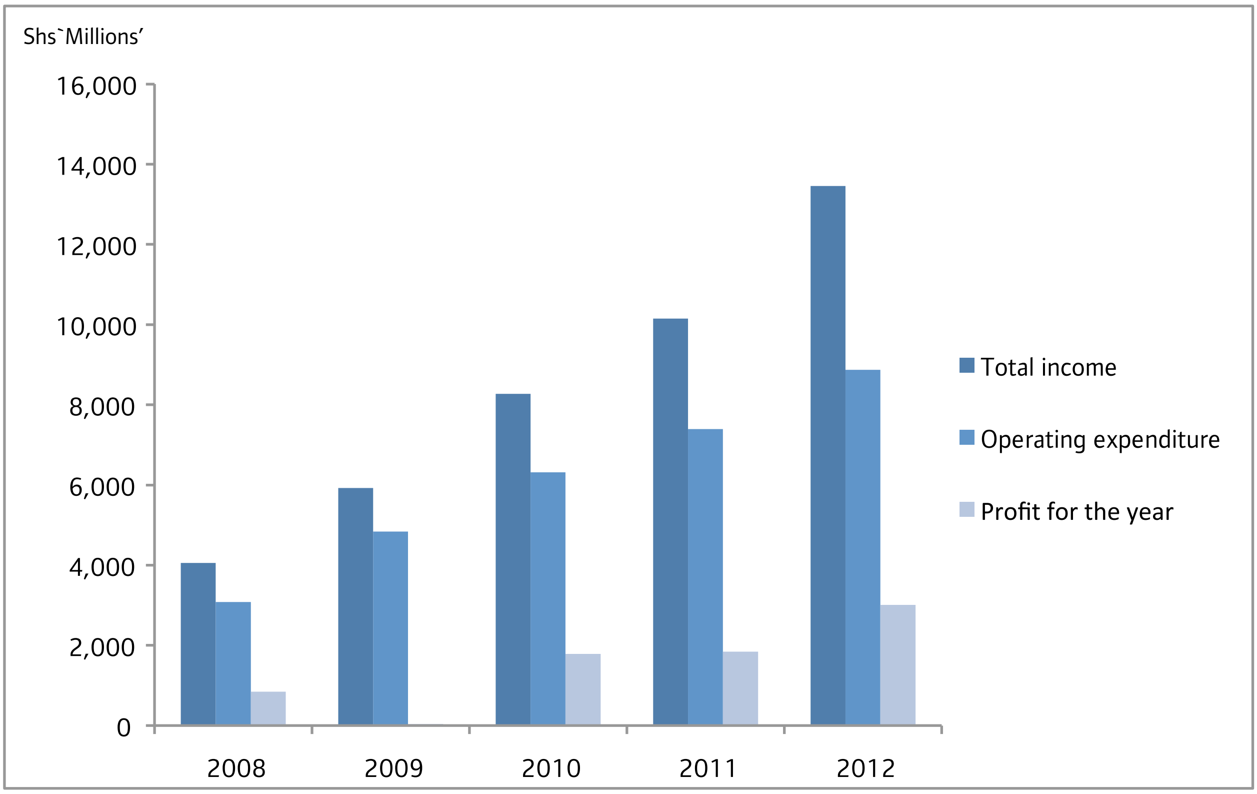
Cost to income ratio
63%
(2011 68%)

Return on average equity
12.73%
(2011 9.51%)

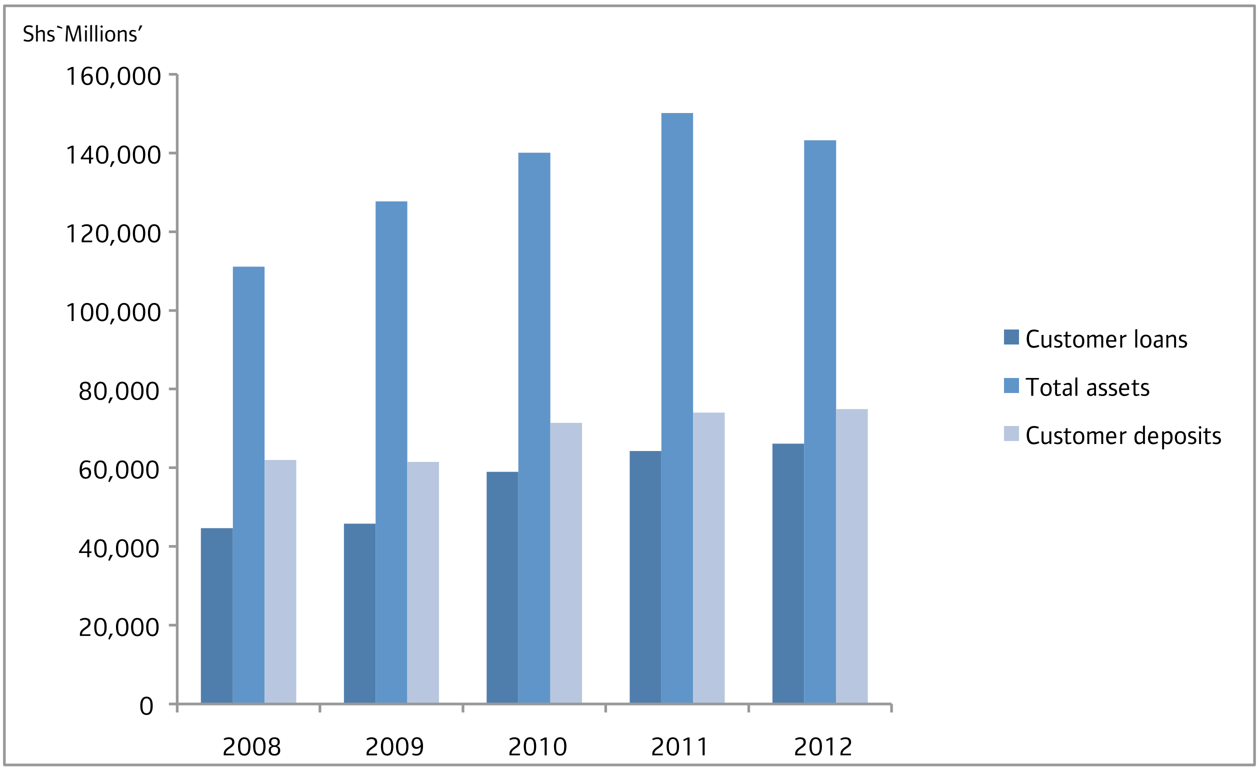
Income growth trend



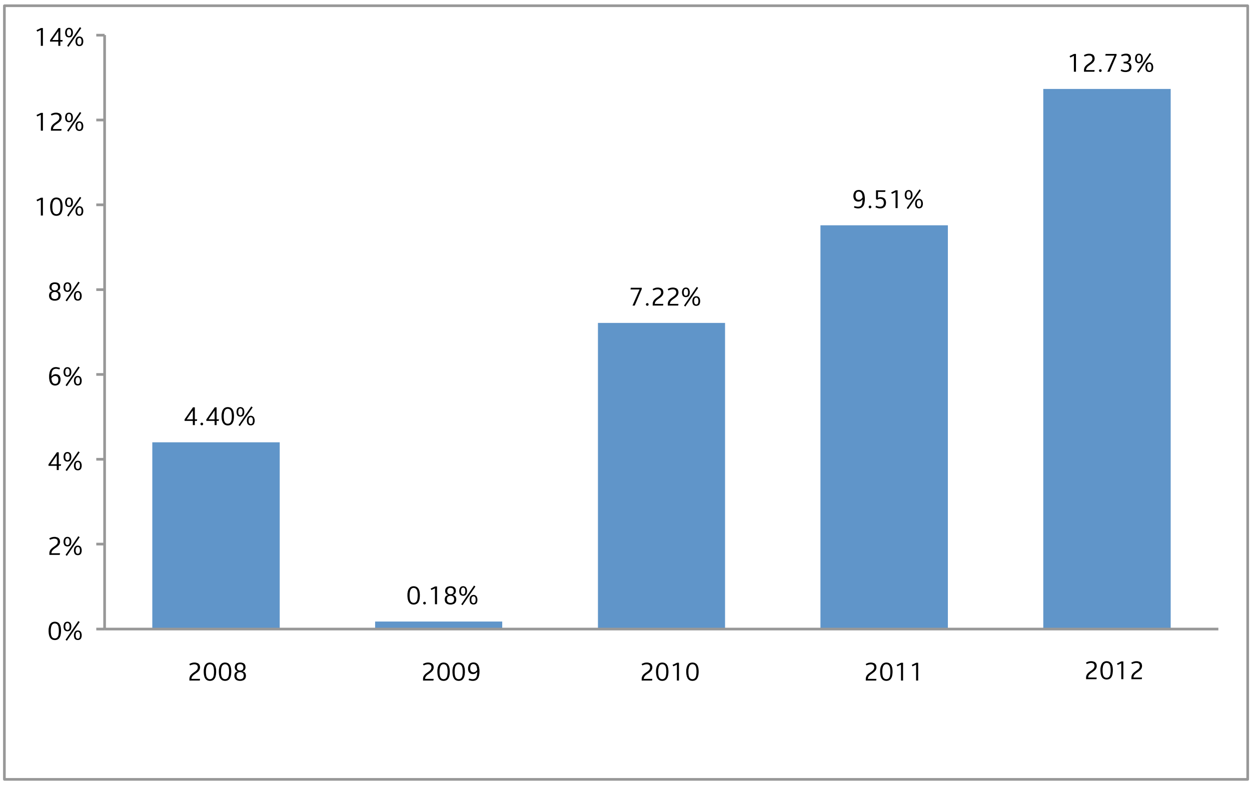
Profitability trend



Balance sheet growth



Return on average equity



Five year review

Statement of financial position

	2012 Shs '000	2011 Shs '000	2010 Shs '000	2009 Shs '000	2008 Shs '000
Assets					
Cash and balances with CBK	23,366,583	7,104,647	5,444,892	4,606,140	6,289,827
Government and other securities	26,021,103	25,462,779	21,998,217	29,727,224	20,194,094
Total loans and advances	**78,483,828**	**94,884,596**	**75,224,630**	**70,922,412**	**65,210,086**
Loans and advances to banks	12,333,987	30,627,842	16,239,669	25,081,964	20,548,781
Loans and advances to customers	66,149,841	64,256,754	58,984,961	45,840,448	44,661,305
Current income tax recoverable	158,846	158,846	158,846	166,882	351,222
Deferred income tax asset	478,395	616,128	-	11,424	280,722
Other assets	1,950,825	8,853,175	1,475,623	5,961,542	3,823,885
Intangible assets - goodwill	9,349,759	9,349,759	10,434,405	10,434,405	10,434,405
Interest in associated companies	-	-	100,111	337,675	236,770
Other intangible assets	1,034,430	1,373,214	1,726,053	2,074,927	1,610,735
Property and equipment	2,302,671	2,299,202	1,911,102	2,962,665	2,296,530
Prepaid operating lease rentals	65,715	68,669	71,622	73,654	34,023
Investment properties	-	-	-	412,000	366,500
Assets classified as held for distribution	-	-	21,534,701	-	-
Total assets	**143,212,155**	**150,171,015**	**140,080,202**	**127,690,950**	**111,128,799**
Equity and Liabilities					
Equity	27,240,888	19,329,127	24,768,615	20,341,602	19,247,973
Liabilities					
Total Deposits	**100,463,247**	**107,681,320**	**85,694,598**	**82,534,005**	**73,071,678**
Deposits from banks	25,556,484	33,674,186	14,269,483	21,059,626	11,096,605
Deposits from customers	74,906,763	74,007,134	71,425,115	61,474,379	61,975,073
Current taxation	377,033	587,723	246,827	-	257,033
Other liabilities	5,963,608	8,408,629	3,118,581	19,493,754	16,359,850
Derivative liabilities	2,469,648	6,429,260	-	16,228	55,383
Trading liabilities	-	648,671	729,153	-	-
Borrowings	6,697,731	7,086,285	7,066,362	5,256,618	2,080,161
Deferred taxation	-	-	200,443	48,743	56,721
Liabilities directly associated with assets classified as held for distribution	-	-	18,255,623	-	-
Total equity and liabilities	**143,212,155**	**150,171,015**	**140,080,202**	**127,690,950**	**111,128,799**

Five year review (continued)

Income statement

	2012 Shs '000	2011 Shs '000	2010 Shs '000	2009 Shs '000	2008 Shs '000
Continuing operations					
Interest income	11,653,458	8,603,450	6,079,464	6,162,060	5,073,229
Interest expense	(5,110,671)	(2,561,426)	(1,922,806)	(2,341,192)	(2,004,391)
Non-interest revenue (NIR)	7,549,557	4,756,855	4,640,493	2,699,343	1,844,864
Credit impairment charges	(635,429)	(652,853)	(521,441)	(599,149)	(859,959)
Operating expenditure	(8,868,827)	(7,390,363)	(6,313,759)	(4,837,041)	(3,082,633)
Profit in associates	-	43,238	44,016	21,635	20,709
Profit before tax	**4,588,088**	**2,798,901**	**2,005,967**	**1,105,656**	**991,819**
Income tax	(1,578,197)	(1,159,744)	(598,324)	(479,106)	(305,824)
Profit for the year from continuing operations	**3,009,891**	**1,639,157**	**1,407,643**	**626,550**	**685,995**
Dicontinued operations					
Profit/(loss) for the year from discontinued operations	**-**	**199,835**	**379,725**	**(590,622)**	**160,598**
Profit for the year	**3,009,891**	**1,838,992**	**1,787,368**	**35,928**	**846,593**
Selected ratios					
Return on average equity %	12.73%	9.51%	7.22%	0.18%	4.40%
Return on assets %	2.10%	1.22%	1.28%	0.03%	0.76%
NIR to total income %	53.57.%	44.05%	52.75%	41.40%	37.55%
Cost to income ratio %	62.73%	68.44%	71.77%	74.41%	62.74%

I am pleased to present to you the Annual report of CfC Stanbic Holdings Limited (the Group) for the year ended 31 December 2012. The Board set out to improve shareholder value by delivering higher profitability through business growth and cost and operational efficiency. I am pleased to report to you that we have had a very positive year.

Operating environment

After a challenging start in 2012, the Kenya economy began a gradual return to stability towards the second half of the year. The tight Central Bank monetary policy stance in the first half of the year effectively brought inflation under control and stabilised the exchange rate. This however had an adverse impact on economic growth which reduced to 3.4 % from 4.4% in 2011.

In the banking sector, the Central Bank monetary policy stance resulted in the highest lending rates charged by commercial banks we have seen in recent times. This in turn depressed demand for credit especially for business borrowers who preferred to postpone the investments decisions due to the increased cost of borrowing.

On a positive note, the steep hike in the Central Bank policy rate created demand for Kenya Shilling denominated assets which led to short term foreign investor inflows which in turn helped to stabilise the Kenya shilling.

Group Strategy

In our communications with shareholders, we have set out several medium term goals as we aspire to deliver higher shareholder value. I am pleased to report that we have made significant progress on these.

- **Cost discipline – The target Cost to Income Ratio (CIR) is 55% or below.** Our cost to income ratio is currently at 63% (2011- 68%) including the results of investing in the South Sudan branch. The improvement is as a result of cost discipline and reaping from the Group's investments in the years following the merger.

- **Return on Equity (ROE) performance (target of 25% or higher).** The Group's return on average equity stood at 21% excluding goodwill. There was an injection of new capital from our shareholders which presents an opportunity to expand the business and provide increased returns over the medium term.

- **Non Interest Revenue (NIR) as a proportion of total income (target of at least 50% share of NIR of total income).** The Group has surpassed this target by 4 percentage points following strong performance by our Global Market franchise.

- **Improved customer liabilities funding mix (target – to increase share of core accounts – transactional, current and savings accounts – as a percentage of total deposits).** The Group improved its savings account product offering and we have seen the volume of this product grow by over three times compared to the balances held at the end of 2011. Current accounts have also grown by 23% and core accounts now form 70% of our total deposits compared to 53% in 2011.

"It has been 101 years since we opened our first two branches in Kenyatta Avenue Nairobi, and Nkrumah road in Mombasa. As an organisation we have grown to be the largest banking group in Africa and we are proud to be rooted in Kenya and for being part of the economic and social development of Kenya."

- **Increase the contribution of the Personal and Business Banking (PBB) business' contribution to profit after tax and balance sheet** – PBB revenues increased by 31% compared to prior year and its share of balance sheet is 25%. We are confident that the investment and operational changes we have made in this business will help PBB turn a profit in the foreseeable future.

In driving the business to deliver the medium term goals set out above, we will focus on the following areas:

- Leveraging existing strengths in our Corporate Investment Banking franchise and 'push down' these to Commercial Banking, Small and Medium-size Enterprises and traders who are part of our business banking offering in PBB.
- Being the Bank of choice for the employees of the businesses we bank through workplace banking offering.
- Providing financial services solutions to Private banking and High Net-worth Individuals, owners and senior executives of the businesses we bank.

I am confident that we are adequately resourced to deliver on the Group's strategy.

Expansion to South Sudan

In April 2012, CfC Stanbic Bank Limited (the Bank) opened its first branch in Juba, South Sudan. The performance of this branch has exceeded our expectations and the branch broke even in the first eight months of operation. I wish to thank the Government of South Sudan and the people in South Sudan for their support in achieving these results. We believe that there are still plenty of growth opportunities in South Sudan and we are positioning ourselves to expand our branch foot print accordingly.

150 years celebration

In 2012, the Standard Bank Group celebrated 150 years since being incorporated in South Africa. It is also 101 years since we opened our first two branches in Kenyatta Avenue Nairobi, and Nkrumah road in Mombasa. As an organisation we have grown to be the largest banking group in Africa and we are proud to be rooted in Kenya and for being part of the economic and social development of Kenya.

To celebrate this landmark, all Group staff contributed 150 minutes in community development activities in the year. As the country celebrates 50 years since independence we remain committed to supporting the growth of the Kenyan economy through provision of relevant financial services to all Kenyans.

Corporate governance

The Group continues to embrace and implement global best practice in the governance and management of the business. As a result, we are confident that the business is managed prudently and is in compliance with all regulatory obligations. A corporate governance report is included on pages 28 to 29.

Directorate

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

Outlook for 2013

It is estimated that the Kenyan economy will grow by 5% in the coming year. The growth will be supported by a pick-up in credit demand amidst a stable macro-economic environment. Beyond this, we expect that domestic investment should increase as political risk diminishes and a projected improvement in the global economy should boost exports.

In the banking sector, the transition to the new prudential guidelines issued by the Central Bank of Kenya which are effective 1 January 2013 may impact both access to and cost of banking services.

We will stay committed to our strategy as we are convinced it will not only ensure we remain a relevant banking services provider of value to our customers but it will also increase shareholder value.

Whilst risks and uncertainty remain, we believe we are well positioned for another good year in 2013.

Appreciation

As always, it is important to recognise the team effort it takes to deliver strong performance and I wish to take this opportunity to express my sincere appreciation and gratitude to the Board, Management and staff for their tireless dedication during the year. I thank our customers for their steadfast support and patronage. We shall endeavour to continuously improve and broaden our offerings to fulfil the banking needs of our customers.

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

Fred N Ojiambo, MBS, SC
1 March 2013

Fiscal austerity begets recession in developed countries

2012 was remarkable for the extraordinary measures that central banks in some of the major developed economies continued to take to shore up financial markets. What was clear was that while some countries continued to enjoy a measure of revival in economic activity, economic growth in the Eurozone, Japan, the United Kingdom and the United States of America was not assured.

Indeed, as the year progressed financial markets began to fret over the possibility of a global recession recurring. Worries were not focussed on only the four major economies, but also on China. It became clear that the Chinese economy would slow, dampening demand for commodities.

Consequently, towards the middle of the year there was a synchronised sell-off of risky assets. Emerging market currencies, commodities, equities, all sold off. As often happens in these situations, investors sought the safety of US Treasuries, amongst other assets. As a result the 10-y US Treasury yield fell to a multi-year low of just below 1.4% in July from around 2.0% at the beginning of the year. The US Dollar also strengthened against various currencies, with EUR/USD falling below 1.2050 in July from over 1.2900 at the beginning of the year.

To combat this, central banks in the major economies redoubled their easing efforts. The Federal Reserve in the US increased its bond purchases, later resorting to unlimited purchases of mortgage backed securities and Treasuries. The European Central Bank (ECB) committed itself to buying bonds of troubled Eurozone countries, helping to cap government bond yields of those countries, which had been rising to unsustainable levels.

A crucial aspect of the ECB's promise, indeed, a notable aspect of the European response to the region's bond crisis, is the insistence that countries seeking aid must be committed to implementing fiscal austerity measures. But over the course of 2012 it became abundantly clear that exercising fiscal restraint in an environment with depressed general economic activity worsens the economic malaise. And so it has turned out that both the United Kingdom and the Eurozone were confirmed to have relapsed into recession.

It is far from clear that the European crisis is over. Fiscal austerity in a depressed economy worsens the economic malaise, depressing tax revenue collection too. The danger is that a destabilising spiral of fiscal austerity, leading to recession, resulting in persistent deficits that call for ever more austerity, could become set.

The US is the one major economy where an economic recovery seems to be strengthening. So much so that even the housing market, which has been persistently weak for more than four years, appears to be perking up. The general consensus is that a revitalised housing market will be required if the US economic recovery is to be self-sustaining.

Yet even there the threat of fiscal austerity threatens not only to undermine market confidence, but also scupper the economic recovery. As part of a political deal to increase the country's debt limit in 2011, Congress and the President agreed to a package of automatic tax increases and spending cuts beginning on 1 January 2013 if they could not agree to long term measures to reduce deficits and bring the debt to a sustainable path.

2012 having been an election year, no serious effort was made to negotiate those long term measures. Only after the elections in November was there a scramble to avoid this politically self-imposed austerity from being implemented. Even the Chairman of the Federal Reserve and the Congressional Budget Office have indicated that if this austerity is implemented the US economy will relapse into a recession.

While a last minute deal was worked out, limiting tax increases to only the wealthy while making tax cuts on low incomes permanent, an even worse stand-off in early 2013 is likely to prove destabilising to the markets. Congress and the administration need to negotiate another increase in the debt limit.

Falling inflation and depressed economic growth characterise 2012

Naturally, against such an unfavourable global backdrop, economic activity in Kenya was also subdued. Most notably, exports have been subdued, reflecting the economic strains in Europe. Tourist arrivals have actually been falling for most of the year.

While the economic hardships in Europe no doubt contributed to the slowdown in tourist arrivals, security concerns were also a factor.

Numerous terrorist bombings, abduction of foreign nationals and outbreak of violence in parts of the country prompted several foreign governments to issue travel advisories discouraging their citizens from visiting certain areas of the country.

But the most pervasive factor dampening economic activity was the tight monetary policy stance adopted by the Central Bank of Kenya. Having increased the Central Bank Rate to 18.0% and the overnight discount rate to 24.0% in December 2011, the CBK kept the rates at these levels until July.

As could be expected, credit lending fell dramatically. Having grown at an average of 29.6% y/y in 2011 commercial bank's lending to the private sector fell to an average growth rate of 19.2% y/y in the 9 months to September, actually recording just 7.7% y/y in September.

Overall economic growth was also subdued over the course of the year. GDP growth averaged 4.4% y/y in 2011. But it fell to an average of about 3.8% y/y in the first nine months of 2012. Even a closer examination of the Q3:12 data, when growth registered 4.7% y/y, does not indicate any palpable resurgence in economic activity. Most of the uptick in Q3:12 growth, from an average of about 3.5% y/y in H1:12, is attributable to a pick-up in the agricultural sector, no doubt a recovery from the drought.

An attendant consequence of the tight monetary policy stance and subdued economic activity has been a dramatic decline in inflation. Peaking at 19.7% y/y in November 2011, headline inflation reached 3.2% y/y in December 2012, the magnitude of the decline far exceeding most forecasts.

Partly in response to this subsidence in inflation, the CBK began to ease the monetary policy stance in July. By December 2012, the CBK had reduced the CBR by 700 bps to 11.0% and the discount rate to 17.0%.

Market interest rates declined even more dramatically over the course of the year, albeit not linearly. The 91-day Treasury bill yield fell as low as 7.5% in September, but ending the year at 8.1%, from over 20.0% at the beginning of the year. Overnight inter-bank rates fell as low as 5.2% in December, ending the year at 5.6%, from over 25.0% at the beginning of the year.

Economic resurgence and greater market stability likely in 2013

2013 could be the year in which economic resurgence resumes. Of course, there are still the elections in March to get over, but a post-election revival in economic growth appears most likely. Certainly, the CBK will be looking to engender as much stability in the markets as possible, while the main thrust of policy will be to boost economic activity.

Perhaps the most challenging period will be the run-up to the elections in March. There might be some volatility in interest rates, possibly with Treasury bill yields rising above 10.0% again. But given a fairly subdued outlook for inflation over the course of the year, such an increase in rates is unlikely to be the commencement of an increasing trend in rates, but will probably be reversed later. Treasury bill yields are likely to be mostly in single digits during the year.

The combination of a still weak economy and CBK intervention will probably also ensure that the exchange rate remains fairly range bound. For most of 2012 USD/KShs traded between 83.0 and 85.50. In January and May the rate spiked to about 88.0, and on both occasions reversed course promptly after the CBK sold foreign exchange into the market.

This ability of the Central Bank to calm the market thus has been brought about by a more conducive trade balance. Indications are that this state of affairs will persist for most of 2013 as well. Thus, the exchange rate will likely be fairly stable over the course of 2013 as well.

The Group commenced the year operating in a market characterised by tight liquidity, high interest rates and compressed margins in local currency amidst a recovering global economy.

Against this background, the Group delivered excellent results from a diversified business driven by the tactical positioning of the balance sheet in anticipation of sharp movement in interest rates, positive results from the South Sudan operations and prudent cost management.

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

- Sustained strong performance in the Global markets business;
- Positive returns from expansion of operations into South Sudan, and
- Increase in revenues from the transactional products and services segment.

Profitability

Profit before tax grew by 64 percent to Shs 4,588 million, an increase of Shs 1,789 million from the results of the year ended 31 December 2011. Profit after tax increased by 64 percent from Shs 1,838 million in 2011 to Shs 3,009 million in 2012. This resulted in an increase in earnings per share to Shs 9.90 per share from Shs 6.72 per share in 2011.

Return on equity

The return on average equity increased to 12.73 percent in 2012 an increase of 3.2 percent compared to last year computed on the basis of year-end weighted average capital balances following the fresh injection of capital in November 2012.

Economic factors affecting the results

Inflation

The year-end inflation rate stood at 3% compared to 18% in 2011. The decline in the rate occurred from the second half of 2012 as the tight Central Bank monetary stance bore fruit.

Central Bank rate

The Central Bank Monetary Policy Committee has progressively decreased the CBR rate to 11 percent compared to 18 percent at the end of 2011. The Bank's cost of funding decreased in tandem from the second half of 2012.

Interest rates

There was a downward adjustment in interest rates. Short term rates decreased amid declining inflation. The declining interest rates environment had a significant impact on the value of financial instruments held at fair value.

Key financial highlights

Performance Indicators	2012	2011
Total income growth	32%	22%
Credit impairment charges growth	-3%	25%
Profit before tax growth	64%	40%
Gross customer loans and advances growth	3%	9%
Customer deposits growth	1%	4%
Capital adequacy (tier 1 ratio)	21%	13%
Return on average equity (after tax)	13%	10%
Earnings per share (Shs)	9.90	6.72

Net interest income and non-interest revenue increased by Shs 501million and Shs 2,793 million respectively. In the current year, non-interest income accounted for 54 percent of total operating income as compared to 44 percent in 2011.

This increase was mainly driven by gains in the money market trading desk as a result of falling interest rates and increased corporate sales volumes. Operating costs grew by Shs 1,478 million, a 20 percent increase from the previous year. The cost to income ratio reduced to 63 percent from 68 percent in 2011.

Net interest income

	2012 Shs 000	2011 Shs 000	Change
Interest income	11,653,458	8,603,450	35%
Interest expense	(5,110,671)	(2,561,426)	100%
Net interest income	**6,542,787**	**6,042,024**	**8%**

The growth in net interest income was mainly driven by revision of the Bank's base rate while interest expense was mainly driven by the tight liquidity conditions in the local currency market which drove up the interest rate earned by depositors especially in the first half of 2012.

Net fees and commission income

Net fees and commission income increased from Shs 2,095 million in 2011 to Shs 2,543 million. This was mainly attributable to transactional volumes from a growing customer base and successful uptake of our new 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.

Trading revenue

Income from trading in foreign exchange and debt securities increased by Shs 2,460 million. This increase was mainly driven by gains in the money market trading desk as a result of falling interest rates and increased corporate sales volumes.

Other income

Other income decreased by Shs 115m compared to prior year. Other income in 2011 included a gain on disposal of available for sale investments of Shs 110m.

Impairment losses

	2012 Shs'000	2011 Shs'000
Impairment charge for non-performing loans	1,387,522	812,360
Impairment charge for performing loans	120,106	490,035
Recoveries during the period	(872,199)	(650,974)
Other movements	-	1,432
Net impairment charge on loans and advances	**635,429**	**652,853**

Increase in provisions was mainly due to specific provisioning for exposures that materialised in the year.

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

	2012 Shs'000	2011 Shs'000	Change
Staff costs	3,543,387	2,947,416	20%
Operating expenses	5,325,440	4,442,947	20%
Total expenses	**8,868,827**	**7,390,363**	**20%**

Operating expenses include costs for expansion of points of representation including setting up operations in South Sudan, automation and upgrade of our information technology infrastructure and attracting and retaining quality people.

Other operating costs increased to Shs 5,325 million compared to Shs 4,442 million in 2011. The increase is due to costs incurred for incremental travel expenses and costs incurred in setting up and running operations in South Sudan.

Employee compensation and related costs increased by Shs 595 million from Shs 2,947 million in 2011. This was mainly due to South Sudan operations, annual salary reviews, coupled with an increase in staff head count to support the Group's growth strategy.

Statement of financial position

During the year under review, the Group's total assets declined by 5 percent to Shs 143,212 million as at close of 2012. This was largely driven by a decrease in amount placed with other banks by Shs 18,294 million.

Customer loans posted modest growth owing to high interest rates that saw reduced credit appetite in the market.

Customer deposits increased to Shs 74,907 million from Shs 74,007 million. This increase was mainly due to growth in the number of customers and the Group's deliberate efforts to reduce reliance on wholesale funds in light of the new capital injection.

Shareholders' equity grew to Shs 27,241 million from Shs 19,329 million in 2011, a growth of 41 percent. This was mainly driven by proceeds from the Rights Issue of Shs 3,881 million. Shareholders equity includes a reserve for unrealised gains/losses on available for sale government securities which increased from a Shs 915 million loss at 31 December 2011 to Shs 143 million gain at 31 December 2012 due to market conditions.

Capital adequacy

At 31 December 2012, the Bank's total capital ratio was 25.50 percent (2011: 19.04 percent) of risk-weighted assets, with core capital at 20.50 percent (2011: 12.59 percent). The capital adequacy ratios at 31 December 2012 remain above the stipulated regulatory minimum of 12 percent and 8 percent respectively.

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

CASE STUDIES

Partnering with our customers to move their businesses forward

Kinangop Dairy Limited (KDL) is a milk processing plant located in Nyandarua County in Central Kenya 130 kms from Nairobi city. It started processing with a rented space and equipment in 2008 eventually moving to own site in August 2010 with an installed capacity of 50,000 litres per shift. KDL products include pasteurised milk, yoghurt, cream and ghee under the brand name "JAMAA".

KDL has grown from turnovers of Shs.111million in 2008 to Shs.804million currently.

Financing

CfC Stanbic Bank Limited supported KDL through a Shs.120 million facility for acquisition of a milk processing plant.

The plant has provided value addition to milk which would otherwise go to waste in a region dependant on weather based dairy enterprises. The plant has also created employment along the dairy value chain right from production, collection, bulking, processing to marketing and distribution of the processed products.

Market

Nairobi city offers a market for KDL's milk products among both the high end superstores and in small retail outlets.
The Group is one of the beneficiaries of the high quality "JAMAA" milk products.

The plant has provided value addition to milk which would otherwise go to waste in a region dependant on weather based dairy enterprises.

Triumph Power and Gulf Power

In 2012, CfC Stanbic Bank Limited closed on two important power project financings for Kenya: the USD 147 million Triumph Power Generation Limited and EUR 84 million Gulf Power Limited transactions. These power plants, which will come on line in the next year, will add megawatts to the national grid and decrease Kenya's reliance on expensive diesel fuel, a benefit to all consumers and businesses on Kenya's grid.

CfC Stanbic Bank Limited acted as co-arranger on both transactions, and provided financial structuring services, term facilities, transactional banking, and hedging to the projects. On Triumph Power, CfC Stanbic Bank Limited worked with Chinese Commercial Bank ICBC; on Gulf Power, CfC Stanbic Bank Limited worked with international development finance institutions. These transactions showcase CfC Stanbic's undisputed market leadership in structuring complex multicurrency financial transactions in the power sector involving lenders. Also key to success was our intimate knowledge of the Kenyan power markets and regulatory framework, along with an ability to work with the World Bank to develop the credit support structure that underpinned the transactions.

CfC Stanbic is especially proud to have supported local developers on these projects, which highlight our efforts to bring global expertise and relationships to the local market.

> CfC Stanbic acted as co-arranger on both transactions, and provided financial structuring services, term facilities, transactional banking, and hedging to the projects.

Kwale International Sugar Company Limited

Kwale International Sugar Company Limited ("Kiscol") is a Kenyan Company that was established in 2007 to develop a 5,000 hectare sugar plantation, 3,000 tons crushed sugar per day mill, an ethanol production facility, and a power plant fuelled by waste sugar cane. With the help of CfC Stanbic Bank Limited the project reached financial close in 2012, with a total cost of USD 200 million.

Kenya has suffered from a significant shortage of locally grown sugar and Kiscol, in line with its vision, is assisting in curing this deficit by introducing modern factory technology, creating employment and harnessing new sources of renewable energy (ethanol and electricity through bagasse) to the benefit of the Kenyan economy. CfC Stanbic Bank Limited was a joint mandated lead arranger on Kiscol, providing financial structuring services, term loans, transactional banking, and hedging products to the project. The Group also leveraged the relationship with its affiliate, the Standard Bank of Mauritius, to bring in Mauritian banks to a Kenyan project financing for the first time. CfC Stanbic is pleased to have brought this project – which is notable for its size, complexity, and positive impact on the country – to financial close.

We are proud to be the only Group currently offering a fully-staffed, locally-based project finance team in Kenya, capable of structuring, financing and syndicating large Kenyan transactions to the local and international financial markets.

> We are proud to be the only Group currently offering a fully-staffed, locally-based project finance team in Kenya, capable of structuring, financing and syndicating large Kenyan transactions to the local and international financial markets.

Kwale International Sugar Company Limited

December 2012

USD 200,000,000

3,000 TCD Sugar Complex

Kwale, Kenya

Sweetening Kwale's Economy

Built from the ground up: 5,000 hectares of cultivated cane, a 3,000 tonnes-crushed-per-day sugar mill, an 18-megawatt bagasse-fired power plant, and a sophisticated irrigation and water management system. Resulting in affordable, plentiful, locally-grown sugar. One more sweet deal for Kenya and Kenyans. This is the financing power and value that CfC Stanbic Bank and PTA Bank bring to the East African market. Let us help you move your project forward.

Mandated Lead Arrangers

CfC Stanbic Bank
A member of Standard Bank Group

Participating Banks

Senior Lead Manager
State Bank of Mauritius

Lead Managers
Afrasia Bank
Kenya Commercial Bank
Mauritius Commercial Bank
Standard Bank (Mauritius)

Manager
Co-operative Bank of Kenya

WORKING WITH YOU TO GROW YOUR BUSINESS

TPS EASTERN AFRICA LIMITED

US$ 19 Million

Lead Transaction Adviser & Sponsoring Broker

Acquisition by way of a Share Swap

Completed: January, 2013

Uganda & Kenya

UAP HOLDINGS LIMITED

US$ 62 Million

Lead Transaction Adviser & Joint Lead Placing Agent

Private Equity & Public Offer

Completed: December, 2012

Kenya

UMEME HOLDINGS LIMITED

US$ 67 Million

Lead Transaction Adviser, Global Book-runner, Receiving Bank and Sponsoring Broker for NSE Cross Listing

Public Offer & Listing on USE and on NSE

Completed: December, 2012

Uganda & Kenya

CfC STANBIC HOLDINGS LIMITED

US$ 47 Million

Lead Transaction Adviser, Receiving Bank & Sponsoring Broker

Rights Issue

Completed: October, 2012

Kenya

KENYA AIRWAYS LIMITED

US$ 250 Million

Lead Transaction Adviser

Rights Issue

Completed: June, 2012

Kenya, Uganda & Tanzania

EAST AFRICA BREWERIES LIMITED

US$ 71 Million

Lead Transaction Adviser & Global Bookrunner

Public Offer of EABL shares in Tanzania Breweries Limited

Completed: January, 2012

Tanzania

The Clients who bank with us value the expertise we provide them when addressing their equity capital needs. Over the past 12 months, our Corporate Finance team has acted as Lead Transaction Adviser and successfully raised USD 516 million on several cross-border land mark equity raising transactions in East Africa. We are grateful to our Clients for giving us the privilege of serving them and helping build their businesses.

For further details, please contact **Naval Sood** on: naval.sood@stanbic.com or call +254 20 363 8620.
We would be delighted to support your business.

Standard Bank: Best Investment Bank in Africa 2012

CfC Stanbic Bank

A member of Standard Bank Group

Moving Forward™

Corporate information

Chairman:	Fred N. Ojiambo, MBS, SC
Managing Director:	Kitili Mbathi
Managing Director of CfC Stanbic Bank Limited:	Greg R Brackenridge *
Regional Head Corporate & Investment Banking (Appointed as a Director on 2nd August 2012, retired 31 January 2013)	Victor Williams***
Non-Executive Directors:	J Babsa-Nzibo E W Njoroge R W Kimotho GR May** CK Muchene RT Ngobi

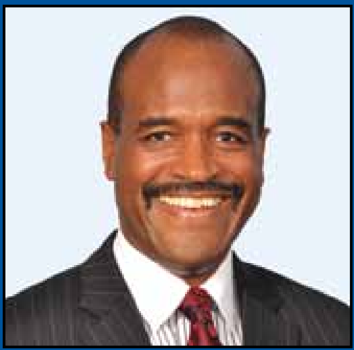
* South African
** British
*** American

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

Board of Directors

Fred N. Ojiambo, MBS, SC (63)
Appointed 2010
Chairman

Mr. Fred N 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 Laws, (LLB) (Hons) Degree from the University of Nairobi and a Post Graduate Diploma in Advocacy (Council of Legal Education) from the Kenya School of Law. He has had a long career in private practice and his experience was recognised with an award of Senior Counsel in 2007. Mr.Ojiambo also 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.



Kitili Mbathi (54)
Appointed 2008
Managing Director

Mr. Kitili Mbathi is the Managing Director of CfC Stanbic Holdings Limited, a Director of CfC Stanbic Bank Limited, CfC Stanbic Financial Services 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 banking institutions. He has also served as Investment Secretary in the Ministry of Finance and Planning – Government of Kenya.

G R Brackenridge (56)
Appointed 2010
Managing Director
CfC Stanbic Bank Limited

Mr. Greg Brackenridge was appointed the Managing Director CfC Stanbic Bank Limited on 5 March, 2010. He first joined the Standard Bank 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 the merger with IBTC Chartered Bank Plc.

V E Williams (43)
Appointed 2nd August 2012

Mr. Victor E. Williams is the Regional Head of Corporate and Investment Banking (CIB), East Africa for Standard Bank Group. Based in Nairobi, Kenya, he heads all of Standard Bank's CIB activities in Kenya, Uganda, Tanzania, Mauritius and South Sudan. He is a director on the boards of CfC Stanbic Holdings Limited, CfC Stanbic Bank Limited and CfC Stanbic Financial Services.

Previously, Mr. Williams worked in investment banking with Goldman Sachs and Wells Fargo Securities in the USA. He has an undergraduate degree from Brown University and an MBA degree from Harvard Business School. Mr. Williams is a native of Sierra Leone and also holds US citizenship.

G R May (70)
Appointed 2008
Chairman Board Audit Committee

Mr. Gayling R. May is a Director of CfC Stanbic Holdings Limited; CfC Stanbic Bank Limited; The Heritage Insurance Company Limited and CfC Life Assurance Limited; Liberty Kenya Holdings Limited; 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 vast business experience in Kenya and East Africa having served with PricewaterhouseCoopers as a Partner providing various audit and business advisory services and later as a 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.

E W Njoroge (60)
Appointed 2010

Mr. Edward W Njoroge graduated with honours in Bachelor of Science from Makerere University. He was appointed on 26 March 2003 as Director (Executive) and 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 Affiliated Business Contacts (ABCON) Group in 1977. His other directorships include REAL Insurance Company Limited, Aquatech Industries Limited, Nerifa Holdings Limited, and ABCON. He is also the Chairman of the Nairobi Securities Exchange and Telkom Kenya.

Jane Babsa- Nzibo (53)
Appointed 2010

Mrs Nzibo is currently the Managing Director of Skynet Worldwide Express Limited. In 1994, she 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 Nzibo is also the Chairperson of the Courier Industry Association of Kenya board and the vice-chairperson of the SOSSA Welfare Group. She previously worked at DHL Limited as the Regional Sales and Marketing Manager for the East Africa region. Mrs Nzibo is also a member of the Marketing Society of Kenya and brings to the Board her business and market experience.

R Kimotho (57)
Appointed 2008

Ms. Rose W 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.

C K Muchene (55)
Appointed 2011

Mr Charles K Muchene was appointed to the board as a non-executive director of CfC Stanbic Holdings Limited and CfC Stanbic Bank Limited in February 2011. 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. For more than a decade, he has been actively involved in fora 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 board of East African Breweries Limited in addition to a number of other private companies.

R T Ngobi (52)
Appointed 2011

Ms. Ruth T Ngobi is a lawyer of over twenty-six years standing, having been admitted as an Advocate of the High Court of Kenya in 1985. She holds a bachelors degree in law from University of Kent in Canterbury and a Master of Laws degree from University of Cambridge, both in the United Kingdom.

She worked with Unilever Kenya Ltd for 15 years as Legal Counsel and Company Secretary before joining British American Tobacco Kenya Ltd in 2002 as Area Legal Counsel. Ms. Ngobi is the Founder of Cosec Solutions Ltd, a company that provides company secretarial services and corporate governance solutions. Ms Ngobi is also a Board member of the Public Procurement Oversight Authority.

Ms. L N Mbindyo
(Company Secretary)

Ms. Lillian N. 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 Limited.

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, three of whom are executive and seven are non-executive.

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

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

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

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

Strategy

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

Directors' appointment, induction and training

Since the last Annual General Meeting, the Board, on 2 August 2012, appointed one executive Director, Mr. Victor Williams to the Company's Board of Directors. Further, Mr. Jeremiah G Kiereini retired as a member of the Board during the 2012 Annual General Meeting.

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 Bank's Code of Ethics is provided to new directors on their appointment.

Save for the Directors who retired at the last Annual General Meeting, as mentioned above, 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, 2012

NAME	MARCH 23	MAY 23	AUG 22	NOV 21
FN Ojiambo, MBS, SC (Chairman)	P	P	P	P
G R Brackenridge	P	P	P	P
K Mbathi	P	P	P	P
V Williams	N/A	N/A	P	P
EW Njoroge	P	P	P	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
JG Kiereini	P	A P	N/A	N/A

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

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.

The Board Audit 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, 2012

NAME	FEB 29	AUG 10
G R May (Chairman)	P	P
G R Brackenridge	P	P
K Mbathi	P	P
JB Nzibo	P	P
C K Muchene	P	P

P = Present; AP = Absent with apology

Introduction

Our business model focuses on both short 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:

- Bank of South Sudan
- 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 plans 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.

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.

Themes

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

- Financial literacy;
- Investing in communities and Employee community involvement.

Financial Literacy: Personal finance forums and 'You and Your Money' Financial Magazine

While most Kenyans can boast of having received a good education, financial literacy is quite low and it remains a challenge for many, thus making financial literacy an area that is sought after at both a personal and business level.

Most Kenyans have more than one source of income. This is mainly driven by the desire to want a better life for themselves and their families as well as the responsibilities that come with being a member of a larger family unit. With the varied sources of income, one has access to higher levels of disposable income. The challenge then becomes how to best manage the income(s). Money management skills is still an area that is lacking for many.

CfC Stanbic Group sees financial literacy as one of the unique ways of engaging the Kenyan market through relevant financial literacy engagement programs. These have been done through our own in house publications; *You and Your Money* (highlighting personal finance matters); *You and Your Money Biashara Edition* (targeting business owners).

Biz Aids Training Program:

Another aspect of the financial literacy program is delivered through the BizAids in collaboration with the Pan African Business Coalition. The programmes have been carried out in areas where we have representation such as Nairobi, Kisumu, Eldoret, Nakuru and Mombasa.

The program is aimed at Small and Medium Enterprises (SMEs) and it provides the attendees, who are our customers, with training in the area of business and health. The program tackles various facets of business management including basic finance and record keeping, while the health training covers matters related to HIV and Aids, Malaria and Tuberculosis and how to deal with the disease(s) if they impact the business owner or their staff, and as a result the business.

Investing in Communities and Employee Involvement

CfC Stanbic Group understands the role it plays in the community and ensures that its programs not only impact the society from a business perspective but also from a social involvement aspect. The staff members are involved in the communities we operate in and at the forefront of getting involved in working with other organisations that are aimed at uplifting the economic and social status of the communities around us. We see ourselves as catalysts of positive change within the wider community and seek ways to play our part to support various causes.

We work on three key pillars as far as social upliftment, engagement and involvement is concerned. These are: Community Health and Wellness, Education and Entrepreneurship/Enterprise development.

The financial literacy and BizAids programs are not only business driven but also support our social upliftment programs from an education and entrepreneurship development point of view.

Supporting education is one of the key pillars of our Corporate Social Investment initiatives. We ensure that we not only support the selected students through their education, but we also get employees of CfC Stanbic Group to interact with the beneficiaries through various mentoring programs.

Through the 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 society and country.

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

Corporate Social Investments Highlights

Mater 2012 Heart Run

The Annual Mater Heart Run is an event that seeks to raise funds for surgical operations for children with heart conditions. It is an event that the Group has over the years supported by sponsoring our staff members to participate in the run.

Palmhouse Foundation sponsorship and mentorship Programme

CfC Stanbic Group got involved in this sponsorship four years ago with a commitment to sponsor 4 students through their four years of secondary school education.

The Group has continued with this commitment and currently sponsors 16 students. The Palm House Foundation runs a mentorship programme every school holiday that provides Group employees with an opportunity to mentor the students on the program.

SOS Villages sponsorship- House number 13 and 2 sponsorship

CfC Stanbic Group has continued to support SOS Villages through the sponsorship of house no. 13 for quite a number of years. In 2011, the Group took up a second house, no. 2. In 2012, the Group renewed its sponsorship of the two houses. The sponsorship caters for the education and upkeep of 20 children (10 in each house) of different ages for a year.

For the 2nd year running, the Group also organised a fun day for all the children at the home. The Group employees got an opportunity to make food donations to the Village as well as interact with the children through various activities which included games, general cleaning, cooking among others.

The employees based in Kisumu, Eldoret, Meru and Mombasa also had an opportunity to interact with the SOS Villages Children in their locations through food donations as well as visiting the children.

The Managing Director of CfC Stanbic Bank presents a cheque to SOS Villages.

The Nest Children's Home Charitable Trust

The Group donated towards the building of a water tower as well as sinking of a well for the home that caters for about 150 children aged between 0 to16 years, who are either abandoned or have parents in prison.

In addition, Group employees visited the home and spent a day with the children at the Nairobi Orphanage, a treat that the children will live to remember for many days to come.

CfC Stanbic scholarship fund

The Group has for the last 2 years sponsored qualified students from needy backgrounds to pursue their university education. The Group is currently sponsoring 4 university students through the CfC Stanbic scholarship fund at the United States International University (USIU). The students are pursuing degrees in the area of finance or accounting.

Oyola primary school – Kisumu

The branch in Kisumu has been involved with Oyola primary school for a number of years. The engagement with the school started with donations of much needed books for the pupils. This initiative grew to include renovations of classrooms to ensure that no damage took place due to floods during the rainy season.

In 2012 the Group provided funding for a new classroom, ensuring that learning continued without any disruption.

CfC Stanbic Bank Managing Director officially hands over the classroom to the board chair of Oyola primary school

Usratuna primary school – South Sudan

CfC Stanbic Group opened a branch in Juba, South Sudan in April 2012. In line with its commitment to be part of the community, the Group funded the building of classrooms at Usratuna primary school.

The Murumbi Trust

CfC Stanbic Group is committed to heritage and culture and believes that is one way of preserving our history so that future generations can be educated on the same. The Murumbi Trust aims at transforming the Old PC's office in Nairobi to an art gallery where art items from Joseph Murumbi's art collections will be exhibited.

To this end, the Group has contributed towards the renovation works of the Old PC's office for purposes of setting up the gallery.

Other Corporate Social Investment initiatives in 2012

Other initiatives and partnership programmes undertaken have covered the following:

- Starehe Girls Centre
- Harambee Khalsa primary school
- Christ Chapel Children's Home
- Kaaga School For the Deaf
- Haki Trust
- Damascus primary school
- Loreto Convent Msongari
- El-Shaddai Children's Centre
- Wema Girls Centre
- Good Hope Orphanage
- Child Welfare Society Nanyuki Children's Home
- SAWA Charity Fundraising
- Taraja Boys Home
- The Nest
- Maji Mazuri Children's Home (wheel chairs)

CfC Stanbic presents wheel chairs and food items to Maji Mazuri Children's home

Introduction

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

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

The Group's two business lines are:

- Personal & Business Banking;
- Corporate & Investment Banking.

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 below.

Risk management approach

The Group's approach to risk management is based on a well-established governance process and relies on individual responsibility and collective oversight, supported by comprehensive and independent 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 Group's governance infrastructure, reflecting the expectations and requirements of the Board in respect of key areas of control across the Group. The standards ensure alignment and consistency in the manner that major risk types across the Group are identified, measured, managed, controlled and reported.

The Group internal audit unit independently audits the adequacy and effectiveness of the Group's risk management, control and governance processes. The head of audit reports and provides independent assurance to the 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 an expression of the amount or type of risk that the Group is generally willing to take in pursuit of its financial and strategic objectives, reflecting its capacity to sustain losses and continue to meet its obligations as they fall due, under both normal and a range of stress conditions. Risk appetite could be exceeded either as a result of an adverse economic event more severe than that envisaged under the range of stress conditions (passive), or as a result of a decision to increase the risk profile to accommodate market, client or portfolio requirements (active).

Risk taken within "appetite" may lead to expected losses, but expected earnings should cover these.

Risk tolerance is the maximum amount or type of risk the Group is prepared to tolerate above risk appetite for short periods of time on the understanding that management action is taken to get back within risk appetite. It emphasises the "downside" of the risk distribution, and the Group'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 Group's risk appetite.

The Group's Board of Directors has ultimate responsibility for risk management, which includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented. The Board has delegated its risk-related responsibilities primarily to five committees: the Board Risk Committee and Board Credit Committees, the Risk 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 (IBS) and aims to encourage banks, through lower capital requirements, to improve their risk management process.

The Standard Bank Group adopted Basel II from 1 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.

New prudential guidelines

The Central Bank of Kenya issued new prudential guidelines in November 2012 with an effective date of 1 January 2013. This represents the most substantial regulatory change to the industry since the issue of the previous guidelines in 2006.

Some of the significant changes to the regulatory regime include the following:

The introduction of a 2.5% capital conservation buffer to enable financial institutions withstand future periods of stress. This will effectively increase minimum core capital from 8.0% to 10.5% and total capital to 14.5% from 12%. The buffer is to be built over a phased period of 24 months, effective 1 January 2013.

A requirement to hold capital for operational and market risk has been introduced. Banks have been granted a 12 months observation period after which compliance with capital requirements will be expected effective 1st January 2014. Previously no capital was held for these two risk types.

The new prudential guidelines include new sections that cover areas such as Consumer Protection, Stress Testing and Outsourcing.

CfC Stanbic Bank Limited ("the bank") has sufficient capital to comply with the new requirements and the technical capability to implement the additional requirements within the prescribed deadlines.

Risk management in banking activities

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

Credit risk

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

Credit risk comprises counterparty risk, settlement risk and concentration risk. These risk types are defined as follows:

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

Settlement risk: The risk of loss to the Bank from settling a transaction where value is exchanged, but where the Bank may not receive all or part of the counter value.

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

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

Approach to managing credit risk

Credit risk is managed by means of a governance structure with clearly defined mandates and delegated authorities and also 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 discussed below.

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 Bank 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. The use of risk rating models for PBB is gradually being introduced.

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 when the Bank, despite being solvent, is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms. This inability to maintain or generate sufficient cash resources occurs when counterparties who provide the Bank with funding withdraw or do not rollover that funding, or as a result of a general disruption in asset markets that renders normally liquid assets illiquid.

The nature of banking and trading activities results in a continuous exposure to liquidity risk. The Bank'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:

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

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

b) Foreign currency liquidity management;
   A number of indicators are observed to monitor changes in either market liquidity or exchange rates. Foreign currency loans and advances are restricted to the availability of foreign currency deposits.

c) Ensuring the availability of sufficient contingency liquidity;
   Funding markets are evaluated on an ongoing basis to ensure appropriate Bank funding strategies are executed depending on the market, competitive and regulatory environment. The Bank employs a diversified funding strategy.

d) Preserving a diversified funding base;
   Concentration risk limits are used within the Bank to ensure that funding diversification is maintained across products, sectors, and counterparties.

e) Undertaking regular liquidity stress testing;
   Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on the funding profiles and liquidity positions of the Bank. The crisis impact is typically measured over a two-month period, as this is considered the most crucial time horizon for a liquidity event.

f) Maintaining adequate liquidity contingency plans;
   Portfolios of highly marketable securities over and above prudential requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within the Asset and Liability Committe (ALCO) - defined limits on the basis of diversification and liquidity.

g) Short-term and long-term cash flow management.
   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 internal requirements.

The Bank long term funding strategy is derived from the projected net asset growth which includes consideration of Personal & Business Banking and Corporate & Investment Banking asset classes, capital requirements, the maturity profile of existing wholesale funding and anticipated changes in the retail deposit base. Funding requirements and initiatives are assessed in accordance with ALCO requirements for diversification, tenure and currency exposure, as well as the availability and pricing of alternative liquidity sources.

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. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

The cumulative impact of the above elements is monitored on a monthly basis by the Bank's Asset and Liability Committee (ALCO) and the process is underpinned by a system of extensive internal and external controls. In periods of increased volatility, the frequency of meetings is increased as required to facilitate appropriate and timely management action.

To ensure integrity of the process there is use of 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.

Market risk

Market risk is the risk of a change in the actual or effective market value, earnings or future cash flows of a portfolio of financial instruments, including commodities, caused by movements in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these measures. Market risk exposures as a result of trading activities are contained within the Bank's

Corporate and Investment Banking (CIB) trading operations. The Board grants general authority to take on market risk exposure to the ALCO. The Bank 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 One Basis Point - PV01), stress testing, scenario analysis, stop loss triggers, backtesting 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. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk. The governance framework adopted for the management of structural interest rate risk mirrors that of liquidity risk management in terms of committee structures and the setting of standards, policies and limits. This is also true for the monitoring process and internal controls.

The market risk function is independent of trading operations and it is accountable to ALCO. It is responsible for identifying, measuring, managing, controlling and reporting market risk as outlined in the market risk governance standard, with support from the central market risk function. The market risk function also has the ability to set individual trader mandates. Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk management unit to move exposures back in line with approved market risk appetite, with such breaches being reported to management and ALCO.

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 Bank recognizes the significance of operational risk, which is inherent in all areas of its business. The Bank'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. In 2012 an enhanced operational risk framework was approved that is designed to meet the qualifying criteria of the Advanced Measurement Approach (AMA) under Basel II. 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.

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

Risk identification and control methodology

Facilitates the identification of risks and the management thereof across each business and operational function. It comprises of two key elements:

- Risk and control self assessments:
  Each business unit and enabling function is required to analyse their business activities and critical processes to identify the key operational risks to which they are exposed and assess the adequacy and effectiveness of their controls. For any area where management conclude that the level of residual risk is beyond an acceptable level, they are required to define action plans to reduce the level of risk. The assessments are facilitated, monitored and challenged by the operational risk function

- Indicators:
  Based on the key risks and controls identified above, relevant indicators are used to monitor key business environment and internal control factors that may influence the Bank's operational risk profile. Each indicator has trigger thresholds to provide an early-warning indicator of potential risk exposures and/or a potential breakdown of controls.

Operational risk incidents

All areas are required to report operational risk incidents to the operational risk function. The definition of operational risk incidents includes not only events resulting in actual loss, but also those resulting in non-financial impact and near misses. This process is intended to enable the root cause of individual incidents or trends of incidents to be analysed and actions taken to reduce the exposure or to enhance controls. All incidents relating to the group's banking operations are consolidated within a central group database, which is also integrated with risk and control self assessments and indicators.

External data

The Standard Bank group analyses external industry incidents and loss data through a combination of publicly available data and the confidential loss data. This information which is shared across the countries enhances the identification and assessment of risk exposures and provides additional data for scenario analysis purposes.

Reporting

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

Approach to managing operational risk

The Bank's approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist business line management in understanding their inherent risks and reducing their risk profile in line with the Bank's risk tolerance while maximizing operational performance and efficiency. This approach is aligned to the Bank'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 function performs control and oversight roles, including the setting of appropriate policies, governance standards and tools.

The Bank further maintains a comprehensive insurance programme to cover losses from fraud, theft, professional liability claims and damage to physical assets and it operates a comprehensive internal audit programme on the entire Bank's operations.

Financial crime control

Financial crime control is defined as the prevention, detection and response to all financial crime in order to mitigate economic loss, reputational risk and regulatory sanction. Financial crime includes fraud, money laundering, violent crime and misconduct by employees, customers, suppliers, business partners, stakeholders and third parties.

The Bank's financial crime control unit is mandated by the audit committee to provide financial crime control capabilities which support the Bank in minimising the overall impact of financial crime. This ensures the safety of our people and assets as well as trust from our stakeholders. The Bank maintains a zero tolerance approach towards fraud and dishonesty.

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

The Bank has business resiliency and continuity plans in place to ensure its ability to operate on an ongoing basis and limit losses in the event of severe business disruptions.

Business continuity management is an integral component of the Bank's risk management framework. The Bank's business continuity strategy is structured to ensure strong central monitoring and reporting and decentralised execution, and is supported by an entrenched governance process. The Bank continues to ensure that business continuity is managed in an effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

In the course of 2012 the Bank regularly performed disaster recovery system functionality tests and it will continue to ensure preparedness in the event of a disaster as a part of its assurance process.

Compliance risk

Compliance risk is the risk of legal or regulatory sanctions, financial loss or damage to reputation that the group may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards of good practice that are applicable to its financial services activities.

Approach to compliance risk management

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

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

Money laundering and terrorist financial control

Legislation pertaining to money laundering and terrorist financing control imposes significant requirements in terms of customer identification, record keeping and training, 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 Bank has in place the necessary processes and systems to comply with "The Proceeds of Crime and Anti-Money Laundering Act 2009 and The Prevention of Terrorism Act 2012."

Occupational health and safety

The health and safety of all employees, clients and other stakeholders continues to be a priority. The Bank 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. Training of health and safety officers and employee awareness is an ongoing endeavour.

Legal risk

Legal risk is defined as exposure to the adverse consequences of non-compliance with legal or statutory responsibilities and/or inaccurately drafted contracts and their execution, as well as the absence of written agreements or inadequate agreements. This includes exposure to new laws as well as changes in interpretations of existing law by appropriate authorities.

Legal risk arises where:

- the Bank's businesses or functions may not be conducted in accordance with applicable laws;
- regulatory requirements are incorrectly applied;
- the Bank may be liable for damages to third parties; or
- contractual obligations may be enforced against the Bank in an adverse way, resulting from legal proceedings being instituted against it.

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

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 Bank is subject.

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

The identification and management of tax risk is the primary objective of the Bank's tax and regulatory function, and 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 Bank is exposed, in the context of the various types of activity the Bank conducts.

Reputational risk

Reputational risk results from damage to the Bank's image which may impair its ability to retain and generate business. Such damage may result from a breakdown of trust, confidence or business relationships. Safeguarding the Bank's reputation is of paramount importance to its continued success 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.

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

Each business unit or support function executive is responsible for identifying, assessing and determining all reputational risks that may arise within their respective areas of business. Risks to reputation can be evaluated by considering the likelihood of the risk occurring and the likely impact. The impact of such risks is considered alongside financial or other impacts.

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

Business risk

Business risk is the risk of loss, usually from inflexible cost structures or inefficiencies, due to adverse operating conditions caused by market-driven pressures such as decreased demand, increased competition or cost increases, or caused by factors such as a poor choice of strategy, reputational damage or the decision to absorb costs or losses to preserve reputation. Business risk includes strategic risk.

It is not cost effective to attempt to eliminate all business risk and it would not, in any event, be possible to do so. The Bank mitigates business risk in a number of ways including:

- due diligence during the investment appraisal process;
- the business lines have a new product process through which the risks and mitigating controls for new/amended products and services are tabled and discussed;
- consistently monitoring the profitability of product lines and customer segments;
- maintaining tight control over the cost base of the Bank, including the management of cost-to-income ratio. This allows for early intervention and management action to reduce costs where necessary;
- being alert and responsive to changes in market forces, exploiting potentially favourable changes and managing the downside risk due to unfavourable changes;
- as part of the Bank's budget process. The Bank continually aims to increase the ratio of variable costs to fixed costs, allowing for more flexibility to proactively manage cost.

Internal audit assurance

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

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

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

A risk-based audit approach has been adopted by the Bank. Material or significant control weaknesses and planned management remedial actions are reported to the 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 Bank 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: 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 regulatory credit risk reserve.

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, counter-party and large exposure risks.

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2012, in accordance to section 157 of the Kenyan Companies Act, which disclose the state of affairs of the Group and the Company.

Principal activities

The Group is engaged in the business of banking and stock broking.

Results and dividends

The net profit for the year of Shs 3,009,891,000 (2011: Shs 1,838,992,000) has been added to retained earnings.

The Directors paid an interim dividend of Shs 200,000,000 (2011: Nil).

Share capital

The total number of shares as at 31 December 2012 was 395,321,638 (2011: 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 MBS, SC
K Mbathi
J G Kiereini (Retired on 25 May 2012)
J Babsa-Nzibo
G R May**
R W Kimotho
G R Brackenridge*
E W Njoroge
R T Ngobi
C K Muchene
V E Williams***(Appointed: 2 August 2012- Retired 31 January 2013)

* - South African ** - British *** -American

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

Lillian Mbindyo
COMPANY SECRETARY

1 March 2013

Statement of Directors' Responsibilities

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

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

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

Fred N Ojiambo, MBS, SC
Chairman

K. Mbathi
Managing Director

1 March 2013

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 121. These financial statements comprise the consolidated statement of financial position at 31 December 2012 and the consolidated income statement, 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 2012 and the income statement, 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 2012 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
1 March 2013
Nairobi

Consolidated and Company Income Statement

	Note	Group 31 December 2012 Shs'000	Group 31 December 2011 Shs'000	Company 31 December 2012 Shs'000	Company 31 December 2011 Shs'000
Continuing operations					
Net interest income		**6,542,787**	**6,042,024**	**21,535**	**-**
Interest income	6	11,653,458	8,603,450	21,535	-
Interest expense	7	(5,110,671)	(2,561,426)	-	-
Credit impairment charges	13	(635,429)	(652,853)	-	-
Net interest income after loan impairment charges		**5,907,358**	**5,389,171**	**21,535**	**-**
Non-interest revenue		**7,549,557**	**4,756,855**	**200,000**	**221,744**
Net fee and commission revenue		2,543,199	2,095,809	-	-
Fee and commission revenue	8	2,718,045	2,350,880	-	-
Fee and commission expense	9	(174,846)	(255,071)	-	-
Trading revenue	10	4,973,862	2,513,521	-	-
Other revenue	11	32,496	147,525	200,000	221,744
Share of profit from associates	24	-	43,238	-	-
Total income		**13,456,915**	**10,189,264**	**221,535**	**221,744**
Operating expenses		**(8,868,827)**	**(7,390,363)**	**(80,815)**	**(101,650)**
Staff costs	14	(3,543,387)	(2,947,416)	-	-
Other operating expenses	15	(5,325,440)	(4,442,947)	(80,815)	(101,650)
Profit before income tax		**4,588,088**	**2,798,901**	**140,720**	**120,094**
Income tax expense	16	(1,578,197)	(1,159,744)	-	
Profit for the year from continuing operations		**3,009,891**	**1,639,157**	**140,720**	**120,094**
Discontinued operations					
Profit for the year from discontinued operations (attributable to equity holders of the company)	12	-	199,835	-	-
Profit for the year		**3,009,891**	**1,838,992**	**140,720**	**120,094**
Profit attributable to :					
Owners of the parent		3,009,891	1,738,855	140,720	120,094
Non-controlling interest		-	100,137	-	-
		3,009,891	**1,838,992**	**140,720**	**120,094**
Earnings per share basic and diluted					
From continuing operations (Shs)	17	**9.90**	**5.99**	**0.46**	**0.44**
From discontinued operations (Shs)		**-**	**0.73**	**-**	**-**

The notes set out on pages 52 to 121 form an integral part of these financial statements.

Consolidated and Company Statement of Comprehensive Income

	Group		Company	
	31 December 2012 Shs'000	31 December 2011 Shs'000	31 December 2012 Shs'000	31 December 2011 Shs'000
Profit for the year	**3,009,891**	**1,838,992**	**140,720**	**120,094**
Other comprehensive income for the year, net of tax	**1,152,589**	**(1,596,988)**	**-**	**-**
Exchange differences on translation of foreign operations	(35,105)	-	-	-
Gain/(loss) on fair valuation of available - for- sale financial assets	1,696,706	(2,281,412)	-	-
Deferred tax (charge) / credit on revaluation of available - for - sale financial assets	(509,012)	684,424	-	-
Total comprehensive income for the year	**4,162,480**	**242,004**	**140,720**	**120,094**
Total comprehensive income attributable to :				
Owners of the parent	4,162,480	141,867	140,720	120,094
Non-controlling interests	-	100,137	-	-
Total comprehensive income for the year	**4,162,480**	**242,004**	**140,720**	**120,094**
Total comprehensive income attributable to : equity shareholders arises from				
Continuing operations	4,162,480	42,169	140,720	120,094
Discontinued operations	-	199,835	-	-
	4,162,480	**242,004**	**140,720**	**120,094**

The notes set out on pages 52 to 121 form an integral part of these financial statements.

Consolidated and Company Statement of Financial Position

	Note	Group As at 31 December 2012 Shs'000	Group As at 31 December 2011 Shs'000	Company As at 31 December 2012 Shs'000	Company As at 31 December 2011 Shs'000
Assets					
Cash, banks and Central Bank of Kenya balances	18	23,366,583	7,104,647	177,680	47,453
Financial investments	20	20,966,076	21,818,882	-	-
Pledged assets	19	3,123,196	3,643,897	-	-
Derivative assets	30	1,931,831	6,377,410	-	-
Loans and advances		78,483,828	94,884,596	-	-
Loans and advances to banks	22(a)	12,333,987	30,627,842	-	-
Loans and advances to customers	22(b)	66,149,841	64,256,754	-	-
Balances due from group companies	37	-	-	-	10,866
Other assets	23	1,950,825	2,475,765	3,230	10,950
Investment in subsidiaries and associates	24	-	-	18,175,338	14,294,644
Property and equipment	25	2,302,671	2,299,202	60	166
Prepaid operating lease	26	65,715	68,669	-	-
Other intangible assets	27	1,034,430	1,373,214	-	-
Intangible assets - goodwill	28	9,349,759	9,349,759	-	-
Current income tax recoverable	34(a)	158,846	158,846	140,031	140,031
Deferred income tax asset	34(c)	478,395	616,128	-	-
Total assets		**143,212,155**	**150,171,015**	**18,496,339**	**14,504,110**
Equity and liabilities					
Equity		**27,240,888**	**19,329,127**	**18,039,646**	**14,180,197**
Equity attributable to company's equity holders		**27,240,888**	**19,329,127**	**18,039,646**	**14,180,197**
Ordinary share capital	29	1,976,608	1,368,421	1,976,608	1,368,421
Ordinary share premium	29	16,897,389	13,586,847	16,897,389	13,586,847
Revenue reserves		8,223,466	5,289,343	(834,351)	(775,071)
Other reserves	40	143,425	(915,484)	-	-
Non controlling interest		**-**	**-**	**-**	**-**
Total liabilities		**115,971,267**	**130,841,888**	**456,693**	**323,913**
Derivative liabilities	30	2,469,648	6,429,260	-	-
Trading liabilities	21	-	648,671	-	-
Deposits and current accounts	31	100,463,247	107,681,320	-	-
Deposits from banks		25,556,484	33,674,186	-	-
Deposits from customers		74,906,763	74,007,134	-	-
Borrowings	32	6,697,731	7,086,285	-	-
Other liabilities	33	5,963,608	8,408,629	101,619	103,296
Balances due to group companies	37	-	-	355,074	220,617
Current income tax payable	34(b)	377,033	587,723	-	-
Total equity and liabilities		**143,212,155**	**150,171,015**	**18,496,339**	**14,504,110**

The notes set out on pages 52 to 121 form an integral part of these financial statements. The financial statements on pages 45 to 121 were approved for issue by the Board of Directors on 1 March 2013 and signed on its behalf by:

Fred N Ojiambo, MBS, SC
Chairman

K. Mbathi
Managing Director

G.R. May
Director

Lillian Mbindyo
Secretary

Consolidated Statement of Changes in Equity

Year ended 31 December 2012	Note	Share capital Shs'000	Share premium Shs'000	Statutory reserve Shs'000	Fair valur reserve Shs'000	Reval-uation reserve Shs'000	Currency translation reserve Shs'000	Share-based payment reserve Shs'000	Revenue reserve Shs'000	Total equity Shs'000
At start of year		1,368,421	13,586,847	(77,846)	(988,656)	85,819	-	65,199	5,289,343	19,329,127
Total comprehensive income for the year		**-**	**-**	**(124,232)**	**1,187,694**	**-**	**(35,105)**	**-**	**3,134,123**	**4,162,480**
Profit for the year		-	-	-	-	-	-	-	3,009,891	3,009,891
Transfer from statutory reserves		-	-	(124,232)	-	-	-	-	124,232	-
Other comprehensive income:										
Available-for-sale financial assets net of tax		-	-	-	1,187,694	-	-	-	-	1,187,694
Foreign currency translation reserve		-	-	-	-	-	(35,105)	-	-	(35,105)
Total other comprehensive income		**-**	**-**	**-**	**1,187,694**	**-**	**(35,105)**	**-**	**-**	**1,152,589**
Contribution and distributions to owners										
2012 Interim dividend - paid		-	-	-	-	-		-	(200,000)	(200,000)
Share based payment reserve	40	-	-	-	-	-		30,552	-	30,552
Rights Issue during the year	29	608,187	3,310,542	-	-	-	-	-	-	3,918,729
Total contributions by and distributions to owners		**608,187**	**3,310,542**	**-**	**-**	**-**	**-**	**30,552**	**(200,000)**	**3,749,281**
At end of year		**1,976,608**	**16,897,389**	**(202,078)**	**199,038**	**85,819**	**(35,105)**	**95,751**	**8,223,466**	**27,240,888**

Consolidated Statement of Changes in Equity (continued)

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**
Profit for the year		-	-	-	-	-	-	-	-	1,738,855	100,137	1,838,992
Transfer from statutory reserves		-	-	-	(316,213)	-	-	-	-	316,213	-	-
Other comprehensive income:												
Available-for-sale financial assets net of tax		-	-	-	-	(1,596,988)	-	-	-	-		(1,596,988)
Total other comprehensive income		**-**	**-**	**-**	**-**	**(1,596,988)**	**-**	**-**	**-**	**-**	**-**	**(1,596,988)**
Contribution and distributions to owners												
2010 final dividend - paid		-	-	-	-	-	-	-	-	(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**

Annual financial statements

Year ended 31 December 2012	Note	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**	**(775,071)**	**14,180,197**
Other comprehensive income for the year		**-**	**-**	**140,720**	**140,720**
Profit for the year		-	-	140,720	140,720
Dividend paid		-	-	(200,000)	(200,000)
Rights issue during the year	29	608,187	3,310,542	-	3,918,729
Total contributions by and distributions to owners		**608,187**	**3,310,542**	**(200,000)**	**3,718,729**
At end of year		**1,976,608**	**16,897,389**	**(834,351)**	**18,039,646**

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**
Profit 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**

Consolidated Statement of Cash Flows

	Note	31 December 2012 Shs '000	31 December 2011 Shs '000
Cash flows generated from operating activities	**35(a)**	**5,740,280**	**3,417,118**
Income tax paid	34(b)	(2,152,696)	(1,286,333)
Net cash generated from operating activities before changes in operating assets and liabilities		**3,587,584**	**2,130,785**
Changes in operating assets and liabilities		**(1,240,919)**	**(4,280,802)**
Loans and advances to customers		(1,893,087)	(5,271,793)
Other assets		524,939	(1,029,650)
Cash ratio requirement		165,889	(852,087)
Financial investments		2,007,983	(4,999,339)
Customer deposits		899,629	2,582,019
Loans and advances to banks		(1,449,081)	-
Deposits with banks		947,831	-
Other liabilities		(2,445,022)	5,290,048
Net cash generated from/(used in) operating activities		**2,346,665**	**(2,150,017)**
Cash flow (used in) investing activities		**(295,152)**	**(436,257)**
Additions to property and equipment	25(a)	(283,160)	(587,905)
Additions to intangible assets	27	(16,151)	(22,305)
Proceeds from the sale of equipment		4,159	5,426
Dividend from associates		-	44,016
Proceeds from the disposal of associate		-	124,511
Cash flows generated from/(used in) financing activities		**3,330,175**	**(406,245)**
Proceeds from Rights Issue		3,918,729	-
Dividends paid to equityholders		(200,000)	(426,168)
(Payment of)/ proceeds from borrowings and shareholder loan		(388,554)	19,923
Decrease in cash equivalents as a result of demerger	12(b)	-	(5,138,689)
Currency translation differences		(44,826)	-
Net Increase/ (decrease) in cash and cash equivalents		**5,336,862**	**(8,131,208)**
Cash and cash equivalents at 1 January		**472,907**	**8,604,115**
Cash and cash equivalents at 31 December	**35 (b)**	**5,809,769**	**472,907**

1 General information

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

CfC Stanbic Centre
Chiromo Road
P O Box 72833
00200 Nairobi

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

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, are measured at fair value; and

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 Company and the Group
There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that would be expected to have a material impact on the Group and the Company.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group
Amendment to IAS 1, 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

IAS 19, 'Employee benefits', was amended in June 2011. The impact on the Company and the Group will be as follows: 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 directors are yet to assess the full impact of the amendments.

2 Summary of significant accounting policies (continued)

a. Basis of preparation (continued)

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

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate 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 the income statement, unless this creates an accounting mismatch. The directors are yet to assess IFRS 9's full impact and intend to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

IFRS 10, Consolidated financial statements', 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. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The directors are yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The directors are yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

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 and the Company.

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. The financial statements have been made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose 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.

2 Summary of significant accounting policies (continued)

b) Consolidation (continued)

(i) Subsidiaries (continued)

The Group applies 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 to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group

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.

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

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

(iii) Disposal of subsidiaries

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

2 Summary of significant accounting policies (continued)

b) Consolidation (continued)

(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 reclassified 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.

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.

2 Summary of significant accounting policies (continued)

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

(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

(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 capitalised), 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.

2 Summary of significant accounting policies (continued)

e) Revenue and expenditure (continued)

Net interest income (continued)

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

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

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

Non-interest revenue

Net fee and commission revenue

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

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

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

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

Trading revenue

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

Other revenue

Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, gains and losses on realised undated available-for-sale financial assets and dividends relating to those financial instruments.

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

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

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

2 Summary of significant accounting policies (continued)

e) Revenue and expenditure (continued)

Non-interest revenue (continued)

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.

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.

2 Summary of significant accounting policies (continued)

g) Financial instruments (continued)

(i) Classification (continued)

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

(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.

2 Summary of significant accounting policies (continued)

g) Financial instruments (continued)

(ii) Recognition and measurement (continued)

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.

(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.

2 Summary of significant accounting policies (continued)

g) Financial instruments (continued)

(iii) Impairment of financial assets (continued)

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.

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 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.

2 Summary of significant accounting policies (continued)

g) Financial instruments (continued)

(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.

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

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

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.

2 Summary of significant accounting policies (continued)

i) Sale and repurchase agreements and lending of securities (continued)

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.

j) Intangible assets

Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the 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 (2 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.

2 Summary of significant accounting policies (continued)

j) Intangible assets (continued)

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.

k) Property and equipment

Equipment and owner-occupied properties

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

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

Depreciation, impairment losses and gains or losses on disposal of assets are included in profit or loss.

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

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. Land is not depreciated.

Leasehold buildings are depreciated over the period of the lease or over a lesser period, as is considered appropriate.

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

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

Leasehold buildings	The shorter of the lease period of 50 years
Furniture	5-13 years
Motor Vehicles	4-5 years
Computer and 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.

2 Summary of significant accounting policies (continued)

l) Impairment of non-financial assets (continued)

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

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

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

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

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

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.