CfC Stanbic
A member of Standard Bank Group

Annual report **2014**

CfC Stanbic Holdings Limited

About CfC Stanbic Holdings

East Africa is our home, and we are focused on driving her growth.

With a heritage of over 100 years, we are a leading integrated financial services group in the East Africa region. We have an on-the-ground presence in 5 countries in East Africa and a member of Standard Bank Group, fit-for-purpose representation outside Africa and a strategic partnership with ICBC. This unique footprint supports our strategy to connect African markets to each other and to pools of capital globally.

Contents

About this report

As a financial services group focused on East Africa, **we play a fundamental role in the socioeconomic development of the region we serve**. The success of our customers and clients, and the trust and support of all our stakeholders, underpin our commercial sustainability.

This interdependence requires that we conduct our business ethically and responsibly to create value in the long-term interest of society. Although our annual report is aimed principally at providers of capital, it is also considered to be of interest to a diverse range of other stakeholders.

Scope and boundary

The 2014 annual report covers the period 1 January 2014 to 31 December 2014. All material matters up to group board of directors (board) approval on 25 February 2015 are included. The annual report discusses our operations in East Africa. Unless indicated otherwise, all data pertains to the group, which includes our banking operations and subsidiaries. Any restatements of comparable information are noted as such. While group financial information is prepared according to IFRS, non-financial information deemed material is also included.

Materiality determination

Our annual report aims to present a balanced and succinct analysis of our strategy, performance, governance and prospects.
In determining the content to be included in this report, we consider the pertinent developments and initiatives, and the related performance indicators and future expectations that relate to our material issues. We consider an issue to be material if it is likely to impact our ability to achieve our strategy, and to remain commercially sustainable and socially relevant. In particular, material issues are those that have a strong bearing on our stakeholders' assessments of the extent to which we fulfil their needs over the long term. We also take into account the factors that affect the economic growth and social stability of the regions in which we do business.

The specific short- to medium-term matters that relate to how we deliver on our strategy and manage each of these sustainability issues, are discussed with leadership every year in producing the annual report. This year, we broadened this process with the aim of connecting risk disclosure more specifically to the strategic narrative.

Based on our leadership engagement, governance processes and our formal and informal stakeholder engagement initiatives, particularly with investors, we are confident that all material matters have been identified and disclosed in this report. The group audit committee recommends the annual report for approval to the board. The board and various subcommittees review the report to ensure all material matters have been disclosed and appropriately discussed.

Integrated thinking

Our commercial sustainability depends on our effectiveness in assisting East Africa's people, businesses and institutions to fulfil their economic potential by facilitating payments, managing risk and creating and preserving wealth. We intermediate between providers of capital and employers of capital, providing the former with competitive returns on their investments, and the latter with access to the liquidity and capital they need to realise their objectives.

These functions of our core business can in no way be separated from our developing social and environmental context – whether at local, national, regional or global level. Strong institutions are essential to ensure market outcomes that are socially beneficial in both the short and long term. These institutions include both formal regulatory institutions and informal social institutions such as civil society structures. Well functioning businesses and markets require appropriate regulation to continue as constructive organs of society, to restore trust and to participate in the shared interest of maintaining stable and thriving East African economies and societies.

We believe that a community-minded worldview is integral to our legitimacy and represents a consistent and considered level of integrated thinking, which we continue to deepen within our organisation through our group strategic construct set out on page 8. In effect it corresponds to the capitals model of value creation, adopted by the International Integrated Reporting Council (IIRC) in the International <IR> Framework. While we have not formally adopted the six capitals categorisation, based on our understanding of the IIRC's guidance, our report explains our dependence and impact on the forms of capital that are fundamental to our ability to create value over the long term. We have not structured this report using the capitals but have embedded them within each section to enable us to plot the interrelationships and trade-offs between them in relation to our group and business unit strategies. The capitals are introduced below

Financial capital is the money we obtain from providers of capital that we use to support our business activities and invest in our strategy. Financial capital, which includes reserves generated through share capital, other equity-related funding and retained profits generated from our operations, is used to fund our business activities.

Natural capital relates to the natural resources on which we depend to create value and returns for our stakeholders. As a financial services group we must deploy our financial capital in such a way that promotes the preservation or at least minimises the destruction of natural capital.

Manufactured capital is our tangible and intangible infrastructure that we use to conduct our business activities, including our IT assets.

Human capital refers to our people and how we select, manage and develop them. This enables them to utilise their skills, capabilities, knowledge and experience to improve and develop products and services that meet the needs of our customers and clients across the diverse regions in which we operate.

Social and relationship capital is the cooperative relationships with our customers, clients, capital providers, regulators and other stakeholders that we create, develop and maintain to remain socially relevant and operate as a responsible corporate citizen.

Intellectual capital which includes the knowledge of our people and our intellectual property, brand and reputation, is closely related to financial, human and manufactured capital given the nature of our business.

Our business

Corporate profile

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 (SBG), Africa's leading banking and financial services group.

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

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

CfC Stanbic Bank is regulated by the Central Bank of Kenya (CBK).
SBG Securities Limited is regulated by the Capital Markets Authority (CMA).

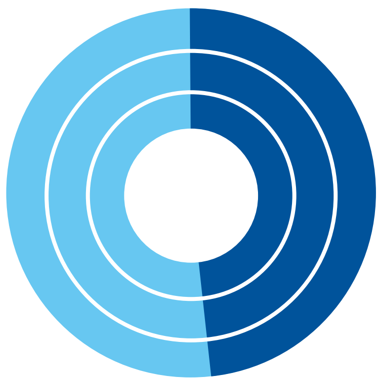
Our business structure

CfC Stanbic Holdings Limited	
Corporate & Investment Banking (CIB)	**Personal & Business Banking (PBB)**
CIB offers services to larger corporates, government, financial institutions and international counterparties in Kenya and East Africa	PBB offers banking and other financial services to individuals and small to medium size enterprises
Gross revenue Kshs.11,175m Down 7% from 2013	**Gross revenue** Kshs. 5,695m Up 37% from 2013

Customer loans

PBB 45% **CIB** 55%

Customer deposits



PBB 51% **CIB** 49%

Africa Deal of the Year - 2014 Global Capital Awards

Best Forex Trader Provider - 2014 Global Finance Awards

Best Investment Bank EMEA - 2014 African Banking Awards

Best Bank in Mortgage Finance – Think Business Banking Awards

Our vision and values

"We aspire to be a leading financial services organisation in East Africa."

"To achieve the vision, we subscribe to eight core values.".

1

Upholding the highest levels of integrity

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

2

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.

3

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.

4

Constantly raising the bar

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

5

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.

6

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.

7

Being proactive

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

8

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.

How we create value

For more detail refer to page:

	Business activity (page 21)	Income statement impact (page 22)
Income after credit impairments	We **lend money** to our customers and clients within the constraints of available capital and within our risk appetite and the prescribed regulatory environments. This creates assets for the group, from which we derive interest income over time.	Interest income and credit impairment charges
	We **source funding** from deposits placed by customers and other funders to enable lending. This creates liabilities, which generate future interest expenses.	Interest expense
	We **provide transactional banking facilities and knowledge-based services** to our customers and clients.	Net fee and commission revenue
	We **offer market access and risk mitigation products** to our clients to support their business requirements, including foreign exchange, credit, interest rate and equity instruments.	Trading revenue
	We **earn revenue from other sources** linked to our core business, including banking, private equity and strategic investment activities.	Other revenue
Expenses	We **invest in developing and retaining our people** in order to execute our strategy and deliver to our customers and clients.	Staff costs
	We **invest in our operations**, which includes IT systems and infrastructure, to improve efficiency and deliver relevant products and services to our customers and clients.	Other operating costs

Principal risks arising from this activity (page 32)

- Credit risk (lending money)
- Interest rate risk, Liquidity risk (lending money; sourcing funding)
- Credit risk, Market risk (market access and risk mitigation products; other revenue)
- Operational risk, including compliance, environmental and/or social risk (all activities)
- Business and reputational risk (all activities)

Net profit = **Dividends to our shareholders** + **Taxes to governments** + **Retained equity which is reinvested to sustain and grow our business**

Linking our profitability to socially beneficial outcomes

Lending enables our individual customers to **create wealth** by acquiring assets which either grow in value over time or which **support their ability to generate income**. For our small and medium sized enterprise (SME) clients, lending enables them to manage working capital constraints and cash flow, which **supports their commercial sustainability** and their role in driving employment and economic growth in East Africa. For corporate clients, lending **supports the continuity and growth of their businesses**, contributing to job creation, sustainable supply of goods and services and the corporate tax base. **We employ responsible lending practices** and have mechanisms in place to assist distressed customers and clients, and we **apply global best practice in mitigating social and environmental risks** in projects that we finance.

Customer deposits earn interest at rates depending on the type of savings or investment product and the size of the deposit placed which **mitigates against the erosion of capital** due to inflation. We participate in equity and debt capital markets to **source funding,** which **contributes to the continued functioning of the broader financial system**. Our capital and liquidity management framework ensures that we are able to meet our funding requirements and payment obligations under both normal and stressed conditions, **protect our depositors' funds** and **reduce systemic risk in the domestic banking system**.

We facilitate the movement of money, enabling customers and clients to **access their funds in a manner most convenient to them**, by enabling electronic forms of payment and providing cash management services. Our knowledge-based services, which include corporate advisory and loan structuring services, allow our customers and clients to benefit from **our experience and track record in the region**. We also **facilitate payments** via self-service electronic channels in the region and offer **banking services to multinational companies and donor agencies** operating in the region.

Providing customers and clients with **market access,** for example through listings on equity exchanges to raise capital, **enables them to grow their businesses**, positively impacting on employment and the tax base. We market local equities to an international equity investor base, which **creates a conduit for investment into East Africa**. To help our clients weather market fluctuations and volatilities, we offer risk mitigation products which enable **financial protection and diversification through risk transfer**. These risks are inherent in trading activities and can be more pronounced when operating in developing markets such as Africa. Supporting trading activities in the region provides the countries with **greater opportunities to monetise their resources and diversify their economies**.

By **investing in activities** other than in the ordinary course of normal business operations, such as private equity and strategic investment activities, we **invest in non-core opportunities that support the economy** and create additional value.

We are a significant employer in the countries in which we operate. We aim to hire locally whenever possible as we believe that employees who reflect the diversity of communities within which we operate enables us to better meet the needs of our customers and clients. Through our training and development programmes **we enhance the level of financial services and related skills in East Africa**. The employment multiplier effect means that for each job that we create we sustain, directly and indirectly, a number of other jobs in the local economy. As active consumers and taxpayers, **our employees make a significant contribution to their local economies**.

Our ongoing **investment in our business** ensures that we remain competitive and sustainable, and thus able to **continue to make a positive contribution to our host countries**. Our substantial investments in transforming our core banking platforms **position us to serve our customers and clients more effectively and to innovate**, strengthening our competitive position. We are a **significant procurer of goods and services** in the markets in which we operate, given the scale of our operations. Our suppliers in turn create and sustain employment and form part of the corporate tax base in the countries in which they operate.

Our group strategic construct

The ultimate test of our strategy is to deliver sustainable and superior financial performance over the long term, measured by earnings and ROE. The group's strategy has evolved organically in line with the development of our business. The fundamentals of our strategy and its alignment to our code of ethics have therefore not changed. In our pursuit of leadership as an East African financial services organisation, we continue to pursue growth – mainly organic growth – in East Africa.

Purpose

Our purpose is the reason we exist, and the basis on which we plan our future:

- Our long-term profitability depends on the stability and wellbeing of the region.
- Our pursuit of profit in a competitive market will lead to socially beneficial outcomes.
- We use the fundamental power of financial services to make life better for our fellow East Africans.

East Africa is our home, we drive her growth

Legitimacy

Vision

To be the **leading financial services organisation in, for and across East Africa,** delivering exceptional customer and client experiences and superior value

Values

Our values support our legitimacy, and are the basis for earning the trust of our stakeholders.

- **Serving our customers**
- **Growing our people**
- **Delivering to our shareholders**
- **Being proactive**
- **Working in teams**
- **Respecting each other**
- **Living the highest levels of integrity**
- **Constantly raising the bar**

Guiding principles

Integrated pillars

Business units

- Personal & Business Banking (PBB)
- Corporate & Investment Banking (CIB)

Enabling functions

- Risk
- Finance
- IT
- Operations
- Human capital
- Marketing
- Compliance
- Legal

Our integrated pillars encompass our business units and enabling functions, which is where our strategy is executed

- Clear strategies for each of our business units and enabling functions ensure that we deliver on our purpose. Business unit strategies are discussed further in the business unit reviews.
- These strategies are supported by changes made to our business architecture, which ensure that the strategies can be implemented effectively.

A strategy refresh was undertaken during the year to update our purpose and provide a strategic construct for the group. This is aimed at improving the effectiveness of our execution in becoming more competitive in the financial services markets we serve. We have clarified the 'why' of our strategy by redefining our purpose, the factors that underpin our legitimacy and our vision. We continue to work on the 'how' of our strategy – what we are doing to enable the group to function more efficiently. The 'what' of our strategy is interpreted and executed at business unit level according to their operating contexts and business models.

- **Heritage and brand**
- **Commitment to our clients and the trust they have in us**
- **Pioneering spirit**
- **Presence in East Africa and beyond**
- **Commercial pragmatism**
- **Brave long-term decisions**
- **Our passion for East Africa**

Our legitimacy is premised on what makes us unique, and is the basis for our credibility:

- These factors reinforce the belief our stakeholders have in the group.
- They underpin our strategic goals and how we execute them.
- They have a direct impact on our profitability, linked to the fundamental contribution we make to society and the constructive relationships we have with stakeholders.
- They are the single most important factor in attracting talent and clients.
- They give us our license to operate, to compete and to win.

Realistic and achievable, as we have all the parts in place to deliver on it.	Explicitly places our **customers and clients at the centre** of everything we do.	Links the imperatives of **delivering financial and broader stakeholder value**.	Specifies how we will achieve this, by being the 'go-to' financial services organisation **connecting East African markets to each other and to the world**.

Our guiding principles provide the basis for how we execute our strategy by:

- **Defining** how we operate.
- **Guiding** us in making complex decisions.
- **Empowering** individuals to make decisions.

Our operating context

Managing the risks and opportunities of our East Africa strategy

Our East Africa operations achieved

ROE of 16.41%

(2013: 17.19%)

- Earnings per share increased from 12.97% in 2013 to 14.38% in 2014.
- Proposed dividend is up to KShs 6.15 per share from KShs 2.15 in 2013.
- Revenue continues to grow faster than expenses in 2014.

Delivering sustainable long-term financial performance

Profit after tax

KShs 5.687 billion

(Up 11%)

The Group posted improved results with profit after tax inreasing by 11% year on year. This year's financial performance reflects:

- Improved performance of the Kenya banking business driven by growth in customer loans and advances, an improvement in the quality of the PBB lending book and continued success in managing our cost of operations.
- Improved performance from SBG Securities on the back of increased market turnover at the NSE and improved market share.
- Deteriorating economic environment in South Sudan with branch profit after tax declining by 37%.

Pace, volume and scale of regulatory change

Capital adequacy ratios

21.08%

Total capital/total risk - weighted assets

14.50%

Minimum regulatory requirements

- International reform of the financial sector and the government's broader economic policy goals and priorities are driving the volume of regulatory change.
- New regulation has an extensive bearing on day-to-day operations, placing upward pressure on operating costs.
- The prudential guidelines aims to strengthen the regulation of the domestic financial sector.
- Regulatory developments such as Kenya Bank Reference Rate (KBRR) are aimed at facilitating a transparent credit pricing framework within the banking sector.

Knowing our customers and clients and doing the right business with them in the right way

Customer loans

Kshs 88.3 billion

(Up 28%)

Customer deposits

Kshs 96 billion

(Up 1%)

- The operating environment for retail banking is becoming increasingly competitive as consumers use more than one bank and as non-traditional players begin using digital platforms to offer low-cost banking services (known as disintermediation). Our focus on creating a digital bank is aimed at improving competitiveness and pre-empting disintermediation from non-bank players.

Establishing and maintaining cost-effective, relevant IT infrastructure

Kshs 124 million

invested in IT projects across the Group in 2014

- The advancement of IT requires that we constantly adapt the way we do business, including how we interact with and service our customers and clients.
- Given the rapid uptake of smart mobile devices and accelerating internet penetration in East Africa, our investments in IT infrastructure in the region positions us to deliver more banking services digitally, which greatly extends our customer reach and enables us to service our customers more effectively.
- The greater use of technology in delivering banking services increases the risk of cybercrime and banking fraud, which requires continued investment in prevention interventions to limit potential losses.

Attracting, retaining and motivating our employees

1,063

employees

- Competition for local skills in the countries in which we operate requires that we offer our employees a clearly defined value proposition. Specialist skills help determine our success on the continent, and we focus on hiring and retaining the right skills to service our customers and clients.
- Our people are custodians of customer experience and brand, and as such are crucial to our ability to realise our customer-centric strategy. Our new guiding principles, developed as part of our strategy refresh, emphasise the importance of empowering our people and developing great leaders.

Realising the East Africa opportunity

We are commercially and morally bound to serve Africa and her people, in return for the long-term profitable growth we envisage as the leading financial services group in the region.

The East Africa opportunity is compelling as many of the region's economies continue to grow at higher rates than other regions around the world. This growth is underpinned by rich endowments in natural resources and increasing trade flows, both within the region and with other economic powers, especially China. Our strategic relationship with the Industrial and Commercial Bank of China (ICBC), which now extends to our global markets outside East Africa business, provides us with increasing opportunities to drive East Africa's growth.

Our unique competitive position will enable us to benefit from and support East Africa's growth story as we create effective solutions for our clients and sustain improvements in our financial performance.

While we remain firmly aware of the challenges of doing business in East Africa and in growing our business in line with our strategy, we believe these are outweighed by the opportunities open to us, given our unique competitive position in the region.

Specifically, the growth in the middle class and small business is advantageous for PBB, and CIB is ideally placed to provide advisory services to international investors, harness local resources and create investment structures that are attractive to investors and governments alike.

This report highlights some of the exciting opportunities we are pursuing in the region:

Leveraging information technology

The fast penetration of internet-enabled mobile devices creates new opportunities for innovation in banking, and for meeting consumers' demand for convenient, always-accessible services. In East Africa, technology provides the opportunity to leapfrog traditional physical infrastructure, enabling us to roll out new services faster and more cost-efficiently. Our substantial investments in IT underscores our ability to innovate and become more competitive.

Transforming our branches

Technology is changing how we interact with our customers, with day-to-day banking activities moving online and to mobile devices. This is changing the nature of branch banking, with branches increasingly becoming places where customers come to seek advice and conduct more complex transactions. We are adapting our branch network across East Africa to this new reality, with a focus on providing a superior customer experience and value-added services through technology.

Facilitating East African trade

Trade finance is one of the key enablers of growth for East African economies. Our extensive footprint, capability and network in African markets together with our presence and sector expertise in financial centres in Europe, Asia and the Americas enables us to facilitate trade into, out of and across East Africa.

To further drive East Africa's growth, we will focus on the following imperatives:

- Continue to leverage our investments to achieve growth above the GDP growth rates of the respective economies in which we operate.
- Embed minimum compliance and governance standards.
- Deliver a multi-channel offering and a consistently superior customer experience.
- Develop in-depth local knowledge and strong local partnerships to better manage risk.
- Build strong teams that are empowered to make sound and locally relevant business decisions, aligned to our values.
- Develop an employee value proposition for East Africa to ensure that we attract local talent and that our teams are engaged, competent and deliver high levels of performance.

Enhancing energy security

Increasing energy generation capacity is crucial for East African economies to sustain and further drive economic growth. Given the fundamental role of energy in the growth of the industrial, manufacturing and mining sectors, a number of countries on the continent have released plans to enhance their energy security. Our experience in energy finance in East Africa in both traditional and renewable projects means we are well-placed to help East Africa achieve her energy security ambitions.

Enabling East African multinationals

In pursuit of further growth opportunities, large East African corporates are increasingly looking to expand their operations both regionally and outside the region. We add value to our clients as they pursue their multinational growth strategies through the interconnectedness of our operations and platforms across East Africa and internationally, and by applying our experience in advising on and funding large corporate transactions.

Measuring our strategic progress

Our key performance indicators (KPIs) measure our progress in delivering on our purpose and our vision and thereby creating value for shareholders. Our remuneration structures are aligned to our KPIs to drive the realisation of our strategy.

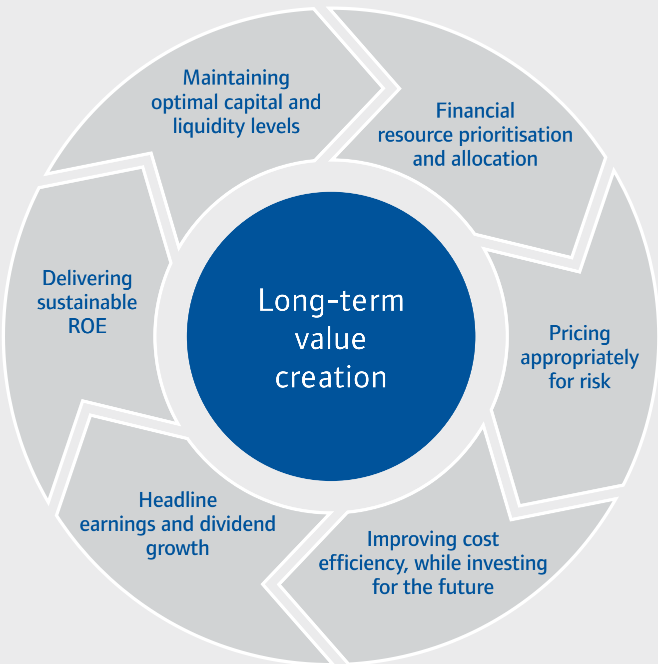
We believe that **ROE** ratio is the most relevant measure of our performance over time as it combines all our critical value drivers, including earnings growth and regulatory capital measures, into a single metric that measures the success of our strategy and business performance.

We have reaffirmed our medium-to long-term ROE target of

15% - 18%

The achievement of the following objectives will drive a higher ROE:

- Increased contribution from the growth markets in East Africa.
- Increased contribution from PBB.
- Improved cost efficiency, with a focus on IT
- Optimal capital deployment in line with our strategy.
- Protection and enhancement of robust returns.

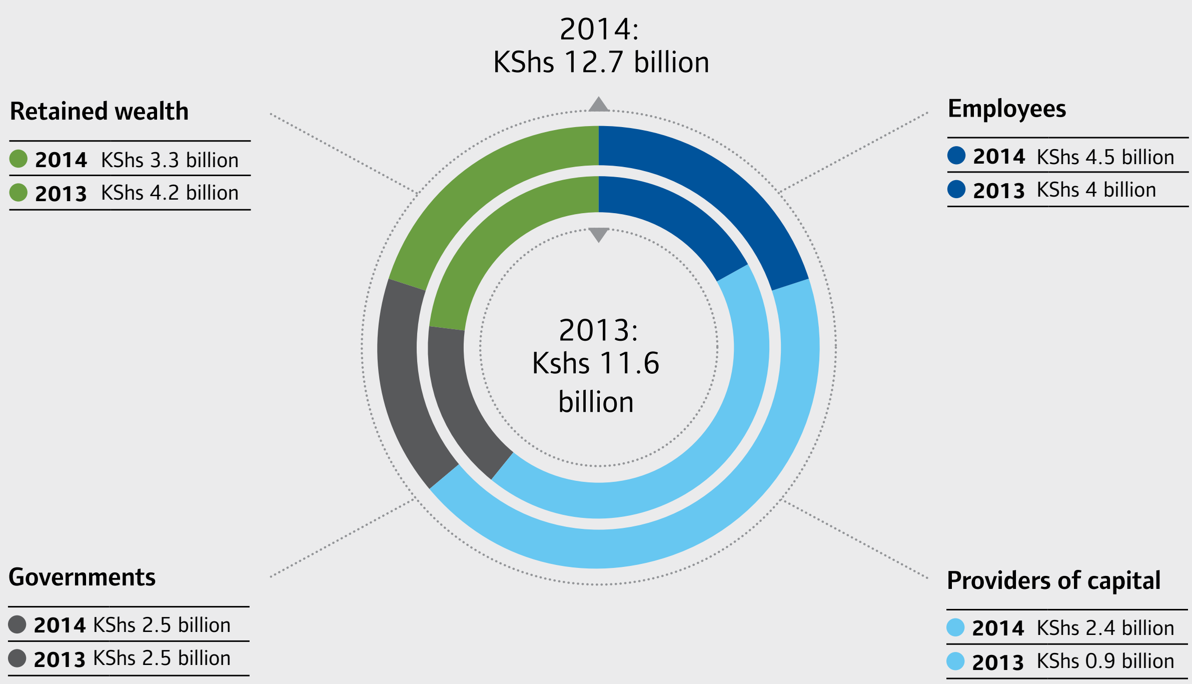


The adoption of Basel III by the SARB has resulted in progressively higher levels of capital being held by South African banks in recent years. The group meets the fully-phased in requirements and there is limited opportunity to improve ROE by reducing shareholder's equity. The major lever for lifting the group's ROE to meet the reaffirmed medium-term target is therefore growth in earnings.

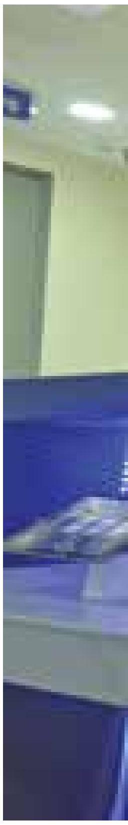
The group maintains sufficient capital and liquidity resources within regulatory constraints to assume and manage the necessary risk that is required to deliver products and solutions to its clients and customers. The optimal allocation of the group's resources is a key determinant of our ability to drive higher revenue that will achieve sufficient growth in earnings to progressively raise ROE. Cost discipline is also an important component of this strategy and we are determined to achieve higher levels of cost efficiency over time. We are also conscious of the need to invest appropriately in systems and infrastructure to ensure we take advantage of the opportunities provided by a rapidly evolving and competitive marketplace.

We remain aware that as a financial services group in East Africa, we are part of and facilitate at a fundamental level the economic growth and social development of the economies we serve, in line with our purpose and vision.

DISTRIBUTION OF WEALTH



Our performance



Chairman's statement

FRED N OJIAMBO, MBS, SC | CHAIRMAN

"Our growth was high-quality, propelled and fuelled by key businesses we have been emphasising in recent years."

It is my great pleasure to present to you the Group's Annual Report and Financial Statements for the year ended 31 December 2014. The year 2014 was a challenging year to say the least for most advanced economies. Despite the slump in the tourism sector as a result of the insecurity concerns and negative travel advisories issued by Western Governments, Kenya markets were stable and economic growth remained resilient.

For the Group without exception, the year had its challenges. While we started 2014 on a very solid note with strong business momentum and broad-based growth, as the year progressed, we had to grapple with periodic bouts of market volatility. Notwithstanding, we saw our Profit after Tax of KShs 5.6 billion increase by 11% over the previous year, achieving an all-time high. Our growth was high-quality, propelled and fuelled by key businesses we have been emphasising in recent years. We also continued to move the agenda on areas such as innovation and customer experience, which will be key drivers of our future success.

Our balance sheet is healthy, with capital, liquidity and asset quality remaining strong.

This good performance demonstrates the high level of commitment among the Board, Management and Staff to strive towards meeting stakeholder expectations, and a reflection of the support the business enjoyed from its stakeholders

Operating Environment

The Kenyan economy recovered in 2014 after a challenging year in 2013. The Kenya National Bureau of Statistics (KNBS) announced a revision to Kenya's Gross Domestic Product (GDP) estimates, to have better coverage of internet, mobiles, power and mining sectors. The rebasing resulted in a 25.3% increase of GDP to USD 55.2 billion.

Inflation remained mostly within the Government's target for most of 2014 except for a couple of months where maize prices rose as a result of depressed long rains.

Despite the slump in the tourism sector as a result of the insecurity concerns and negative travel advisories issued by Western Governments, economic growth remained resilient.

Regulatory Environment

In July 2014, the Central Bank of Kenya launched the Kenya Bank's Reference Rate (KBRR) as part of efforts to facilitate a transparent credit pricing framework within the banking sector. KBRR is a new reference rate that replaces commercial banks' local currency base lending rates previously used to price banking products. The current KBRR was set at 9.13% as at 8 July 2014 and is set for review in January 2015.

Regional Agenda

Despite the unrest experienced in South Sudan our CfC Stanbic Bank – South Sudan Branch returned strong full year results. The Branch was profitable in 2014, accounting for 9% of this year's profit. These results vindicate our faith and commitment to Africa's newest country. We remain optimistic that negotiations to end the crisis which are currently ongoing will achieve lasting peace.

During the Annual General Meeting scheduled for 21 May 2015, the Board of Directors will seek ratification from the shareholders for the

Profit after tax (PAT)

KShs 5,687 million

2013: KShs 5,127 million

Total income

KShs 16,168 million

2013: Kshs 15,436 million

incorporation of a wholly owned subsidiary company of CfC Stanbic Bank to be set up as a banc assurance agency business. The Group is ideally positioned to execute the banc assurance business, having 25 years experience across 14 countries in Africa. The bancassurance subsidiary will seek to:

- meet customers' broader financial service needs;
- be a source of non-funded income (NIR); and
- be a cost effective use of existing distribution infrastructure.

Corporate Governance

High standards of corporate governance are a key contributor to the long term success of a company, creating trust and engagement between the Company and its stakeholders. The Group continues to implement global best practice in the governance and management of the business. We are confident that the Business is managed prudently and is in compliance with all its regulatory obligations. A corporate governance report is included on pages 46 to 47.

Directorate

Chris Newson was appointed as a Non-Executive Director on 26 June 2014. The changes to the Board of Directors and a list of Directors who served during the year are highlighted in the corporate governance report.

2015 and Beyond

The recent decline in inflation is supportive of a more stable and lower interest rate environment. Inflation is likely to maintain a downward trend supported by lower energy prices. Barring a major global oil prices recovery in 2015, we estimate the average inflation will be in the range of 5% – 7%.

The Kenyan Shilling is expected to gradually weaken in the near term. Currency weakness may be driven by US dollar strengthening and lower tourism earnings as a result of the security challenge in the country.

We are confident the government will maintain its commitment to macroeconomic stability to increase the economy's resilience to external and domestic shocks.

More information on our material issues and determination process can be found in our sustainability report, starting on page 30.

South Sudan is and will be affected by current plunging oil prices as oil exports make up nearly all of its export revenue. The current Minister of Finance has since increased more attention towards alternative sources of revenue so as to bridge the gap created by the decreasing oil prices. The Government has kept the South Sudanese pound pegged at SSP3:USD1. Infrastructural developments have been negatively impacted by the need to end the current crisis. Progress on building energy and transport infrastructure has been minimal.

The Group has positioned itself to harness the potential banking and business opportunities in Kenya and South Sudan.

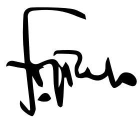
Appreciation

I wish to recognise and extend my sincere appreciation to our esteemed customers for their steadfast support and patronage. We shall endeavor to continuously put the customer first in respect to service and value so as to fulfill their financial needs in line with our brand promise.

I thank the Board, Management and Staff of the Group for their dedicated service during the year.

To our shareholders, we are sincerely grateful for continuing to place great confidence in the Group.

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



Fred N Ojiambo, MBS, SC
25 February 2015

Economic review

2014 was a challenging year to say the least for most advanced economies. The European Central Bank (ECB) was battling to fight off deflation in the Eurozone while China's economy continued to cool. Meanwhile, the US economy seemed to be weathering the storm somewhat, with its prospects looking brighter in comparison to other developed economies. So much so that the Federal Reserve Board's Federal Open Market Committee (FOMC) finally wound down its massive monetary stimulus program in October 2014.

A key event for the year was the FOMC's decision to end its asset purchase program, commonly referred to as Quantitative Easing (QE). Back in 2013 the Federal Reserve gradually started to reduce these asset purchases, a process that became known as the taper. While QE was eventually ended in October 2014, the FOMC chose to keep interest rates near zero, with a commitment to keep rates there until it sees an improvement in the US labour market.

The consensus belief that the Federal Reserve will be the first major central bank to raise interest rates initially spooked emerging markets with foreign capital outflows. This led to a weakening of many these currencies and a dismal performance of their respective stock markets. Interestingly, the spillover effects were short lived and even as the Federal Reserve continued to sound relatively upbeat on the outlook of the US economy, sentiment wasn't dampened further in emerging markets.

Global oil prices were relatively stable for over four years, with Brent Crude generally trading between USD100 per barrel and USD115 per barrel. But since June 2014 oil prices fell precipitously with Brent Crude falling below USD60 per barrel for the first time since July 2009. Weak demand in some of the largest oil consuming nations as well as surging US shale production has primarily led to this fall in price. Additionally, members of the Organisation of Petroleum Exporting Countries were reluctant to cut production despite mounting evidence of declining demand. This depressed prices further. As a consequence, many oil exporting nations' currencies have come under severe pressure with their central banks intervening to help stem this depreciation.

Kenya economic review

In contrast to the gyrations in international markets, Kenyan markets were far more stable. Sure, the USD/KES exchange rate drifted higher in 2014, touching a three year high as import demand recovered. From time to time the Central Bank of Kenya intervened in the market to sell US dollars, helping to slow the pace of the upward move in the rate. But every time such sales were not conducted in a manner that suggested that the CBK wanted to see a reversal of the rising trend.

Despite the slump in the tourism sector as a result of the insecurity concerns and negative travel advisories issued by western governments, economic growth remained resilient. The Kenyan economy continued its recovery in 2014. The Kenya National Bureau of Statistics (KNBS) announced a revision to Kenya's GDP estimates resulting in an increase in the nominal size of GDP by 25.3% in 2013 to USD55.2 billion. The KNBS changed the base year to 2009 from 2001 while giving better coverage to growing industries such as mobile money and informal businesses. The new data series showed that the economy grew by 5.5% year on year from 5.7% year on year in 2013 and 4.5% year on year in 2012.

Inflation remained mostly within the government's target for most of 2014, except for a couple of months when maize prices rose as a result of depressed long rains. The government opted to import 200,000 tons of maize from neighbouring Tanzania in August 2014 to plug the deficit. This helped to lower maize prices and hence overall headline inflation. Coupled with declining fuel prices, this dampened inflation pressures. Overall inflation ended the year at 6.0% year on year, down from the year's high of 8.4% year on year recorded in August.

Kenya economic outlook

GDP will likely grow by 5.8% year on year in 2015 largely driven by private consumption. Moreover, with the EPA agreement due to enable to the resumption of duty free exports to Europe in early 2015, the recovery of agriculture should pick up pace, especially if good rainfall continues in the long rain season.

The outlook for the Eurozone economy continues to present some downside risks to growth, especially of the export-oriented agricultural sector. The ECB finally embarked on its own QE program as it tried to pull the Eurozone economy from a deflationary trap. It lowered rates to record lows to no avail and further action of introducing negative deposit rates hasn't helped stimulate the Eurozone bloc either.
The ECB will expand its balance sheet similar to how it did back in 2011 in the hope of weakening the Euro and spurring consumption spending to revive the Eurozone economy.

Given the decline international oil prices Kenya's inflation is probably going to be lower in 2015. The Energy Regulatory Commission (ERC) is likely to cut local pump prices further. Of course, neither the durability of low oil prices nor the magnitude of any further decline is certain. Nonetheless, it seems highly unlikely that oil prices will be a source of inflationary pressures in 2015. Similarly, food inflation is likely to remain subdued, with little signs of a looming regional drought.

We expect the USD/KShs to rise at the same sort of pace recorded during most of 2014 as economic activity continues to improve, spurring import demand further. Since oil is the largest component of the country's import bill, it is likely that Kenya's trade deficit will fall. However, heavy infrastructure spending by the government on key flagship infrastructure projects such as the Standard Gauge Railway (SGR) will probably neutralize this effect to some extent. In any event, the US dollar has been strengthening in a broad-based manner, something that is likely to persist in 2015. In such an environment it seems reasonable to expect that it will continue to do so against the Kenya Shilling as well.

Personal and Business Banking PBB case study

Kim-Fay East Africa Limited

Kim-Fay East Africa Limited was incorporated in 1998 as Kimberly Clark East Africa Limited. The "Kim-Fay East Africa Ltd" name was adopted in 2000, after Fay Kenya Ltd bought out all shares that Kimberly-Clark South Africa, the leading global health and hygiene company employing nearly 53,000 people worldwide and posting sales in excess USD19.1billion, had in Kimberly Clark East Africa. Kimberly-Clark is headquartered in Dallas, Texas, with operations in 35 countries; Kimberly-Clark's global brands are sold in more than 150 countries.

In December 2003, Kimberly Fay East Africa Limited was changed to Kim-Fay East Africa Ltd. Kim-Fay is now the sole agent for Kimberly Clark Corporation (Pty) South Africa for the East Africa Region. The company's main product lines are family care (tissues under the Fay brand, Kleenix and Sifa brands), kitchen care (film, foil and kitchen towels - under the Fay brands), baby care (diapers and baby wipes under the Huggies brands) and feminine hygiene (tampons and sanitary pads under the Kotex and Confidence brands). The company's revenues and profitability have been on an upward trend, with the bank providing financial and advisory support to enable them meet their business goals. Solutions provided have included financing for warehouse purchase, vehicle and asset finance, vacant land purchase, trade solutions and global market solutions to enable them mitigate their forex exposures. Kim-Fay's turnovers for 2013 stood at KShs 2.1 billion. The CfC Stanbic Bank's Business Banking team will continue to partner with Kim- Fay to support their ambitious growth plans in 2015 and beyond.

Corporate & Investment Banking CIB case study

Standard Bank helps arrange €625 million finance package to build Africa's largest wind farm

Lake Turkana Wind Power Project

Increasing power generation in East Africa is critical, especially considering the region's energy shortfall and the important role that power plays in boosting economic growth. CfC Stanbic & Standard Bank of South Africa are proud to have been able to offer their expertise to contribute towards boosting the generating capacity of a fast-growing economy like Kenya, which remains the economic power house of the region.

Lake Turkana Wind Power will build a 310 Megawatt (MW) wind farm in north-eastern Kenya with the help of Standard Bank and 11 other financiers, including Nedbank, the African Development Bank and the European Investment Bank.

The project is designed to provide a clean source of electricity to Kenya. It will not only contribute to the social and economic development of Kenya, but will also contribute towards Kenya's goal of significantly increasing its installed capacity and reducing its reliance on more expensive sources of power.

Standard Bank, Nedbank and the African Development Bank are the Mandated Lead Arrangers for the Project. Standard Bank and Nedbank both provided the commercial bank guarantees for a facility offered by the European Investment Bank.

The wind farm will comprise 365 Vestas Wind Systems turbines that will be erected in the town of Loiyangalani in Marsabit County, approximately 10km east of Kenya's Lake Turkana, and will be constructed over a period of 32 months.

This transaction is a great example of how to successfully bring private players into the renewable energy sector and serves as a good vote of investor confidence in the Kenyan economy.

The renewable power generated by the project will be fed into Kenya's national grid thanks to a 20-year power purchase agreement between the project company and the Kenya Power & Lighting Company.

The innovative and unique structure of this transaction is the culmination of four years of hard work together with our arranging partners with the aim of bringing the right funding solution to the participants in this deal.

Financial review

ABRAHAM ONGENGE | CFO

"The Group results reflect improved performance of the Kenya banking and brokerage businesses and a deteriorated economic environment in South Sudan."

The Group posted improved results with profit after tax increasing by 11% year on year. This year's financial performance reflects:

- Improved performance of the Kenya banking business driven by growth in customer loans and advances, an improvement in the quality of the PBB lending book and continued success in managing our cost of operations
- Improved performance from SBG Securities on the back of increased market turnover at the NSE and improved market share
- Deteriorating economic environment in South Sudan with branch profit after tax declining by 37%

Profitability

Profit after tax grew by 11% to KShs 5,687 million, an increase of KShs 560 million from the results of the year ended 31 December 2013. This resulted in an increase in earnings per share to KShs 14.38 per share from KShs 12.97 per share in 2013.

Key financial highlights

Performance Indicators	2014	2013
Total income growth	4%	15%
Credit impairment charges growth	8%	(21%)
Profit before tax growth	7%	57%
Customer loans and advances growth	28%	5%
Customer deposits growth	1%	27%
Capital adequacy (tier 1 ratio)	19%	18%
Return on average equity (post tax)	16%	25%
Earnings per share (KShs)	14.38	12.97

Net interest income and fees and commission revenue increased by KShs 920 million and KShs 427 million respectively. In the current year, non-interest income accounted for 50% of total operating income as compared to 53% in 2013.

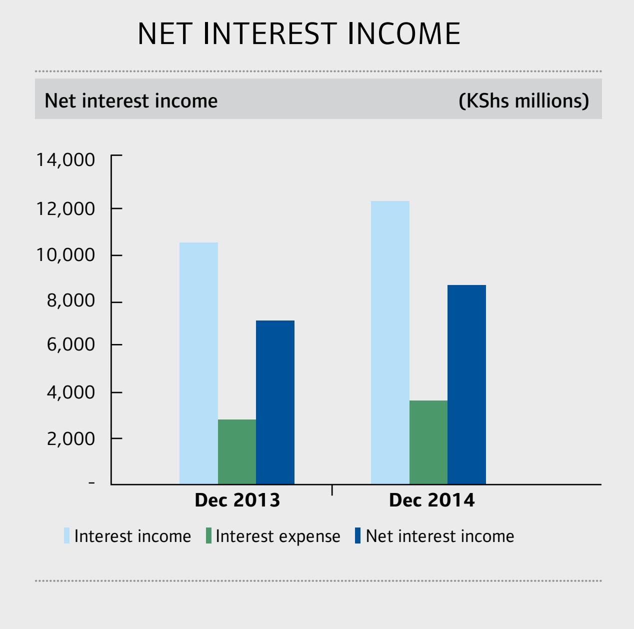
Operating costs increased by KShs 255 million, a 3% increase from the previous year.

The cost to income ratio reduced to 50.2% from 50.7% in 2013 reflecting various productivity gains realised from investments made in prior years.

Net interest income

	2014 KShs'000	2013 KShs'000	Change
Interest income	11,642,457	10,336,492	13%
Interest expense	(3,180,512)	(2,794,378)	(14%)
Net interest income	**8,461,945**	**7,542,114**	**12%**

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

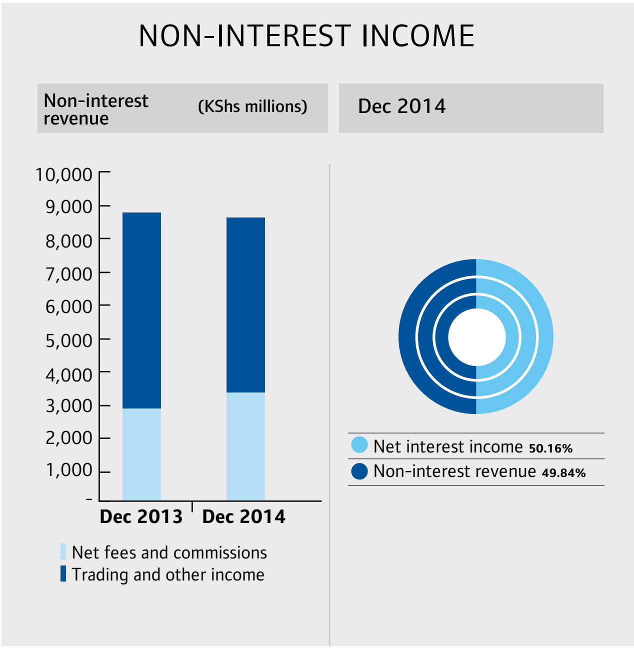


Net fees and commission income

Net fees and commission income increased from KShs 2,881 million in 2013 to KShs 3,308 million. This was mainly attributable to transactional volumes from a growing customer base and successful closure of key deals in Investment Banking.

Trading revenue

Income from trading decreased from KShs 5,659 million to KShs 4,779 million. The decrease was mainly driven by decreased margins on foreign exchange.



Impairment losses

	2014 KShs '000	2013 KShs '000
Impairment charge for non-performing loans	1,298,029	1,178,225
Impairment charge for performing loans	(55,132)	145,603
Recoveries during the period	(540,075)	(557,227)
Net impairment charge on loans and advances	**702,822**	**766,601**

Decrease in provisions was mainly due to improved collections and proactive management of the portfolio, partly offset by increase in CIB non-performing loans.

Operating expenses

	2014 KShs '000	2013 KShs '000
Staff costs	4,472,141	4,030,095
Operating expenses	3,995,289	4,182,381
Total expenses	**8,467,430**	**8,212,476**

Other operating expenses for 2014 were lower than 2013 costs by KShs 255 million largely due to fewer overseas trips, reduced volume of cash in transit for Bank of South Sudan in the current year and a number of cost saving initiatives which have paid off.
Employee compensation and related costs increased by KShs 442 million mainly due to 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 grew by 0.3% to KShs 181 billion as at close of 2014. The balance sheet growth was largely driven by growth in customer loans and advances and growth in available for sale financial investments and was partly offset by a decrease in loans and advances to banks.

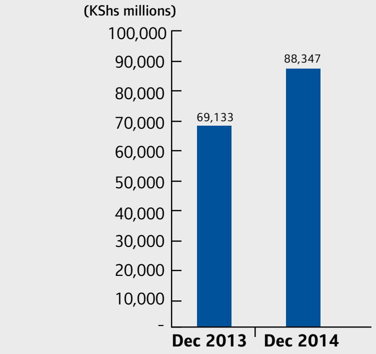
Financial review (continued)

Customer loans

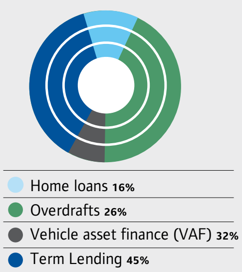
Customer loans grew by KShs 19,214 million to close the year at KShs 88,347 million. CIB loan growth of 25% year on year was mainly driven by short-term facilities and working capital requirements for our clients. Personal and Business Banking registered a 30% growth in customer loans and advances mainly on term loans.

CUSTOMER LOANS

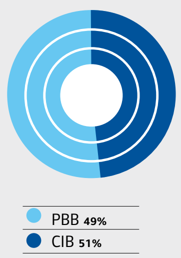
Customer loans and advances



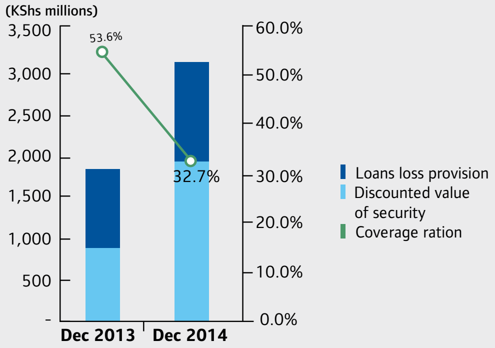
2014 Loans and advances by product



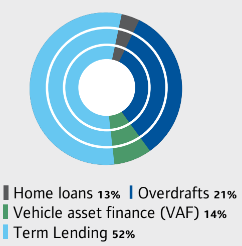
2014 Loans and advances by business unit



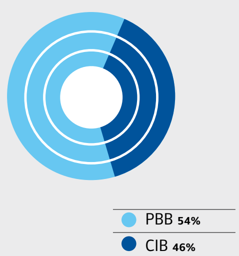
Customer loans and advances non-performing loans (NPLs)



2014 NPLs by product



2014 NPLs by business unit

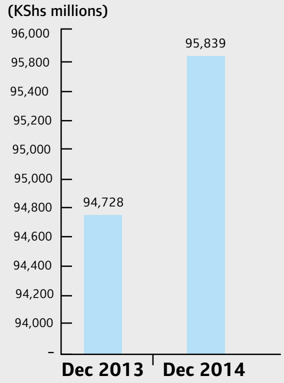


Customer deposits

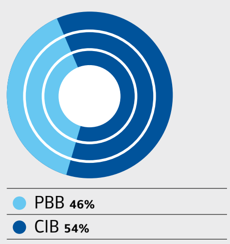
Customer deposits increased by KShs1,111 million to close the year at KShs 95,839 million. Customer deposits grew by 1.2% year on year with core accounts accounting for 71% of total deposit.

CUSTOMER DEPOSTS

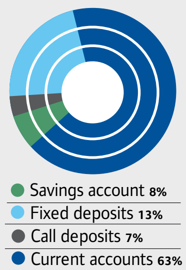
Customer deposits



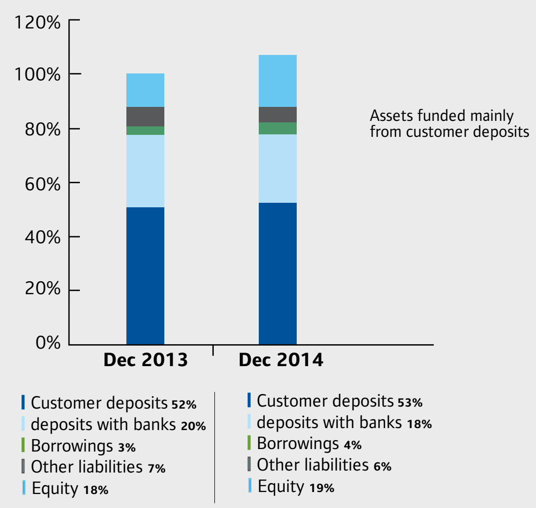
2014 customer deposits per product



2014 customer deposits by business unit



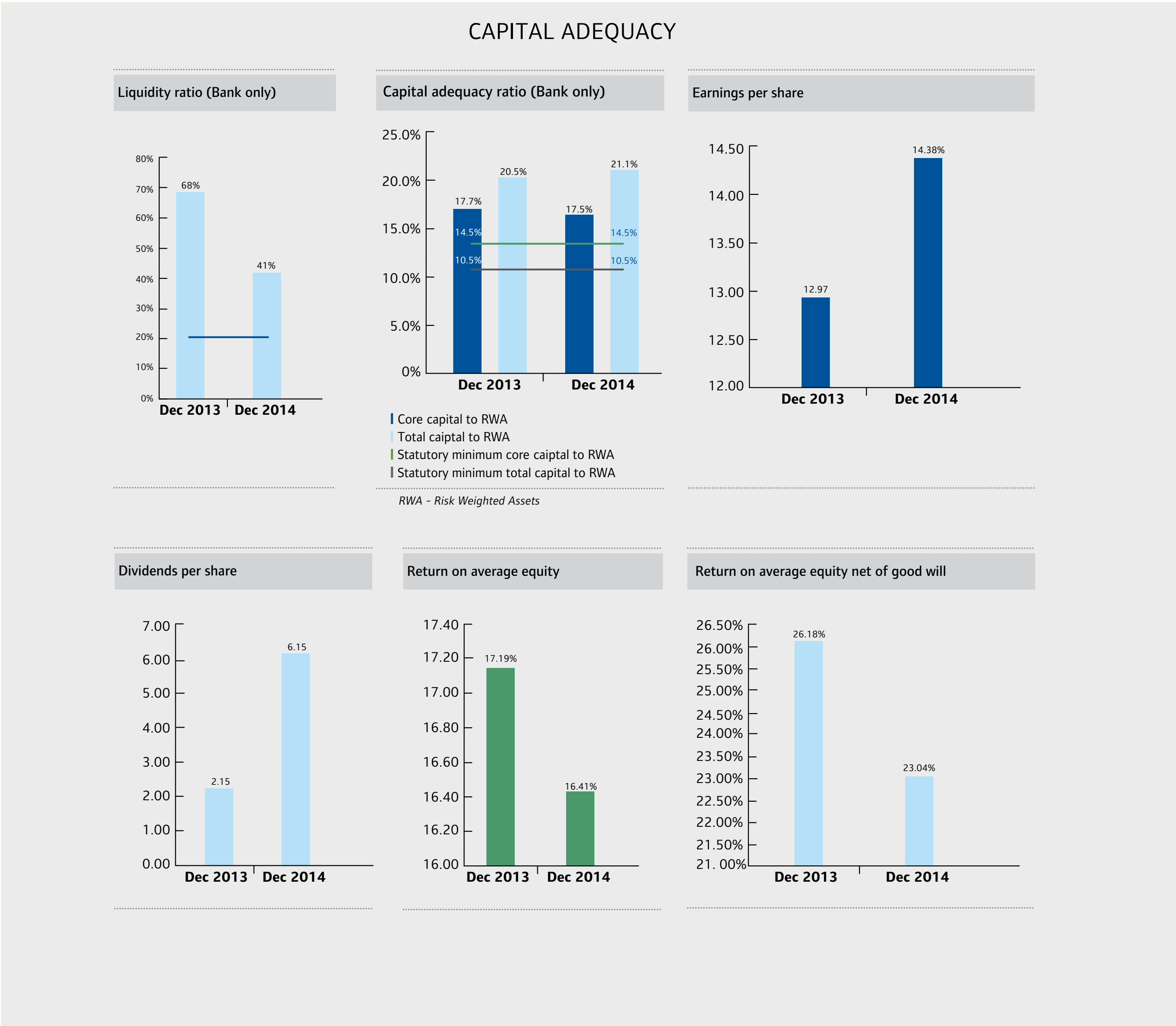
Funding mix



Capital adequacy

At 31 December 2014, the Bank's total capital ratio was 21.08% (2013: 20.53%) of risk-weighted assets, with core capital at 17.52% (2013: 17.73%). The capital adequacy ratios remain above the stipulated regulatory minimum of 14.5% and 10.5% respectively.

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



Five year review

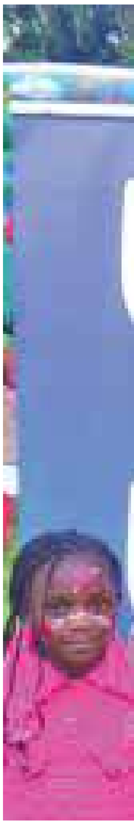
Statement of financial position

	2014 KShs '000	2013 KShs '000	2012 KShs '000	2011 KShs '000	2010 KShs '000
Assets					
Cash and balances with Central Bank of Kenya	9,555,580	9,466,550	23,366,583	7,104,647	5,444,892
Government and other securities	54,128,028	51,548,957	26,021,103	25,462,779	21,998,217
Loans and advances to banks	12,862,672	34,714,199	12,333,987	30,627,842	16,239,669
Loans and advances to customers	88,347,438	69,133,492	66,149,841	64,256,754	58,984,961
Other assets and prepayments	2,417,387	2,352,592	1,950,825	8,853,175	1,475,623
Current income tax	4,294	-	158,846	158,846	158,846
Deferred income tax	1,435,226	949,013	478,395	616,128	-
Intangible assets - goodwill	9,349,759	9,349,759	9,349,759	9,349,759	10,434,405
Interest in associated companies	-	-	-	-	100,111
Other intangible assets	490,565	759,289	1,034,430	1,373,214	1,726,053
Property and equipment	2,348,229	2,175,185	2,302,671	2,299,202	1,911,102
Prepaid operating lease rentals	59,807	62,761	65,715	68,669	71,622
Assets classified as held for distribution	-	-	-	-	21,534,701
Total assets	**180,998,985**	**180,511,797**	**143,212,155**	**150,171,015**	**140,080,202**
Equity and liabilities					
Equity	36,895,193	32,425,791	27,240,888	19,329,127	24,768,615
Liabilities					
Deposits from banks	33,570,267	35,258,860	25,556,484	33,674,186	14,269,483
Deposits from customers	95,838,876	95,027,125	74,906,763	74,007,134	71,425,115
Current income tax	-	231,689	377,033	587,723	246,827
Other liabilities and accrued expenses	5,948,968	8,683,721	5,963,608	8,408,629	3,118,581
Derivative liabilities	2,232,264	2,777,183	2,469,648	6,429,260	-
Trading liabilities	-	259,676	-	648,671	729,153
Borrowings	6,513,417	5,847,752	6,697,731	7,086,285	7,066,362
Deferred income tax	-	-	-	-	200,443
Liabilities directly associated with assets classified as held for distribution	-	-	-	-	18,255,623
Total equity and liabilities	**180,998,985**	**180,511,797**	**143,212,155**	**150,171,015**	**140,080,202**

Statement of profit or loss

	2014 KShs '000	2013 KShs '000	2012 KShs '000	2011 KShs '000	2010 KShs '000
Continuing operations					
Interest income	11,642,457	10,336,492	11,653,458	8,603,450	6,079,464
Interest expense	(3,180,512)	(2,794,378)	(5,110,671)	(2,561,426)	(1,922,806)
Credit impairment charges	(702,822)	(766,601)	(635,429)	(652,853)	(521,441)
Non-interest revenue	8,408,553	8,660,968	7,549,557	4,756,855	4,640,493
Operating expenses	(8,467,430)	(8,212,476)	(8,868,827)	(7,390,363)	(6,313,759)
Profit in associates	-	-	-	43,238	44,016
Profit before income tax	**7,700,246**	**7,224,005**	**4,588,088**	**2,798,901**	**2,005,967**
Income tax expense	(2,013,585)	(2,096,849)	(1,578,197)	(1,159,744)	(598,324)
Profit for the year from continuing operations	**5,686,661**	**5,127,156**	**3,009,891**	**1,639,157**	**1,407,643**
Discontinued operations					
Profit/(loss) for the year from discontinued operations	-	-	-	199,835	379,725
Profit for the year	**5,686,661**	**5,127,156**	**3,009,891**	**1,838,992**	**1,787,368**
Selected ratios					
Return on average equity %	16.41%	17.19%	12.73%	8.34%	7.92%
Earnings per share	14.38	12.97	9.90	6.72	6.53
Dividend per share	0.95	0.63	0.73	-	1.06
Net asset value per share	93.33	82.02	68.91	70.63	90.50
Closing share price	124.00	87.00	42.00	40.00	75.50

Ensuring our sustainability



Sustainability report

Introduction
We proactively embed sustainability thinking and sustainable business practices at every level of our business. We believe that our most important contribution to sustainable development is to operate an effective and profitable Group. By providing access to credit and savings products, we enable individuals to improve their quality of life and enhance their financial security. By providing finance to large and small businesses we facilitate economic growth and job creation, and by financing infrastructure and the development of key sectors, we assist in resolving global challenges such as energy and food scarcity.

The very nature of our business positions us to help our customers and stakeholders manage social and environmental challenges and to invest for the future, which in turn contributes to the viability and sustainable growth of local markets and the national economy. The success of our customers, clients and stakeholders guarantees future business, which underpins our sustainability.

Shareholders
Enhanced shareholder value is a key component of building a sustainable business. The business model for CfC Stanbic Holdings 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
CfC Stanbic Holdings recognises that human capital is critical towards achieving both short and long term objectives. The Group 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. We see our opportunities in the following areas:
- Employing and developing graduates enables us to build a strong succession pipeline of future leaders;
- Rewarding employees fairly helps us attract and retain individuals who deliver results that enable us to achieve our strategy; and
- Building an inclusive and engaging culture leads to empowered, motivated and customer-focused employees.

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
- Kenya Revenue Authority
- Kenya Retirement Benefits Authority

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.

Procurement
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.

Community
To ensure the sustainability of CfC Stanbic Holdings 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 carbon 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 carbon 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.

Corporate Social Investment
As a responsible corporate citizen, that believes in sustainability, everything we do at CfC Stanbic Bank is founded on ethical business practices and effective governance. Our CSI efforts are embedded in our business activities and distributed among our branches as well as enabling functions within the bank.

It is the vision of CfC Stanbic Bank to empower the communities in which we operate through socio-economic development of the underprivileged and to facilitate this empowerment, we have committed to various Corporate Social Investments across the country. These investments are anchored on 3 key pillars namely:
1. Community Health and Wellness - Investments in this area are mainly directed towards HIV/AIDS, tuberculosis (TB) and malaria with particular emphasis on education and awareness around increased uptake of Voluntary Counselling and Testing (VCT), lifestyle management, improved home-based care and support for a community.
2. Education – We support education in primary, secondary and universities as well as colleges with the main focus being programmes aimed at addressing the science, maths and accounting deficiency in the Kenyan labour market.
3. Entrepreneurship/Enterprise development - This pillar is driven through entrepreneurial skills development and mentorship programmes supporting economic development in the areas we operate.

Investing in Communities and Employee Engagement
The most significant indicators of social progress are education and health even though they remain underfunded especially in the developing world. With an increasing global realization of how business communities can contribute to social objectives, it is natural that CfC Stanbic Bank plays a part in optimizing the educational and health conditions of the communities within which it operates.

In 2014, we increased our corporate social investments budget in line with our profitability and maintained our focus in providing access to education and life skills.

Corporate Social Investments 2014 highlights

Education

Strathmore University Scholarship

CfC Stanbic Bank launched its second scholarship fund at a university by partnering with Strathmore University to offer bright needy students an opportunity to pursue careers in finance and banking. The scholarship which will be offered on an annual basis caters for both tuition fees and accommodation for seven students and is open to all undergraduate students who meet the admission criteria, are academically outstanding and financially in need. The scholarships are worth KShs. 11 million and will run for four years.

United States International University Scholarship Fund (USIU)

In 2014, the fund entered its fourth year adding another two students to the list of students that it supports at university level bringing the total number to six. The students are all pursuing degrees in the area of finance and/or accounting and are given opportunities to visit the bank's head office to get first-hand information and experience of the operations of a financial institution. The first group of students sponsored by the bank at USIU will be graduating in 2015.

Palmhouse Foundation Sponsorship and Mentorship Programme

CfC Stanbic Bank's partnership with Palmhouse Foundation entered its fifth year in 2014 as we continued our sponsorship of bright and needy students through their four years of secondary school education. Currently, 16 students are enrolled in various secondary schools across the country with 8 having successfully completed their secondary education since the inception of the programme. Four are currently pursuing university education while another four await their results. Four other students will be sitting for the Kenya Certificate of Secondary Education at the end of this year. Throughout the year, CfC Stanbic Bank staff are constantly involved in the mentoring of these students during the school holidays.

Financial Literacy

Financial literacy is the key to healthy finances and as a responsible financial partner we offer value added services to the business people and organizations we bank. We provide them with opportunities to up-skill their workforce through a series of scheduled financial training programs aimed at helping them grow their businesses.

Health and Wellbeing

Mater Heart Run

The Annual Mater Heart Run brings together Kenyans from all walks of life to enjoy some exercise in the form of running, all in the spirit of helping children with heart ailments get necessary surgery.

CfC Stanbic Bank continued its support towards this cause by sponsoring a team of over 100 staff members to participate in the 2014 run to the tune of KShs. 380,000.

SOS Children's Villages sponsorship

The SOS Buruburu Village in Nairobi continued to benefit from the bank as it renewed its sponsorship of two houses for another year. The sponsorship caters for the education and upkeep of 20 children (10 in each house) of different ages throughout the year.
Other projects that benefitted from CfC Stanbic bank Corporate Social Investments in 2014 include:

- Pathfinder International
- Starehe Girls Centre (Nairobi)
- Riamaoncha ELCK Primary School (Kisii)
- Nairobi Chapel Education Scholarship Fund
- Kanyuru Secondary School (Meru)
- Wema Girls Centre (Mombasa)
- Upendo Village (Naivasha)
- Mary Immaculate Centre (Nairobi)
- Maji Mazuri Children's Home (Kasarani)
- El-Shaddai Children's Centre (Limuru)

CfC Stanbic Bank Chief Executive Greg Brackenridge (centre) presents the scholarships cheque to the Strathmore University team led by the Dean of Students Paul Ochieng (left)


The winning duo among CfC Stanbic Bank staff at the 2014 Mater Heart Run, Eliud Wandera (left) and Millicent Palo

Risk management report

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

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

The Group's two business lines are:
- Personal & Business Banking
- Corporate & Investment Banking

Risk management framework
The Group's approach to managing risk management is set out in the risk governance framework that has two components:
- governance committees at a board and management level
- governance documents such as standards, frameworks and policies.

Governance committees
They have clearly defined mandates and delegated authorities are reviewed regularly.

The two board sub-committees responsible for Risk are the Board Risk Committee (BRC) and the Board Credit Committee (BCC) which report to the main Board through the committee chairmen.

The Group's board risk management committees provide independent oversight of risk, compliance and capital management across the Group:
- determining the Group's risk appetite as set out in the risk appetite framework and Risk Appetite Statement (RAS)
- monitoring the current and future risk profile of the Group to confirm that it is managed within risk appetite
- evaluating the results of stress tests and providing oversight of the adequacy and effectiveness of the Group's risk governance framework
- approving governance standards, frameworks and policies in terms of the risk governance framework
- reviewing reports on the implementation of an IT governance framework and updates on significant IT investments
- evaluating and approving significant outsourcing arrangements
- promoting a risk awareness culture within the Group
- reporting to the Board any matters within its remit where action or improvement is needed and making recommendations as to the steps to be taken.

The Board Audit Committee (BAC)
The BAC reviews the Group's financial position and makes recommendations to the board on all financial matters, financial risks, internal financial controls, fraud and, to the extent they impact financial reporting and IT risks. In relation to risk and capital management, the BAC plays a role in assessing the adequacy and operating effectiveness of the Group's internal financial controls.

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

The Risk Management Committee (RMC) and Credit Risk Management Committee (CRMC) are management committees responsible for risk management within the Group.

Governance documents
Governance documents within the risk governance framework comprise standards, frameworks and policies which set out the requirements for the identification, assessment, measurement, monitoring, managing and reporting of risks, for effective oversight of compliance and effective management of capital. Governance policies are approved by the relevant Board Sub-committee.

Three lines of defence model
The Group uses the three lines of defence model which promotes transparency, accountability and consistency through the clear identification and segregation of roles.
The three lines of defence are described below.

First line of defence
This is made up of management of business lines and legal entities and has responsibility for measuring, assessing and controlling risks through the day-to-day activities of the business within the governance framework.

Second line of defence
This provides an independent oversight and consists of the finance function, risk management function, legal function and governance and assurance functions excluding internal audit. These units implement governance standards, framework and policies for each material risk type to which the Group is exposed and report to management and board governance committees. Compliance with the standards and frameworks is ensured through annual self-assessments by the second line of defence and reviews by Internal Audit (IA).

Third line of defence
IA is the third line of defence and operates under a mandate from Board Audit Committee.

In terms of its mandate, the IA function's role is to provide independent and objective assurance of first and second lines of defence; IA has authority to independently determine the scope and extent of work to be performed and reports to Board Audit Committee.

The Group's approach to risk appetite and stress testing
The following terms have specific meanings within the Group.

Risk appetite
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. The metric is referred to as the risk appetite trigger. Risk appetite could be exceeded either as a result of an adverse economic event more severe than that envisaged under the range of stress conditions (passive), or as a result of a decision to increase the risk profile to accommodate market, client or portfolio requirements (active).

Risk tolerance
Risk tolerance is the maximum amount or type of risk the 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. The metric is referred to as the risk tolerance limit.

Risk capacity
Risk capacity is the maximum amount of risk the Group is able to support within its available financial resources.

Risk profile
Risk profile is the amount or type of risk the Group is currently exposed to (current risk profile) or will be exposed to under both expected and stressed economic conditions (forward risk profile).

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

- the approach to setting risk appetite triggers and risk tolerance limits
- responsibilities for monitoring risk profile
- the escalation and resolution process where breaches occur.

Executive management is responsible for recommending the Risk Appetite Statement (RAS).The Board approved a RAS in 2014.

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

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

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

- the Internal Capital Adequacy Assessment Process (ICAAP)
- the strategic planning and budgeting process
- capital planning and management
- the setting of risk appetite and risk tolerance
- the assessment of the impact of stress conditions on the current and forward risk profile
- the development of risk mitigation or contingency plans across a range of stressed conditions

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

Governance committee
The primary governance committee overseeing risk appetite and stress testing is the stress testing and risk appetite committee chaired by Head of Risk and is a subcommittee of the Group's EXCO. This committee ensures there is a fit-for-purpose stress testing for both business and regulatory purposes at legal entity and business line levels.

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 BRC and BCC, the RMC, the Audit Committee, and the CRMC, with each committee focusing on different aspects of risk management.

Developments in Regulatory environment and payments
The COMESA Regional Electronic Payment and Settlement System (REPSS) was rolled out in 2014. REPSS is a multilateral net clearing system that settles at the Bank of Mauritius that is meant to create faster, more efficient means of payment in COMESA region hence facilitating trade. The Group executed an agreement with the Central Bank of Kenya for participation in REPSS in March 2014. In July 2014, the East African Payments System (EAPS) that expanded the scope of Real Time Gross Settlement (RTGS) of payments to Tanzania and Uganda was also rolled out.

In July 2014 the Central Bank of Kenya launched the Kenya Banks Reference Rate (KBRR) as part of efforts to facilitate a transparent credit pricing framework within the banking sector. KBRR is a new reference rate that replaces commercial banks' Base Lending Rates previously used to price banking products. The rate is computed by CBK based on an average of the Central Bank Rate (CBR) and a 2-month moving average of the 91-Day Treasury Bill Rate.

Money laundering and terrorist financing 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 Group has in place the necessary processes and systems to comply with the Proceeds of Crime and Anti-Money Laundering Act 2009 and the Prevention of Terrorism Act 2012. In 2014, significant strides were made in combating money laundering and terrorism financing.

In January 2014, the Financial Reporting Centre (FRC) rolled out an Annual Compliance Return that is designed to assess institutional compliance with the Proceeds of Crime and Anti-Money Laundering Regulations which was gazetted in 2013. The FRC through the Central Bank of Kenya also rolled out the implementation of the United Nations Security Council Resolution 1267 that requires institutions to report and freeze without delay, any financial assets of persons sanctioned under the resolution. In June 2014, Kenya was removed from the Financial Action Task Force (FATF) list of high-risk and non-cooperative jurisdictions in recognition of significant progress in improving the AML/ CFT regime and the establishment of the required legal and regulatory framework.

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

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

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

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

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

Risk management report (continued)

Approach to managing credit risk

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

The Group manages credit risk through:

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

Primary responsibility for credit risk management resides with the Group's business lines. This is complemented with an independent credit risk function embedded within the business units, which is in turn supported by the overarching group risk function.

Governance committees

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

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

Liquidity risk

Liquidity risk arises when the Group, despite being solvent, is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms. This inability to maintain or generate sufficient cash resources may arise where counterparties who provide the Group with short-term funding withdraw or do not rollover that funding, or as a result of a general disruption in asset markets.

The nature of banking and trading activities results in a continuous exposure to liquidity risk. The Group manages liquidity in accordance with applicable regulations and within Group's risk appetite. The Group's liquidity risk management governance framework supports the measurement and management of liquidity at various levels to ensure that all payment obligations can be met by the Group under both normal and stressed conditions. Liquidity risk management ensures that the Group has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times.

The Group's liquidity risk management framework differentiates between:

- Tactical (shorter-term) risk management: managing intra-day liquidity positions and daily cash flow requirements, and monitoring adherence to prudential and internal requirements and setting deposit rates as informed by ALCO.
- Structural (long-term) liquidity risk management: ensuring a structurally sound balance sheet, a diversified funding base and prudent term funding requirements.
- Contingent liquidity risk management: monitoring and managing early warning liquidity indicators while establishing and maintaining contingency funding plans, undertaking regular liquidity stress testing and scenario analysis, and setting liquidity buffers in accordance with anticipated stress events

Governance committees

The primary governance committee overseeing this risk is the Bank Asset Liability Committee (ALCO), which is chaired by the Chief Executive.

There is independent risk oversight of all liquidity limits and guidelines by Market Risk, Finance and Central Asset Liability Management units. ALCO reports to the Board Risk Committee.

Approach to managing liquidity risk

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

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

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

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

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

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

   Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital.

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

   Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the Group's ability to maintain sufficient liquidity under adverse conditions.

f) Maintaining adequate liquidity contingency plans or liquidity buffer:
Portfolios of highly marketable securities over and above regulatory and stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO defined limits on the basis of diversification and liquidity.

g) 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 Group's 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 the event of a liquidity crisis. The plans incorporate an extensive early warning indicator process 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.

Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event.

The cumulative impact of the above elements is monitored on a monthly basis by the Group's 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.

The total amount of liquidity held is adequate to meet all internal stress tests as well as regulatory requirements.

Market risk

Market risk is the risk of a change in market value, earnings (actual or effective) or future cash-flows of a portfolio of financial instruments (including commodities), caused by moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these measures. The Group's policy is that all trading activities are undertaken within the Group's trading operations. The Board grants general authority to take on market risk exposure to the Group's ALCO.

Market risk management process is required to measure, monitor and control market risk exposures. The Group manages market risk through following four principles.

Identification of market risks in the trading and banking books

This process entails checking that all market risks are identified. It includes an analysis of new business plans, new products, new pricing models, new risk models and regular reviews by Market Risk staff of financial and management accounts balance sheets, income statements, and portfolio structure hierarchies, accounting classification and accounting elections, jointly with financial control, risk self assessments jointly with operational risk, price testing reports and profit and loss decomposition reports.

Measurement of market risk

Measurement of market risks deals specifically and separately with normal market conditions and stress market conditions. Measurement of trading exposures under stress market conditions required to submit to different stakeholders e.g. Local ALCO, Local Board, ICAAP stakeholders, Shareholders (Annual Financial Statements); rating agencies; Central Bank of Kenya and other regulators.

Market risk exposure on banking operations

Banking-related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and the economic value of equity that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk. The Group's approach to managing Interest Rate Risk in Banking Book (IRRBB) is governed by applicable regulations and is influenced by the competitive environment in which the Group operates. Treasury and Capital Management team monitors banking book interest rate risk together with the country ALCO.

Management of market risk

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

Reporting of market risk

Market Risk has reporting procedures that highlight for attention within Market Risk or by management all forms of exposures i.e. limit breaches or other reports that will periodically be required to submit to different stakeholders e.g. Local ALCO, Local Board, ICAAP stakeholders, Shareholders (Annual Financial Statements); rating agencies; Central Bank of Kenya and other regulators.

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 defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group recognises that operational risk is inherent in all areas of its business. It is not an objective to eliminate all exposure to operational risk as this would be neither commercially viable nor possible. The Group has developed, implemented and maintained an enterprise-wide operational risk management framework that is fully integrated into the Group's overall risk management processes.

Risk management report (continued)

The Group's operational risk framework is supported by the Group's operational risk governance standard which sets out the governing principles for operational risk management and sets out the basic components for the identification, assessment, and management, monitoring and reporting of operational risk in a consistent manner across the Group. The operational risk framework is further supported by a set of comprehensive operational risk management policies.

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

Risk identification

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

- Mission critical processes in line with the provisions of Basel II business lines
- Cause categories
- Event categories
- Effect categories

Assessment and measurement

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

- *Risk and control self-assessments:*
  Each business unit and enabling function is required to analyse their business activities and critical processes to identify the key operational risks to which they are exposed and assess the adequacy and effectiveness of their controls. For any area where management conclude that the level of residual risk is beyond an acceptable level, they are required to define action plans to reduce the level of risk. The assessments are facilitated, monitored and challenged by the operational risk function. To achieve this, the Risk and Control Self-Assessments (RCSAs) embeds a process that identifies and rates risks, causes and controls in a consistent and structured manner.

- *Key Risk Indicators:*
  These are quantitative measures based on the key risks and controls. Relevant indicators are used to monitor key business environment and internal control factors that may influence the Group's operational risk profile. Each indicator has trigger thresholds to provide early-warning signals of potential risk exposures and/or a potential breakdown of controls. When a breach is observed action is promptly taken to control the potential risk.

- *Operational risk incidents:*
  All areas are required to report operational risk incidents to the operational risk function. The definition of operational risk incidents includes not only events resulting in actual loss, but also those resulting in non-financial impact and near misses. This process is intended to help management identify those processes and controls that need to be improved.

- *External data:*
  The 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 information for RCSAs, scenarios, indicators and for benchmarking purposes.

Management and treatment of operational risk

The Group'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 Group's risk tolerance while maximizing operational performance and efficiency. Management uses the output of risk identification and assessment as an input into the decision making process. Management action on operational risk will normally include one or more of the following treatments:

- *Risk avoidance*: the risk is avoided by deciding not to start or continue with the activity giving rise to the risk.
- *Risk mitigation:* risk is lowered by increasing controls.
- *Risk transfer:* another party agrees to carry or share part of the risk (insurance). In addition, the Group continues to maintain a comprehensive insurance programme to cover losses from fraud, theft, professional liability claims and damage to physical assets.
- *Risk acceptance*: those risks that cannot be avoided.

Monitoring

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

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.

Business continuity management

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

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

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

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

Compliance risk

This 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 business activities.
This includes the exposure to new laws as well as changes in interpretations of existing laws by appropriate authorities.

Approach to compliance risk management

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

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

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

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

In 2014, a key development in the regulatory universe was the roll-out of the Kenya Banks Reference Rate (KBRR) as part of an effort to facilitate a transparent credit pricing framework for the banking sector.

Financial crime control

The Group defines financial crime control as the prevention, detection and response to all financial crime in order to mitigate economic loss, reputational risk and regulatory sanction.

Financial crime includes fraud, bribery and corruption and misconduct by staff, customers, suppliers, business partners and stakeholders.

The Group's financial crime control unit is mandated by the audit committee to provide financial crime control capabilities which support the Group 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 Group maintains a zero tolerance approach towards fraud and dishonesty.

The financial crime control team as with the other functions within operational risk maintains close working with other risk functions, specifically compliance, legal risk and credit risk and with other functions such as information technology, human resources and finance.

Money laundering and terrorist financial control

Legislation pertaining to money laundering and terrorist financing control imposes significant requirements in terms of customer due diligence, record keeping, staff training and the obligation to detect, prevent and report suspected money laundering and terrorist financing. To this end, anti - money laundering training is carried out for all the staff and the Group has in place the necessary processes and systems to comply with "The Proceeds of Crime and Anti-Money Laundering Act 2009 and The Prevention of Terrorism Act 2012."

In January 2014 the Financial Reporting Centre rolled out an Annual Compliance Return to determine compliance with Proceeds of Crime and Anti-Money Laundering Regulations gazetted in 2013. The Group is in compliance with the Act.

Occupational health and safety

The health and safety of all employees, clients and other stakeholders continues to be a priority. Any risks to the health and safety of employees resulting from hazards in the workplace or potential exposure to occupational illness are managed by the occupational health and safety team. The Group aims to effectively identify, reduce or control accidents or injuries to employees, contractors and clients. The framework ensures compliance with current legislation 'Occupational Safety and Health Act No. 15 of 2007.' and that occupational health and safety procedures are closely linked to the operational needs of the business.

Training of health and safety officers and employee awareness is an ongoing endeavour. There were no workmen's compensation claims lodged in 2014.

Legal risk

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

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

Taxation risk

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

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

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

- identification and management of tax risk
- human resources policies, including an optimal mix of staffing and outsourcing
- skills development, including methods to maintain and improve managerial and technical competency
- communication of information affecting tax within the Group.

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

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

Capital Gains Tax (CGT) was re-introduced effective 1st January 2015 without clear implementation guidelines causing confusion and uncertainty in the market. The Kenya Association of Stockbrokers and Investment Banks, which sbgs Limited is a member has filed a petition at the High Court to seek clarity on the application of CGT. Even as we wait for the outcome of the High Court case, sbgs has continued to comply with the provisions of the law on a best effort basis. The bank continues to engage Kenya Revenue Authority to get a clearer position on the implementation of CGT.

Reputational risk

Reputational risk results from damage to the Group's image which may impair its ability to retain and generate business through the loss of trust and confidence or a breakdown in business relationships. Safeguarding the Group'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 Bank's strong reputation is dependent upon the way in which it conducts its business but it can also be affected by the way in which its clients, to whom it provides financial services, conduct themselves.

Risk management report (continued)

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 Group sets clear standards and policies on all major aspects of business and these standards and policies are integral to the Group's system of internal control and are communicated though procedures, manuals and appropriate staff training.

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. The impact of such risks is considered alongside financial or other impacts.

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

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

Business risk

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

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

Business risk is governed by the Group's executive committee, which is ultimately responsible for managing the costs and revenues of the Group. The Group mitigates business risk in a number of ways including:

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

Strategic risk

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

The Group's business plans and strategies are discussed and approved by executive management and the board.

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 Group's operational activities.

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

A risk-based audit approach has been adopted by the Group. 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

The Group's 's capital management framework is designed to ensure that regulatory requirements are met at all times and that the Group is capitalised in line with the risk profile and target ratios approved by the board.

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 10.5% (based on core capital). .

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.

Effective 1st January 2014 capital charges for operational risk and market risk come into effect.


Helping Kenya move forward won us Africa Deal Of The Year
The US$ 2 Billion Eurobond that the Kenya Government issued last year was the largest ever first-time borrowing in the international bond markets by any Sub-Saharan African country. The bond's proceeds will play a critical role in helping finance Kenya's ambitious infrastructure rollout in sectors such as roads, ports, energy and oil & gas. Standard Bank was Joint Lead Manager & Joint Bookrunner in the winning team that worked with the Kenya Government to make this Eurobond issue an internationally recognised success. We are proud of our role in Moving Forward Kenya's economic growth.
2014 GLOBAL CAPITAL AWARDS
AFRICAN DEAL OF THE YEAR
2014
They call it Africa. We call it home.
CfC Stanbic Bank is licensed and regulated by the Central Bank of Kenya
CfC Stanbic Bank
A member of Standard Bank Group
Moving Forward™

Transparency and accountability

Corporate information

Chairman:	Fred N. Ojiambo, MBS, SC
Chief Executive:	Kitili Mbathi
Chief Executive of CfC Stanbic Bank Limited:	Greg R Brackenridge*
Regional Head Corporate & Investment Banking:	Michael Blades***
Non-Executive Directors:	J Babsa-Nzibo EW Njoroge RW Kimotho GR May** CK Muchene RT Ngobi PN Gethi CJ Blandford – Newson*** *(Appointed: 26th June 2014)* * South African ** British *** South African & British
Company 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

FN Ojiambo, MBS, SC (65) Chairman

Appointed 2010

Mr Fred N Ojiambo was appointed the Chairman of the Boards of CfC Stanbic Bank and CfC Stanbic Holdings Limited 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 sits on various boards of companies and corporations, including Bata Shoe Company Limited, The International Leadership University, The Council of Legal Education, Windle Charitable Trust and Rafiki Orthopaedic Limited, among others. He is also a member and former Chair of the Law Society of Kenya, a member of the International Bar Association and the Commonwealth Law Association, and is the Senior Partner in the legal firm of Messrs. Kaplan & Stratton, Advocates.

K Mbathi (56), Chief Executive

Appointed 2008

Mr Kitili Mbathi is the Chief Executive of CfC Stanbic Holdings Limited, a Director of CfC Stanbic Bank Limited and SBG Securities Limited; 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.

GR Brackenridge (57), Chief Executive CfC Stanbic Bank Ltd

Appointed 2010

Mr Greg Brackenridge was appointed the Chief Executive of CfC Stanbic Bank Limited on 5 March 2010. He first joined the Standard Bank Group (SBG) in 1992 as General Manager, Corporate and Investment Banking at Stanbic Bank Zimbabwe Limited. He became Managing Director of Stanbic Bank Zimbabwe Limited in 1997 before transferring to the Head Office in Johannesburg in 2002. 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 Stanbic Bank Nigeria 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.

GR May (71), Chairman
Board Audit Committe

Appointed 2008

Mr. Gayling R. May has an extensive accounting background having worked for PricewaterhouseCoopers in various countries for 37 years. He is a Fellow of The Institute of Chartered Accounts in England and Wales (FCA), a member of The Institute of Certified Public Accountants of Kenya (CPA) and a member of The Institute of Certified Public Secretaries of Kenya (CPS). He holds directorships in Swissport Kenya Limited, British American Tobacco Limited, Liberty Life Assurance Company Limited, Heritage Insurance Company Limited, Liberty Kenya Holdings Limited, CfC Stanbic Bank Limited and CfC Stanbic Holdings Limited.He is currently the Regional Representative of the Eastern Africa Association, a business information service based in Nairobi, and active throughout East Africa.

RW Kimotho, MBS (59)

Appointed 2008

Ms Rose W Kimotho is the Managing Director of Three Stones Limited, a Company that operates a digital television channel. Prior to launching Three Stones, Rose was founder and Managing Director of Regional Reach Limited, which company launched the first local language FM station in Kenya as well as Kenya's first 24-hour news and information television channel. Until she ventured into entrepreneurship in 1994, Rose was General Manager and member of the Board of Directors of McCann-Erickson (K) Ltd. She is the past Chairman of the Marketing Society of Kenya, past Chairman of the Media Owners Association and former Chief Trade Judgeat the Nairobi International Show. In addition to being a non-executive Director of CfC Stanbic Bank and CfC Stanbic Holdings, she serves on the Board of Population Services International (PSI), and Y&R Brands, is a Trustee of Rhino Ark, and a member of the Task Force on Press Law appointed by the Attorney General to make recommendations on laws governing the media. Ms Kimotho holds a Diploma in Journalism, University of Nairobi, a Management Diploma from Columbia University Graduate School and a Marketing Certificate from the Marketing Society of Kenya.

EW Njoroge, CBS (62)

Appointed 2010

Mr Edward W Njoroge graduated with a Bachelor of Science degree from Makerere University. He was appointed on 26 March 2003 as Director (Executive) and the Managing Director of Kenya Electricity Generating Company Limited (now retired). He started his career with Twiga Chemical Industries in 1975. He then held a senior position with Akile Associates Limited before moving to Affiliated Business Contacts (ABCON) Group in 1977. His other directorships include REAL Insurance Company Limited, Aquatech Industries Limited, Nerifa Holdings Limited, and ABCON. He is also the Chairman of the Nairobi Securities Exchange, Telkom Kenya and Aureos East Africa Fund.

Board of Directors (continued)

J Babsa- Nzibo (56)

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. She is also the Chairperson of the Courier Industry Association of Kenya 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. She is also a member of the Marketing Society of Kenya and brings to the Board her business and marketing experience.

CK Muchene (57)

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.
He holds a Bachelor of Commerce degree from the University of Nairobi, is a Fellow of the Institute of Certified Public Accountants of Kenya, a Member of the Institute of Certified Public Secretaries of Kenya and a member of the Institute of Directors. Mr Muchene also serves on the Boards of East African Breweries Limited and AIG Insurance Limited in addition to a number of other private companies.

RT Ngobi (54)

Appointed 2011

Mrs Ruth T Ngobi is a lawyer of over twenty-nine years standing, having been admitted as an Advocate of the High Court of Kenya in 1985. She holds a bachelor's degree in law from University of Kent in Canterbury and a Master of Laws degree from University of Cambridge both in the United Kingdom.
Ms Ngobi worked with Unilever Kenya Ltd for 15 years as Legal Counsel and Company Secretary, before joining British American Tobacco Kenya Ltd in 2002 as Area Legal Counsel. She is the founder of Cosec Solutions Ltd, a company that provides company secretarial services and corporate governance solutions. Ms Ngobi is also a non-executive director on the Board of CfC Stanbic Bank Ltd, as well as a Board member of the Public Procurement Oversight Authority.

MA Blades (48)

Appointed 2013

Mr Michael Blades 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, Ethiopia and South Sudan. He is a Director on the Boards of CfC Stanbic Holdings Ltd, CfC Stanbic Bank and SBG Securities Limited. A qualified Economist, Mr Blades has worked in various positions in the Corporate and Investment Banking Business Unit of Standard Bank Group for over 20 years, most recently as the Head of International Business Development and Corporate Banking Coverage in China.

PN Gethi (49)

Appointed 2013

Mr Peter Gethi was appointed to the Boards of CfC Stanbic Bank Limited and CfC Stanbic Holdings Limited in the year 2013. He is a qualified Consultant Agronomist and brings to the Boards a wealth of agribusiness and management experience, expected to help the Bank, and Group, achieve its strategic goals. Mr Gethi serves as a Board member of Liberty Life Assurance Limited and Heritage Insurance (K) Limited (since 2009), and is currently serving as the Chairman of both companies (since 2011).

CJ Blandford - Newson (50)
Chief Executive, Africa, Standard Bank Grp

Appointed 2014

Mr Chris Newson was appointed to the Boards of both CfC Stanbic Holdings and CfC Stanbic Bank on 26th June 2014. Mr. Newson is a Chartered Accountant and is currently the Chief Executive of Standard Bank Africa. He has over 23 years experience in Investment and Commercial Banking, and particular expertise gained in relation to Sub-Saharan Africa, with the last nine years being at the chief executive level.

LN Mbindyo, (Company secretary)

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

Corporate governance report

Standard Bank Group Limited: an overview

The Standard Bank Group understands that good corporate governance is fundamental to earning the trust of our stakeholders, itself critical to sustaining the organisation's success while preserving shareholder value. In line with this philosophy, the Board is committed 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 its responsibility in ensuring conformity with regulatory requirements and acceptable risk tolerance parameters. CfC Stanbic Holdings Limited, as a member of the Standard Bank Group, is guided by these principles in its governance framework.

CfC Stanbic Holdings Group: an overview

The 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 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 twelve directors on the Board, three of whom are executive and nine 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 understands that sound governance practices are fundamental to earning the trust of stakeholders, which is critical to sustaining performance and preserving shareholder value. The Board members' collective experience and expertise provide a balanced mix of attributes for it to fulfil its duties and responsibilities.

All the 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 a meeting with Executive Management. It ensures that strategy is aligned with the Group's values and monitors strategy implementation and performance targets in relation to the Group's risk profile. It is collectively responsible for the long-term success of the Group and is accountable to Shareholders for financial and operational performance.

Directors' Appointment

Directors are nominated by the Nominations Committee, which is chaired by the Chairman of the Board. Apart from a candidate's experience, availability and fit, the committee also considers other directorships and commitments of the individual to ensure that they will have sufficient capacity to discharge their roles properly. Candidates must also satisfactorily meet the fit and proper criteria, as required by the Central Bank of Kenya Prudential Guidelines. The Committee also considers appropriate demographic and gender diversity in its assessment.

Suitable candidates are submitted to the Board for consideration and appointment in terms of the Company's Articles of Association, under which a director appointed by the Board holds office until the next Annual General Meeting (AGM) at which time the shareholders will be asked to approve the appointment. The appointments comply with the requirements of the Companies Act and the Capital Markets Act of the Republic of Kenya and the regulations of the Reserve Bank of the Republic of South Africa.

Since the last Annual General Meeting, the Board appointed one Non- executive Director, Mr Christopher Blandford - Newson to the Company's Board of Directors, on 26th June 2014.

No Directors retired or resigned from the Board during the year.

Induction and Ongoing Board Education

Induction of new directors and ongoing education of directors is the responsibility of the Company Secretary. The Group's Code of Ethics is provided to new directors on their appointment and an induction programme tailored to the new director's specific requirements implemented.

Directors are advised of new laws and regulations and changing risks to the organisation on an on-going basis.

Board Evaluation

The Chairman is responsible for ensuring that the Group has an effective Board. Supported by the Company Secretary, he ensures that the Board's effectiveness is reviewed annually, through a detailed assessment of the effectiveness of the Board, as a whole, and through assessment of the performance of each member, conducted via peer evaluations. The results of the assessments are then discussed by the Board, and the Chairman engages separately with each individual director on the results of the peer evaluations in one-on-one sessions, the objective being to provide constructive feedback to directors on their contribution to the Board.

Going Concern

The Board has reviewed the facts and assumptions, on which it relied and, based on these, will continue to view the 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 taking into account the skills, knowledge, and experience required in the Board.

The amounts paid to directors are included in Note 37(g) 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 society 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.

Shareholder Relations

The Board of Directors recognises the importance of continued interaction and provision of information to shareholders; and endeavours to do so though provision of detailed annual reports. The Annual General Meeting is also considered a crucial time for interaction with the Company's Shareholders and the Board encourages all Shareholders to attend and participate in this meeting.

Board Meetings

The Group is headed by a Board of Directors, which has ultimate responsibility for the management and strategic guidance of the Company and assumes the primary responsibility of fostering the sustainability of the Group's businesses. The Board has the overall responsibility for the establishment and oversight of the Group's risk management framework.

Performance against financial and corporate governance objectives is monitored by the Board through Management's quarterly reporting. The implementation of the Group's strategic objectives is done at the individual subsidiary companies, through various established Board and Management Committees.

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

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

CfC Stanbic Holdings Limited – Directors' Attendance, 2014

Directors' meetings - Meeting Attendance				
Member	28 Feb 2014	09 May 2014	08 Aug 2014	27 Nov 2014
FN Ojiambo, MBS, SC (Chairman)	√	√	√	√
GR Brackenridge	√	√	√	√
K Mbathi	√	√	A	√
MA Blades	√	A	√	√
EW Njoroge	√	√	A	√
JB Nzibo	√	√	√	√
GR May	√	√	√	√
RN Kimotho	√	√	√	√
RT Ngobi	√	√	√	√
CK Muchene	√	√	A	√
PN Gethi	√	√	√	√
CJ Blandford-Newson	*	*	A	√

Key
√ = Attendance
A = Absent with Apology
* = Was not a Director

Report of the Board Audit Committee

This report is provided by the Board Audit Committee, in respect of the 2014 financial year of the Group.

The Board Audit Committee (BAC) 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 in 2014;

Directors' BAC Attendance, 2014

BAC meetings - Meeting Attendance		
Member	27 Feb 2014	07 Aug 2014
G R May (Chairman)	√	√
J B Nzibo	√	√
C K Muchene	√	A

Key
√ = Attendance
A = Absent with Apology

Execution of Functions

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

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

a) In respect of the external auditors and the external audit:
- approved the reappointment of PricewaterhouseCoopers as external auditors for the financial year ended 31 December 2014, in accordance with all applicable legal requirements;
- approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable;
- reviewed the audit process and evaluated the effectiveness of the audit;
- obtained assurance from the external auditors that their independence was not impaired;
- confirmed that no reportable irregularities were identified and reported by the external auditors; and
- considered reports from subsidiary audit committees

b) In respect of the financial statements:
- confirmed the going concern basis for the preparation of the interim and annual financial statements;
- examined and reviewed the interim and annual financial statements prior to submission and approval by the Board;
- reviewed reports on the adequacy of the provisions for performing and non-performing loans and impairment of other assets, and the formulae applied by the Group in determining charges for and levels of impairment of performing loans;
- ensured that the annual financial statements fairly present the financial position of the Company at the end of the financial year and the results of operations and cash flows for the financial year considered the basis on which the Group was determined to be a going concern;
- ensured that the annual financial statements conform with IFRS
- considered accounting treatments, significant unusual transactions and accounting judgements;
- considered the adequacy and effectiveness of the accounting policies adopted by the Group and all proposed changes in accounting policies and practices and changes thereto;
- reviewed the effectiveness of financial management and the quality of internal accounting control systems and reports produced by Management;
- reviewed and discussed the external auditors' audit report; and
- considered and made recommendations to the Board on the interim and final dividend payments to shareholders.

c) In respect of internal control, internal audit and financial crime control:
- reviewed and approved the annual internal audit mandate and audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its mandate;
- considered reports of the internal and external auditors on the Group's systems of internal control, including internal financial controls, and maintenance of effective internal control systems;
- reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to such findings by Management;
- assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory;
- received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof;
- discussed significant financial crime matters and control weaknesses identified;
- over the course of the year, met separately with the Head of Internal Audit and the external auditors twice; and
- reviewed any significant legal and tax matters that could have a material impact on the financial statements.

Based on the above, the Committee formed the opinion that, as at 31 December 2014, there were no material breakdowns in internal controls, including internal financial controls, resulting in any material loss to the group.

Independence of the external auditors

The BAC is satisfied that PricewaterhouseCoopers are independent of the Group. This conclusion was arrived at, inter alia, after taking into account the following factors:
- the representations made by PricewaterhouseCoopers to the BAC;
- the Auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the Group;
- the Auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the Auditors; and
- the Auditors' independence was not prejudiced as a result of any previous appointment as auditor.

The BAC has reviewed the Annual Report and recommended it to the Board for approval.

On behalf of the Board Audit Committee

Gayling May
Chairman, Board Audit Committee
25 February 2015

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December, 2014, in accordance with section 157 of the Kenyan Companies Act, which discloses the state of affairs of the Group and the Company.

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

Results and Dividends
Profit for the year of KShs 5,686,661,000 (2013: KShs 5,127,156,000) has been added to retained earnings.

During the year, an interim dividend of KShs 0.95 (2013: KShs 0.63) per ordinary share amounting to KShs 376 million (2013: KShs 249 million) was paid.

Subject to the approval of the Shareholders at the Annual General Meeting, the Directors recommend payment of a final dividend of KShs 5.20 (2013: 1.52) per ordinary share equivalent to a total sum of KShs. 2,056 million (2013: 600 million). The total dividend for the year, therefore, will be KShs 6.15 (2013: KShs 2.15) for every one ordinary share, amounting to KShs 2,432 million (2013: KShs 849 million).

Share Capital
The total number of authorised shares as at 31 December 2014 was 473,684,211 (2013: 473,684,211), ordinary shares of KShs 5 each, with 395,321,638 shares being issued.

Directors
The Directors who held office during the year and to the date of this report are set out on page 42 to 45.

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).

Approval of Financial Statements
The Financial Statements were approved by the Board of Directors on 25 February 2015.

BY ORDER OF THE BOARD

Lillian Mbindyo
Company Secretary
25 February 2015

Statement of Directors' responsibilities

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

The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

(i) Designing, implementing and maintaining internal controls as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

(ii) Selecting and applying appropriate accounting policies and

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

The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Group at 31 December 2014 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

The financial statements were approved by the Board of directors on 25 February 2015 and signed on its behalf by:

Fred N Ojiambo, MBS, SC
Chairman

K. Mbathi
Chief Executive

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of CfC Stanbic Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), as set out on pages 54 to 139.

These financial statements comprise the consolidated statement of financial position at 31 December 2014, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, together with the statement of financial position of the Company standing alone as at 31 December 2014 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and the statement of cash flows of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial position of the Group and of the Company at 31 December 2014 and of the profit and cash flows of the Group and company for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers

Certified Public Accountants
Nairobi
25 February 2015

PricewaterhouseCoopers CPA. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
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Consolidated and company statement of profit or loss

For the year ended 31 December

		Group		Company	
		2014	2013	2014	2013
	Note	KShs'000	KShs'000	KShs'000	KShs'000
Interest income	6	11,642,457	10,336,492	27,644	1,092
Interest expense	7	(3,180,512)	(2,794,378)	-	-
Net interest income		**8,461,945**	**7,542,114**	**27,644**	**1,092**
Credit impairment charges on loans and advances	22(d)	(702,822)	(766,601)	-	-
Net interest income after credit impairment charges		**7,759,123**	**6,775,513**	**27,644**	**1,092**
Fee and commission revenue	8	3,554,510	3,189,124	-	-
Fee and commission expense	9	(246,863)	(308,398)	-	-
Net fee and commission revenue		**3,307,647**	**2,880,726**	**-**	**-**
Trading revenue	10	4,779,322	5,659,242	-	-
Other income	11	321,584	121,000	1,093,765	250,000
Other operating income		**5,100,906**	**5,780,242**	**1,093,765**	**250,000**
Total income		**16,167,676**	**15,436,481**	**1,121,409**	**251,092**
Employee benefits	12	(4,472,141)	(4,030,095)	-	-
Depreciation of property, and equipment and amortisation expense of intangible assets	14	(556,912)	(623,358)	-	(60)
Other expenses	13	(3,438,377)	(3,559,023)	(25,799)	46,445
Total operating, administration and general expenses		**(8,467,430)**	**(8,212,476)**	**(25,799)**	**46,385**
Profit before income tax		**7,700,246**	**7,224,005**	**1,095,610**	**297,477**
Income tax expense	15	(2,013,585)	(2,096,849)	(45)	-
Profit for the year		**5,686,661**	**5,127,156**	**1,095,565**	**297,477**
Profit attributable to:					
Equity holders of the parent		5,686,661	5,127,156	1,095,565	297,477
Earnings per share basic and diluted (KShs)	**16**	**14.38**	**12.97**	**2.77**	**0.75**

The notes set out on pages 60 to 139 form an integral part of these financial statements.

Consolidated and company statement of comprehensive income

For the year ended 31 December

	Group		Company	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Profit for the year	**5,686,661**	**5,127,156**	**1,095,565**	**297,477**
Other comprehensive income for the year				
Items that will not be reclassified to profit or loss:				
De-recognition of deferred income tax liability on revaluation of buildings	-	36,779	-	-
(Items that may be subsequently reclassified to profit or loss)				
Foreign currency translation differences for foreign operations	(61,538)	30,224	-	-
Fair value changes on available-for-sale instruments	(202,908)	179,361	-	-
Deferred income tax credit/(charge) on fair valuation of available - for - sale financial assets	2,948	(36,376)	-	-
De-recognition of deferred income tax liability on available-for-sale reserve on infrastructure bonds	-	76,731	-	-
Other comprehensive income for the year, net of tax	**(261,498)**	**286,719**	**-**	**-**
Total comprehensive income for the year	**5,425,163**	**5,413,875**	**1,095,565**	**297,477**
Attributable to:				
Equity holders of the parent	5,425,163	5,413,875	1,095,565	297,477

The notes set out on pages 60 to 139 form an integral part of these financial statements.

Consolidated and company statement of financial position

As at 31 December	Note	Group 2014 KShs'000	Group 2013 KShs'000	Company 2014 KShs'000	Company 2013 KShs'000
Assets					
Cash, banks and balances with Central Bank of Kenya	18	9,555,580	9,466,550	56,911	92,907
Financial investments	20	49,283,320	45,153,463	-	-
Available-for-sale pledged assets debt	19	2,884,293	3,391,972	-	-
Derivative assets	30	1,960,415	3,003,522	-	-
Loans and advances to banks	22 (a)	12,862,672	34,714,199	-	-
Loans and advances to customers	22 (b)	88,347,438	69,133,492	-	-
Other assets and prepayments	23	2,417,387	2,352,592	8,041	3,393
Investment in subsidiaries	24	-	-	18,175,338	18,175,338
Property and equipment	25	2,348,229	2,175,185	-	-
Prepaid operating lease	26	59,807	62,761	-	-
Other intangible assets	27	490,565	759,289	-	-
Intangible assets - goodwill	28	9,349,759	9,349,759	-	-
Current tax recoverable	34 (b)	4,294	-	-	-
Deferred income tax	34 (c)	1,435,226	949,013	-	-
Total assets		**180,998,985**	**180,511,797**	**18,240,290**	**18,271,638**
Liabilities					
Derivative liabilities	30	2,232,264	2,777,183	-	-
Financial liabilities fair value through profit or loss	21	-	259,676	-	-
Deposits from banks	31	33,570,267	35,558,146	-	-
Deposits from customers	31	95,838,876	94,727,839	-	-
Other liabilities and accrued expenses	33	5,948,968	8,683,721	31,220	24,691
Borrowings	32	6,513,417	5,847,752	-	-
Balances due to group companies	37	-	-	1,833	158,877
Current income tax	34 (b)	-	231,689	45	-
Total liabilities		**144,103,792**	**148,086,006**	**33,098**	**183,568**
Equity					
Ordinary share capital	29	1,976,608	1,976,608	1,976,608	1,976,608
Ordinary share premium	29	16,897,389	16,897,389	16,897,389	16,897,389
Other reserves	40	330,248	444,709	-	-
Retained earnings		15,635,275	12,506,196	(2,722,478)	(1,386,816)
Proposed dividend	17	2,055,673	600,889	2,055,673	600,889
Total equity attributable to equity holders of the parent		**36,895,193**	**32,425,791**	**18,207,192**	**18,088,070**
Total equity and liabilities		**180,998,985**	**180,511,797**	**18,240,290**	**18,271,638**

The notes set out on pages 60 to 139 form an integral part of these financial statements. The financial statements on pages 54 to 139 were approved for issue by the Board of Directors on 25 February 2015 and signed on its behalf by:

Fred N. Ojiambo, MBS, SC
Chairman

K. Mbathi
Chief Executive

G.R. May
Director

Lillian Mbindyo
Company Secretary

Consolidated statement of changes in equity

For the year ended 31 December 2014	Note	Share Capital	Share Premium	Other Reserves	Retained Earnings	Proposed Dividends	Total Equity
		Attributable to equity holders					
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2014		**1,976,608**	**16,897,389**	**444,709**	**12,506,196**	**600,889**	**32,425,791**
Profit for the year		-	-	-	**5,686,661**	-	**5,686,661**
Other comprehensive income, net of tax		-	-	**(135,146)**	**(126,353)**	-	**261,499**
Transactions with owners, recorded directly in equity Contributions by and distributions to equity holders of the parent							
Dividends to equity holders - dividend paid	17	-	-	-	(375,556)	(600,889)	(976,445)
Dividends to equity holders - proposed dividend	17	-	-	-	(2,055,673)	2,055,673	-
Share based payment reserve	41(a)	-	-	20,685	-	-	20,685
Total transactions with equity holders			-	**20,685**	**(2,431,229)**	**1,454,784**	**(955,760)**
At 31 December 2014		**1,976,608**	**16,897,389**	**330,248**	**15,635,275**	**2,055,673**	**36,895,193**

For the year ended 31 December 2013							
At 1 January 2013		**1,976,608**	**16,897,389**	**143,425**	**8,223,466**	-	**27,240,888**
Profit for the year		-	-	-	**5,127,156**	-	**5,127,156**
Other comprehensive income, net of tax		-	-	**286,719**	-	-	**286,719**
Transactions with owners, recorded directly in equity Contributions by and distributions to equity holders of the parent							
Dividends to equity holders - dividend paid	17	-	-	-	**(249,053)**	-	**(249,053)**
Dividends to equity holders-proposed dividend	17	-	-	-	(600,889)	600,889	-
Transfer of vested share option from share based reserve	41(a)	-	-	(5,516)	5,516	-	-
Share based payment reserve	41(a)	-	-	20,081	-	-	**20,081**
Total transactions with equity holders		-	-	**14,565**	**(844,426)**	**600,889**	**(228,972)**
At 31 December 2013		**1,976,608**	**16,897,389**	**444,709**	**12,506,196**	**600,889**	**32,425,791**

The notes set out on pages 60 to 139 form an integral part of these financial statements.

Company statement of changes in equity

		Attributable to equity holders				
	Note	Share Capital	Share Premium	Retained Earnings	Proposed Dividend	Total Equity
For the year ended 31 December 2014		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2014		1,976,608	16,897,389	(1,386,816)	600,889	18,088,070
Total comprehensive income for the year		-	-	1,095,565	-	1,095,565
Transactions with owners, recorded directly in equity						
Contribution by and distributions to equity holders						
Dividend to equity holders - dividend paid	17	-	-	(375,556)	(600,889)	976,445
Dividend to equity holders - proposed dividend	17	-	-	(2,055,673)	2,055,673	-
Total transactions with equity holders		-	-	(2,431,229)	1,454,784	(976,445)
At 31 December 2014		1,976,608	16,897,389	(2,722,480)	2,055,673	18,207,190
For the year ended 31 December 2013						
At 1 January 2013		1,976,608	16,897,389	(834,351)	-	18,039,646
Total comprehensive income for the year		-	-	297,477	-	297,477
Transactions with owners, recorded directly in equity						
Contribution by and distributions to equity holderss						
Dividend to equity holders - interim dividend paid	17	-	-	(249,053)	-	(249,053)
Dividend to equity holders - proposed dividend	17	-	-	(600,889)	600,889	-
Total transactions with equity holders		-	-	(849,942)	600,889	(249,053)
At 31 December 2013		1,976,608	16,897,389	(1,386,816)	600,889	18,088,070

The notes set out on pages 60 to 139 form an integral part of these financial statements

Consolidated and company statement of cash flows

For the year ended 31 December		Group		Company	
	Note	2014	2013	2014	2013
		KShs '000	KShs '000	KShs '000	KShs '000
Cash flows generated from operating activities	35 (a)	**8,774,316**	**7,252,194**	**1,095,610**	**287,823**
Income tax paid	34 (b)	(2,724,750)	(2,619,134)	-	-
Tax refund	34 (a)	-	149,745	-	149,745
Net cash generated from operating activities before changes in operating assets		**6,049,566**	**4,782,805**	**1,095,610**	**437,568**
Loans and advances to customers		(19,213,946)	(2,983,651)	-	-
Loans and advances to banks		(5,685)	1,339,081	-	-
Financial assets fair value through profit or loss		(6,215,398)	1,036,253	-	-
Financial assets available-for-sale		(4,371,222)	(7,948,837)	-	-
Cash ratio requirement		(267,378)	(615,702)	-	-
Other assets and prepayments		(64,796)	(401,769)	(4,646)	(163)
Deposits from customers		1,111,037	19,821,076	-	-
Deposits from banks		7,502,897	19,540,588	-	-
Other liabilities and accrued expenses		(2,734,753)	2,720,113	(150,515)	(273,125)
Changes in operating assets and liabilities		**(24,259,244)**	**32,507,152**	**(155,161)**	**(273,288)**
Net cash (used in)/generated from operating activities		**(18,209,678)**	**37,289,957**	**940,449**	**164,280**
Additions to property and equipment	25	(461,422)	(301,747)	-	-
Additions to intangible assets	27	(6,500)	(49,249)	-	-
Proceeds from the sale of equipment		7,325	2,783	-	-
Cash used in investing activities		**(460,597)**	**(348,213)**	**-**	**-**
Dividends paid to equity holders of parent		(976,445)	(249,053)	(976,445)	(249,053)
Subordinated debt issued		4,012,563	-	-	-
Subordinated debt redeemed		(3,346,898)	(849,979)		
Cash used in financing activities		**(310,780)**	**(1,099,032)**	**(976,445)**	**(249,053)**
Net (decrease)/ increase in cash and cash equivalents		**(18,981,055)**	**35,842,712**	**(35,996)**	**(84,773)**
Effect of exchange rate fluctuations on cash and cash equivalent held		(65,586)	4,312	-	-
Cash and cash equivalents at 1 January		41,656,793	5,809,769	92,907	177,680
Cash and cash equivalents at 31 December	35 (b)	**22,610,152**	**41,656,793**	**56,911**	**92,907**

The notes set out on pages 60 to 139 form an integral part of these financial statements.

Notes

1 General information

CfC Stanbic Holdings Limited is incorporated in Kenya under the Companies Act as a limited liability company, and is domiciled in Kenya. The address of its registered office is:
CfC Stanbic Centre
Chiromo Road
P O Box 72833
00200 Nairobi

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

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

2 Summary of significant accounting policies

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

a) Basis of preparation

The consolidated and company financial statements ('financial statements') have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS.

Basis of measurement
The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

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

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

i) **New and amended standards adopted by the Company and the Group**
The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the Group:

IAS 32 Financial Instruments: Presentation - Amendment to Offsetting Financial Assets and Financial Liabilities (IAS 32)

IFRS 10 Consolidated Financial Statements - Investment Entities amendment (IFRS 10)

IFRIC 21 Levies (IFRIC 21)

Early adoption of revised standards
Amendment to IAS 16 Property, Plant and Equipment (IAS 16) and IAS 38 Intangible Assets (IAS 38) – Clarification of Acceptable Methods of Depreciation and Amortisation (2014 amendment)

Annual improvements 2012 – 2014 cycle (excluding the amendments relating to IFRS 7 Financial instruments: Disclosure – Servicing Contracts) (2014 amendment).

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures which provides a parent entity with further relief from the requirement to present consolidated financial statements (2014 amendment).

IFRS 14 Regulatory Deferral Accounts (2014 issued) (IFRS 14).

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

(ii) **Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group**
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

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

b) Consolidation

The consolidated financial statements incorporate the financial statements of CfC Stanbic Holdings Limited and its subsidiaries; CfC Stanbic Bank Limited, CfC Stanbic Nominees Limited, SBG Securities Limited and CfC Financial Services Nominees Limited. The financial statements have been made up to 31 December 2014.

i) Subsidiaries

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

If the business combination is achieved in stages, the acquisition date carrying of the acquirer's previously held equity interest in the acquiree is re-measured to its fair value value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

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

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

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

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

iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the 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.

c) Functional currency and translation of foreign currencies

i) Functional and presentation currency

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

ii) Transactions and balances

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

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

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

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

iii) Group companies

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
(ii) income and expenses for each statement of profit or loss amount are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised in other comprehensive income.

Notes (continued)

2 Summary of significant accounting policies (continued)

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

d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Chief Executive Officer (CEO) with the assistance of the Bank's Executive Committee (EXCO) and the Asset and Liability Committee (ALCO).

Transactions between segments are priced at market-related rates, with intra-segment revenue and costs being eliminated in Group. Income and expenses directly associated with each segment are included in determining business segment performance.

e) Revenue and expenditure

Banking activities

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

Net interest income

Interest income and expense (with the exception of those borrowing costs that are capitalised), are recognised in the statement of profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss which are included under trading income. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate

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

Interest is recognised on the gross loan balance before taking portfolio impairment into account.

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

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

Non-interest revenue

Net fee and commission revenue

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

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

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

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

Trading revenue

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

Other revenue

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

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

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

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

Dividend income

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

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.

The assets in this category had a total carrying value of KShs 22,610,152,000 at the financial reporting date of December 2014 (2013: KShs 41,656,793,000).

g) Financial instruments

i) Initial recognition and measurement

Financial instruments include all financial assets and liabilities. These instruments are typically held for liquidity, investment, trading or hedging purposes. All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss. Financial instruments are recognised (derecognised) on the date the Group commits to purchase (sell) the instruments (trade date accounting).

ii) Subsequent measurement

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

a) Held-to-maturity

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

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

b) Held-for-trading assets and liabilities

Held-for-trading assets and liabilities include those financial assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term, those forming part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, and commodities that are acquired principally by the Group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. Derivatives are always categorised as held-for-trading. Subsequent to initial recognition, the financial instruments' fair values are remeasured at each reporting date. All gains and losses, including interest and dividends arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue with the exception of derivatives that are designated and effective as hedging instruments (refer to 'Derivative financial instruments and hedge accounting' within this accounting policy for further details).

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

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

- this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. Under this criterion, the main classes of financial instruments designated by the Group are loans and advances to Groups and customers and financial investments. The designation significantly reduces measurement inconsistencies that would have otherwise arisen. For example, where the related derivatives were treated as held-for-trading and the underlying financial instruments were carried at amortised cost. This category also includes financial assets used to match investment contracts groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the Group's key management personnel on a fair-value basis. Under this criterion, certain private equity, and other investment portfolios have been designated at fair value through profit or loss; or
- financial instruments containing one or more embedded derivatives that significantly modify the instruments' cash flows. The fair value designation is made on initial recognition and is irrevocable. Subsequent to initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (interest expense) for all debt financial assets (financial liabilities) and in other revenue within non-interest revenue for all equity instruments.

d) Available-for-sale

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

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

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

Interest income, calculated using the effective interest method, is recognised in profit or loss. Dividends received on debt (equity) available-for-sale instruments are recognised in interest income (other revenue) within profit or loss when the Group's right to receive payment has been established.

e) Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Group as at fair value through profit or loss or available-for-sale

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

f) Financial liabilities at amortised cost

Financial liabilities that are neither held for trading nor designated at fair value are measured at amortised cost.

iii) Reclassification of financial assets

The Group may choose to reclassify non-derivative trading assets out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets that would not otherwise have met the definition of loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Derivatives or any financial instrument designated at fair value through profit or loss shall not be reclassified out of their respective categories.

Notes (continued)

2 Summary of significant accounting policies (continued)

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. Subsequent increases in estimates of cash flows adjust the financial asset's effective interest rates prospectively.

On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

iv) Impairment of financial assets

a) Assets carried at amortised cost

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

Criteria that are used by the Group in determining whether there is objective evidence of impairment include:

- known cash flow difficulties experienced by the borrower
- a breach of contract, such as default or delinquency in interest and/or principal payments
- breaches of loan covenants or conditions
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, and
- where the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise consider.

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

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

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

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

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

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

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

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

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

b) Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to on-going review to determine whether they are considered to be impaired or past due.

The effective interest rate of renegotiated loans that have not been derecognised (described under the heading Derecognition of financial instruments), is predetermined based on the loan's renegotiated terms.

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have a negative impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is considered to be impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss.

If, in a subsequent period, the amount relating to impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

v) Offsetting financial instruments

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

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

vi) Derivative financial instruments and hedge accounting
A derivative is a financial instrument whose fair value changes in response to an underlying variable, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value.

All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative, subject to offsetting principles as described under the heading Offsetting financial instruments.

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The financial host contracts are accounted for and measured applying the rules of the relevant financial instrument category.

The method of recognising fair value gains and losses depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the hedge relationship, or if they are classified as held-for-trading.

a) Derivatives that qualify for hedge accounting
When derivatives are designated in a hedge relationship, the Group designates them as either:
- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedges)
- hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecast transaction, or a highly probable forecast intragroup transaction in the consolidated annual financial statements (cash flow hedges), or
- hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The bank documents, at the inception of the hedge relationship, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. The Group also documents its assessment, both at the inception of the hedge and on an on-going basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items

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

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

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

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

e) Derivatives that qualify for hedge accounting
When derivatives are designated in a hedge relationship, the Group designates them as either:
- hedges of the fair value of recognised financial assets or liabilities firm commitments (fair value hedges)
- hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecast transaction, or a highly probable forecast intragroup transaction in the consolidated annual financial statements (cash flow hedges), or Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The bank documents, at the inception of the hedge relationship, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. The Group also documents its assessment, both at the inception of the hedgeand on an on-going basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items

vii) Borrowings
Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost and interest is recognised using the effective interest method.

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

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss.

In all other instances, the renegotiated asset or liability's effective interest rate is predetermined taking into account the renegotiated terms.

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

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

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

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

Securities lent to counterparties are retained in the annual financial statements. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability.

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

h) Intangible assets

Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Groups Cash-generating Units (GCUs), or groups of (GCUs), that is expected to benefit from the synergies of the combination.

Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Note 28 sets out the major cash generating unit to which goodwill has been allocated.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use. Any impairment recognised on goodwill is not subsequently reversed.

Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use; management intends to complete the softwareproduct and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

Other intangible assets

The Group recognises the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in profit or loss as incurred.

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

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

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

i) Property and equipment

Equipment and owner-occupied properties

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

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

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

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

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

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

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

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

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

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

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

j) Impairment of non-financial assets

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

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value lesscosts 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.

k) Leases

Group as lessee

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

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

Group as lessor

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

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

The benefits arising from investment allowances on assets leased to clients are accounted for in tax.

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

l) Provisions and contingent liabilities

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

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

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

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

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

m) Employee benefits

i) Defined contribution plan

The majority of the Group's employees are eligible for retirement benefits under a defined contribution plan. The Group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Group pays fixed contributions into a separate entity.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Group and employees. The Group's contributions to the defined contribution schemes are charged to the statement of profit or loss in the year in which they fall due.

ii) Short-term benefits

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

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

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

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

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

iii) Equity compensation plans

The Group operates both equity-settled and cash-settled share-based compensation plans.

The fair value of equity-settled share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. Non-market vesting conditions, such as the resignation of employees and retrenchment of staff, are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against profit or loss and equity over the remaining vesting period.

On vesting of share options, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of equity- settled share options, proceeds received are credited to share capital and premium.

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every reporting date and on settlement. Any changes in the liability are recognised in profit or loss.

n) Current and deferred income tax

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

i) Current income tax

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

ii) Deferred income tax

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

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

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

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

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

o) Share capital

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

p) Dividends on ordinary shares

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

q) Fiduciary activities

The group commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the group. However, fee income earned and fee expenses incurred by the group relating to the group's responsibilities from fiduciary activities are recognised in profit or loss.

r) Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss.

s) Comparative figures

Where necessary, comparative figures within notes have been restated to conform to changes in presentation in the current year.

3 Critical accounting estimates and judgements in applying accounting policies

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

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Where the net present value of estimated cash flows to differ by +/-1%, the impairment loss is to be estimated at KShs 19,206,600,000 higher or KShs 19,206,600,000 lower.

Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(j). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note 28.

Income taxes

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

Retirement benefits

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

Were the discount rate used in 2013 and 2014 to differ by +/- 10% from directors' estimates, the defined benefit obligation for pension benefits would have been an estimated KShs 300,000 lower or KShs 300,000 higher.

Notes (continued)

4 Segmental reporting

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

The Group is required to disclose information to the users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates in compliance with IFRS 8.

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

Management has determined the operating segments based on the reports reviewed by the Group's Chief Executive Officer (CEO) with the assistance of the Bank's Executive Committee (EXCO) and the Asset and Liability Committee (ALCO). Management considers the business from client turnover perspective.

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

The geographical spread (across borders) is also used as a part of performance analysis. The Group operates one branch in the Republic of South Sudan.

Personal and Business Banking (PBB)

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

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

Corporate and Investment Banking (CIB)

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

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

Major Customers

The Group does not have any one major customer that contributes more than 10% of its revenues. However the Group has one major customer whose deposits contribute 6% (2013: 8%) of total deposits as at December 2014.

The interest expense paid to this customer is reported under the Corporate and Investment Banking segment.

4 Segmental reporting (continued)

Results by business unitss

Statement of profit or loss

	Total Group		CIB		PBB	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
	Kshs'000	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
Interest income	11,642,457	10,336,492	6,918,617	5,991,264	4,723,840	4,345,228
Interest expense	(3,180,512)	(2,794,378)	(2,269,415)	(1,688,475)	(911,097)	(1,105,903)
Net interest income	**8,461,945**	**7,542,114**	**4,649,202**	**4,302,789**	**3,812,743**	**3,239,325**
Impairment (losses)/credits on loans and advances	(702,822)	(766,601)	(60,729)	7,274	(642,093)	(773,875)
Net interest income after loan impairment charges	**7,759,123**	**6,775,513**	**4,588,473**	**4,310,063**	**3,170,650**	**2,465,450**
Fees and commission income	3,554,511	3,189,124	1,646,545	2,036,795	1,907,966	1,152,329
Fees and commission expense	(246,864)	(308,398)	(3,215)	(51,824)	(243,649)	(256,574)
Net fees and commission income	**3,307,647**	**2,880,726**	**1,643,330**	**1,984,971**	**1,664,317**	**895,755**
Trading income	4,779,322	5,659,242	4,779,322	5,659,242	-	-
Net other operating income	321,584	121,000	103,569	94,435	218,015	26,565
Net trading and other income	**5,100,906**	**5,780,242**	**4,882,891**	**5,753,677**	**218,015**	**26,565**
Employee benefits	(4,472,141)	(4,030,095)	(2,029,581)	(2,041,993)	(2,442,560)	(1,988,102)
Depreciation and amortisation expense	(556,912)	(623,358)	(220,141)	(265,740)	(336,771)	(357,618)
Administrative expenses	(3,438,377)	(3,559,023)	(1,969,391)	(2,287,370)	(1,468,986)	(1,271,653)
Profit/(Loss) before tax	**7,700,246**	**7,224,005**	**6,895,581**	**7,453,608**	**804,665**	**(229,603)**
Income tax expense	(2,013,585)	(2,096,849)	(1,791,415)	(2,190,329)	(222,170)	93,480
Profit/(Loss) for the year	**5,686,661**	**5,127,156**	**5,104,166**	**5,263,279**	**582,495**	**(136,123)**

Notes (continued)

4 Segmental reporting (continued)

Results by business units (continued)
The Group is domiciled in Kenya and the revenue and non-current assets by country of domicile are included in the sections below:

Statement of financial position

	Total		CIB		PBB	
	2014	2013	2014	2013	2014	2013
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Assets						
Cash and balances with Central Bank of Kenya	9,555,580	9,466,551	8,697,931	8,665,083	857,649	801,468
Financial assets	52,167,614	48,545,435	52,149,864	48,545,435	17,750	-
Derivative assets	1,960,415	3,003,522	1,960,415	3,003,522	-	-
Loans and advances	101,210,109	103,847,691	57,984,570	70,702,712	43,225,539	33,144,979
Property, equipment and intangibles	2,898,601	2,997,235	1,186,217	1,721,570	1,712,384	1,275,665
Goodwill	9,349,759	9,349,759	9,349,759	9,349,759	-	-
Deferred income tax	1,435,226	949,013	545,230	336,724	889,996	612,289
Current tax assets	4,294	-	(30,019)	-	34,313	-
Other receivables and prepayments	2,417,387	2,913,749	293,219	1,835,218	2,124,168	1,078,531
Total assets	**180,998,985**	**181,072,955**	**132,137,186**	**144,160,023**	**48,861,799**	**36,912,932**
Liabilities						
Deposits	129,409,143	130,285,985	84,611,477	97,602,307	44,797,666	32,683,678
Current income tax	-	231,689	(2,358)	209,559	2,358	22,130
Trading liabilities	-	259,676	-	259,676	-	-
Derivative liabilities	2,232,264	2,777,183	2,232,264	2,777,183	-	-
Borrowings	6,513,417	5,847,752	4,215,066	3,945,116	2,298,351	1,902,636
Other liabilities and accrued expenses	5,948,971	9,244,879	2,624,555	6,774,565	3,324,416	2,470,314
Total liabilities	**144,103,795**	**148,647,164**	**93,681,004**	**111,568,406**	**50,422,791**	**37,078,758**
Shareholders' equity	**36,895,190**	**32,425,791**	**28,172,562**	**25,635,387**	**8,722,628**	**6,790,404**
Funding	-	-	**10,283,620**	**6,956,230**	**(10,283,620)**	**(6,956,230)**
Total equity and liabilities	**180,998,985**	**181,072,955**	**132,137,186**	**144,160,023**	**48,861,799**	**36,912,932**
Other information						
Additions to property and equipment	461,422	301,747	156,998	134,748	304,424	166,999
Additions to intangible assets	6,500	49,249	2,239	17,975	4,262	31,274

4 Segmental reporting (continued)

Results by geographical area (continued)

Statement of profit or loss

	Total		Sudan		Kenya	
	2014	2013	2014	2013	2014	2013
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Interest income	11,642,456	10,336,492	10,077	27,891	11,632,379	10,308,601
Interest expense	(3,180,512)	(2,794,378)	-	-	(3,180,512)	(2,794,378)
Net interest income	**8,461,944**	**7,542,114**	**10,077**	**27,891**	**8,451,867**	**7,514,223**
Impairment losses on loans and advances	(702,822)	(766,601)	-	-	(702,822)	(766,601)
Net interest income after loan impairment charges	**7,759,122**	**6,775,513**	**10,077**	**27,891**	**7,749,045**	**6,747,622**
Fees and commission income	3,586,823	3,189,124	499,039	621,734	3,087,784	2,567,390
Fees and commission expense	(279,176)	(308,398)	(11,798)	(26,228)	(267,378)	(282,170)
Net fees and commission income	**3,307,647**	**2,880,726**	**487,241**	**595,506**	**2,820,406**	**2,285,220**
Trading income	4,779,321	5,659,242	877,397	1,231,480	3,901,924	4,427,762
Net other operating income	321,583	121,000	16	-	321,567	121,000
Net trading and other income	**5,100,904**	**5,780,242**	**877,413**	**1,231,480**	**4,223,491**	**4,548,762**
Employee benefits	(4,472,141)	(4,030,095)	(286,264)	(278,394)	(4,185,877)	(3,751,701)
Depreciation and amortisation expense	(556,912)	(623,358)	(33,093)	(31,663)	(523,819)	(591,695)
Administrative expenses	(3,438,375)	(3,559,023)	(495,904)	(620,677)	(2,942,471)	(2,938,346)
Profit before tax	**7,700,245**	**7,224,005**	**559,470**	**924,143**	**7,140,775**	**6,299,862**
Income tax expense	(2,013,585)	(2,096,849)	(88,571)	(176,836)	(1,925,014)	(1,920,013)
Profit for the year	**5,686,660**	**5,127,156**	**470,899**	**747,307**	**5,215,761**	**4,379,849**

Notes (continued)

4 Segmental reporting (continued)

Statement of financial position

	Total		Sudan		Kenya	
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
	2014	2013	2014	2013	2014	2013
Assets						
Cash and balances with Central Bank of Kenya	17,563,801	9,466,550	6,537,865	691,237	11,025,936	8,775,313
Financial assets	52,167,613	48,545,435	242,743	248,488	51,924,870	48,296,947
Derivative assets	1,960,415	3,003,522	-	-	1,960,415	3,003,522
Loans and advances	96,542,734	107,578,129	2,957,700	14,657,527	93,585,034	92,920,602
Property, equipment and intangibles	2,898,601	2,997,235	245,532	159,588	2,653,069	2,837,647
Goodwill	9,349,759	9,349,759	-	-	9,349,759	9,349,759
Deferred income tax	1,435,489	949,013	636	18,194	1,434,853	930,819
Current tax recoverable	72,548	-	37,954	-	34,594	-
Other receivables and prepayments	4,657,686	2,352,592	171,855	396,893	4,485,831	1,955,699
Total assets	**186,648,646**	**184,242,235**	**10,194,285**	**16,171,927**	**176,454,361**	**168,070,308**
Liabilities						
Deposits	132,749,988	134,016,423	8,046,134	11,015,082	124,703,854	123,001,341
Current income tax	68,254	231,689	-	111,789	68,254	119,900
Trading liabilities	-	259,676	-	-	-	259,676
Derivative liabilities	2,232,264	2,777,183	-	-	2,232,264	2,777,183
Borrowings	6,513,417	5,847,752	-	-	6,513,417	5,847,752
Other liabilities and accrued expenses	8,189,533	8,683,721	2,655,031	4,152,795	5,534,502	4,530,926
Total liabilities	**149,753,456**	**151,816,444**	**10,701,165**	**15,279,666**	**139,052,291**	**136,536,778**
Shareholders' equity	**36,895,190**	**32,425,791**	**(506,880)**	**892,261**	**37,402,070**	**31,533,530**
Funding						
Total equity and liabilities	**186,648,646**	**184,242,235**	**10,194,285**	**16,171,927**	**176,454,361**	**168,070,308**
Other information						
Additions to property and equipment	461,423	301,747	126,497	48,160	334,926	253,587
Additions to intangible assets	6,500	49,249	-	-	6,500	49,249

4 Segmental reporting (continued)

Results by geographical area (continued)

Reconciliation of reportable assets and liabilities

	2014	2013
Assets	**KShs'000**	**KShs'000**
Total assets for reportable segments	186,648,646	184,242,235
Elimination of inter-company balances with CfC Stanbic Limited	(5,649,661)	(3,730,438)
Entity's assets	**180,998,985**	**180,511,797**
Liabilities		
Total liabilities for reportable segments	186,648,646	184,242,235
Elimination of inter-company balances with CfC Stanbic Limited	(5,649,661)	(3,730,438)
Entity's liabilities	**180,998,985**	**180,511,797**

5 Financial risk management

Group risk management framework and governance structures
The Group has exposure to the following risks from its use of financial instruments:

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

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

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

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

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

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

- To comply with the capital requirements set by the regulator, Capital Markets Authority
- To safeguard the Group's ability (and its subsidiaries) to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders
- To maintain a strong capital base to support the development of its business
- To comply, at the operating companies level, with capital requirements set by respective regulators such as the Central Bank of Kenya and Bank of South Sudan

Capital management - Company
The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

Notes (continued)

5 Financial risk management

a) Capital management - Company (continued)

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

Total capital is calculated as equity plus net debt.

	2014 KShs'000	2013 KShs'000
Total borrowings	-	-
Total equity	18,207,192	18,088,070
Gearing Ratio	**-**	**-**

The Board of Directors at the subsidiary companies are responsible for monitoring and ensuring compliance with the regulatory framework as established by the regulating bodies, namely Central Bank of Kenya, Capital Markets Authority, Bank of South Sudan and the Nairobi Securities Exchange. This section presents information about the Group's management of capital in the main operating divisions.

Capital management - Group

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

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

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

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

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

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

The Bank is required at all times to maintain:

- A regulatory capital of KShs 1 billion as at 31 December 2014;
- A core capital (tier 1) of not less than 8% of total risk weighted assets plus risk weighted off statement of financial position items;
- A core capital (tier 1) of not less than 8% of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 12% of its total risk adjusted assets plus risk adjusted off statement of financial position items.

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

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

In addition to the above minimum capital adequacy ratios of 8% and 12%, the Bank is required to hold a capital conservation buffer of 2.5% over and above these minimum ratios to enable it withstand future periods of stress. This brings the minimum core capital to risk weighted assets and total capital to risk weighted assets requirements to 10.5% and 14.5%, respectively. The capital conservation buffer should be made up of high quality capital which should comprise mainly of common equity, premium reserves and retained earnings. Institutions that currently meet the minimum capital ratios of 8% and 12% but remain below the buffer-enhanced ratios of 10.5% and 14.5% (current minimums plus conservation buffer) should maintain prudent earnings retention policies with a view to meeting the conservation buffer by 1 January 2015.

5 Financial risk management

a) Capital management (continued)

Capital management - Group (continued)

Bank's regulatory capital

	2014 KShs'000	2013 KShs'000
Tier 1 capital (Core capital)		
Share capital	3,411,549	3,411,549
Share premium	3,444,639	3,444,639
Foreign currency translation reserve	(68,403)	(5,565)
Retained earnings	17,520,145	14,358,958
Total Tier 1 capital (Core capital)	**24,307,930**	**21,209,581**
Tier 2 capital		
Regulatory credit risk reserve	129,649	-
Borrowings	4,812,270	3,347,255
Total Tier 2 capital	**4,941,919**	**3,347,255**
Total capital (Tier 1 + Tier 2)	**29,249,849**	**24,556,836**
Risk - weighted assets		
Operational risk	25,239,097	20,755,828
Market risk	13,218,970	11,443,369
On-statement of financial position balance	86,866,067	75,812,804
Off-statement of financial position balance	13,410,401	11,629,082
Total risk - weighted assets	**138,734,535**	**119,641,083**
Capital adequacy ratios		
Core capital / total risk - weighted assets	17.52%	17.73%
Minimum regulatory requirement	10.50%	10.50%
Total capital / total risk - weighted assets	21.08%	20.53%
Minimum regulatory requirement	14.50%	14.50%

Notes (continued)

5 Financial risk management (continued)

b) Credit risk

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

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

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

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

Governance committees

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

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

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

General approach to managing credit risk.

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

The Group manages credit risk through:
- maintaining strong culture of responsible lending and a robust risk policy and control framework
- identifying, assessing and measuring credit risk clearly and accurately across the Group, from the level of individual facilities up to the total portfolio
- defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions
- monitoring the Group's credit risk relative to limits
- ensuring that there is expert scrutiny and independent approval of credit risks and their mitigation.

Primary responsibility for credit risk management resides with the Group's business lines. This is complemented with an independent credit risk function embedded within the business units, which is in turn supported by the overarching group risk function.

Impairment provisions are provided for losses that have been incurred at the statement of financial position date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk.

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

Management reporting

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

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

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

Loans and advances including loan commitments and guarantees

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Group has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. All models are managed under model development and validation policies that set out the requirements for model governance structures and processes, and the technical framework within which model performance and appropriateness is maintained.

The models are developed using internal historical default and recovery data. In low default portfolios, internal data is supplemented with external benchmarks and studies.
Models are assessed frequently to ensure on-going appropriateness as business environments and strategic objectives change, and are recalibrated annually using the most recent internal data.

In measuring credit risk of loans and advances to customers and to Groups at a counter-party level, the Group reflects three components:
(i) the 'probability of default' by the client or counter-party on its contractual obligations;
(ii) current exposures to the counter-party and its likely future development, from which the Group derives the 'exposure at default'; and

5 Financial risk management

b) Credit risk (continued)

Loans and advances including loan commitments and guarantees (continued)

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

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

Loss given default
Loss given default (LGD) measures are a function of customer type, product type, seniority of loan, country of risk and level of collateralisation. LGDs are estimated based on historic recovery data per category of LGD. A downturn LGD is used in the estimation of the capital charge and reflects the anticipated recovery rates and macroeconomic factors in a downturn period.

Exposure at default
Exposure at default (EAD) captures the impact of potential draw-downs against unutilised facilities and changes in counterparty risk positions due to changes in market prices. By using historical data, it is possible to estimate the average utilisation of limits of an account when default occurs, recognising that customers may use more of their facilities as they approach default.

Debt securities
For debt securities, external rating such as Standard & Poor's rating or their equivalents are used by Bank Treasury for managing of the credit risk exposures as supplemented by the Bank's own assessment through the use of internal ratings tools.

Relationship between the bank master rating and external ratings

Bank Master rating scale	Moody's Investor Services	Standard & poor	Fitch	Grading	Credit Quality
1-4	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	Investment Grade	Normal Monitoring
5-7	A1, A2, A3	AA+, A, A-	AA+, A, A-		
8-12	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-		
13-21	Ba1, Ba2, Ba3	BB+, BB, BB-	BB+, BB, BB-	Sub-investment Grade	
22-25	Caa1, Caa2	CCC+, CCC, CCC-	CCC+, CCC, CCC-		Closing Monitoring
Default	C	D	D	D	D

Risk limit control and mitigation policies
The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and Groups, industries and countries.

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

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

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(i) Credit tailored to customer profile
There is a clear distinction between the fundamental credit characteristics of the Group's customer base. This customer base is managed according to the following market segments:
- Corporate and Investment Grouping
- Personal and Business Grouping

The Group has established separate credit management functions for each market segment.

Notes (continued)

5 Financial risk management (continued)

b) Credit risk (continued)

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

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

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

Personal and Business Banking (PBB) Retail portfolio
Retail mortgage exposures relate to mortgage loans to individuals and are a combination of both drawn and undrawn EADs. Qualifying retail revolving exposure (QRRE) relate to cheque accounts, credit cards and evolving personal loans and products, and include both drawn and undrawn exposures. Retail other covers other branch lending and vehicle finance for retail, retail small and retail medium enterprise portfolios. Branch lending includes both drawn and undrawn exposures, while vehicle and asset finance only has drawn exposures.

Internally developed behavioural scorecards are used to measure the anticipated performance for each account. Mapping of the behaviour score to a PD is performed for each portfolio using a statistical calibration of portfolio-specific historical default experience. The behavioural scorecard PDs are used to determine the portfolio distribution on the master rating scale. Separate LGD models are used for each product portfolio and are based on historical recovery data. EAD is measured as a percentage of the credit facility limit and is based on historical averages. EAD is estimated per portfolio and per portfolio-specific segment, using internal historical data on limit utilisation.

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

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

ii) Master netting arrangements
The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

iv) Derivative
For derivative transactions, the Group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure, where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

v) Collateral
The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The main types of collateral taken are:

5 Financial risk management

b) Credit risk (continued)

v) Collateral (continued)

Personal and Business Banking

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

Corporate and Investment Banking

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

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

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

Valuation of collateral

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

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

Collateral includes:

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

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

In the retail portfolio, 56% (2013: 58%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures in the 50% to 100% collateral coverage category is 80% (2013: 70%).

Of the Group's total exposure, 60% (2013: 60%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, Group counterparties and sovereign entities.

Notes (continued)

5 Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

v) Collateral (continued)

						Collateral coverage - Total		
31 December 2014	**Total exposure**	**Unsecured exposure**	**Secured exposure**	**Netting agree-ments**	**Secured exposure after netting**	**Greater than 0% to 50%**	**Greater than 50% to 100%**	**Greater than 100%**
Asset class								
Corporate	76,046,850	4,399,109	71,647,745	-	71,647,745	2,372,023	27,535,732	41,739,990
Sovereign	59,263,744	59,263,744	-	-	-	-	-	-
Bank	12,965,462	12,965,465	-	-	-	-	-	-
Retail	48,665,462	7,389,667	41,275,795	-	41,275,795	10,596,454	10,566,097	20,113,244
-Retail mortgage	14,491,750	-	14,491,750	-	14,491,750	-	6,862,303	7,629,447
-Other retail	34,173,712	7,389,667	26,784,045	-	26,784,045	10,596,454	3,703,794	12,483,797
Total	**196,941,521**	**84,017,981**	**112,923,540**	**-**	**112,923,540**	**12,968,477**	**38,101,829**	**61,853,234**

Add: Financial assets not exposed to credit risk	3,427,360
Add: Coins and bank notes	1,945,768
Add: Other financial assets	1,481,592
Less: Impairments for loans and advances	(1,991,978)
Less: Unrecognised off balance sheet items	(31,065,798)
Total exposure	**167,311,105**
Reconciliation to balance sheet	
Cash and balances with central banks	9,555,580
Derivative assets	1,960,415
Financial investments	25,446,393
Trading assets	23,836,927
Pledged assets	2,884,293
Other financial assets	2,417,387
Net loans and advances	101,210,110
Total on – balance sheet exposure	**167,311,105**

5 Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

v) Collateral (continued)

31 December 2013	Total exposure	Unsecured exposure	Secured exposure	Netting agree-ments	Secured exposure after netting	Collateral coverage - Total: Greater than 0% to 50%	Collateral coverage - Total: Greater than 50% to 100%	Collateral coverage - Total: Greater than 100%
Asset class								
Corporate	79,301,789	5,115,521	74,186,268	-	74,186,268	1,375,796	13,545,388	59,265,084
Sovereign	40,968,659	40,968,459	200	-	200	-	-	200
Bank	51,101,325	49,322,040	1,779,285	-	1,779,285	-	-	1,779,285
Retail	35,159,952	8,869,679	26,290,273	-	25,839,375	-	-	-
-Retail mortgage	11,200,660	-	11,200,660	-	11,200,660	-	-	-
-Other retail	23,959,292	8,869,679	15,089,613	-	14,638,714	-	-	-
Total	**209,531,725**	**104,275,699**	**102,256,026**	**-**	**101,805,127**	**1,375,796**	**13,545,388**	**61,044,569**
Add: Financial assets not exposed to credit risk	3,611,089							
Add: Coins and bank notes	2,213,047							
Add: Other financial assets	1,398,042							
Less: Impairments for loans and advances	(1,900,038)							
Less: Unrecognised off balance sheet items	(41,026,986)							
Total exposure	**167,215,790**							
Reconciliation to balance sheet								
Cash and balances with central banks	9,466,550							
Derivative assets	3,003,522							
Financial investments	21,948,112							
Trading assets	23,205,351							
Pledged assets	3,391,972							
Other financial assets	2,352,592							
Net loans and advances	103,847,691							
Total on – balance sheet exposure	**167,215,790**							

Notes (continued)

5 Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

v) Collateral (continued)

Repossessed Collateral
Assets repossessed as at the end of the year comprise saloon vehicles, prime movers and trailers, which had been financed by the Group under Vehicle and Asset Finance (VAF). As at the year end, the Group had taken possession of the following:

	2014 KShs' 000	2013 KShs' 000
Nature of assets		
Residential property	12,500	28,300
Commercial property	-	47,000
Other	490,965	384,056
	503,465	**459,356**

It is the Group's policy to dispose of repossessed properties on the open market, at fair market value. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

vi) Renegotiated financial assets
Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure. The table below shows the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated, by class.

	2014 KShs' 000	2013 KShs' 000
Personal and Business Banking		
Instalment sales and finance leases	534,607	59 673
Other loans and advances	289,494	190 636
Corporate and Investment Banking		
Corporate lending	-	-
	824,101	**250 309**

vii) Impairment and provisioning policy
The internal and external rating systems described above focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is lower than the amount determined from the expected loss model used for internal operational management and Grouping regulation purposes.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:
- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales)
- Breach of loan covenants or conditions
- Initiation of Groupruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral

5 Financial risk management (continued)

b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

vii) Impairment and provisioning policy (continued)

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

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

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

The impairment provision shown in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two grading (doubtful and loss categories).

Criteria for classification of loans and advances

Performing loans
Neither past due nor specifically impaired loans: are loans that are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated 1 to 21, and close monitoring loans are generally rated 22 to 25 using the bank's master rating scale.

Early arrears but not specifically impaired loans: include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse conditions persist.

Non-performing loans
Non-performing loans are those loans for which:
- the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition, or
- instalments are due and unpaid for 90 days or more.

Non-performing specifically impaired loans: are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows.
Specifically impaired loans are further analysed into the following categories:
- Sub-standard: Items that show underlying well-defined weaknesses and are considered to be specifically impaired.
- Doubtful: Items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items.
- Loss: Items that are considered to be uncollectible in whole or in part. The group provides fully for its anticipated loss, after taking collateral into account

viii) Credit Quality

Maximum exposure to credit risk before collateral held or other credit enhancements
Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 4 (viii). The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both the loan and advances portfolio and debt securities based on the following:
- 49% of the total maximum exposure is derived from loans and advances to banks and customers (2013: 41%); 28% represents investments in debt securities (2013: 28%).
- 88% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2013: 83%);
- 96% of the loans and advances portfolio are considered to be neither past due nor impaired (2013: 97%); and
- 99% of all the debt securities, which the Bank has invested in, are issued by the Central Bank of Kenya (2013: 98%)

Notes (continued)

5 Financial risk management (continued)

b) Credit risk (continued)

vii) Credit quality (continued)

The table below shows the credit quality by class of loans and advances based on the Group's credit rating system.

Year ended 31 December 2014		Performing loans				Non-performing loans
		Neither past due nor specifically impaired		Not specifically impaired		
	Total loans and advances to customers KShs'000 2014	Normal monitoring KShs'000 2014	Close monitoring KShs'000 2014	Early arrears KShs'000 2014	Non-performing KShs'000 2014	Sub-standard KShs'000 2014
	N=A+B+C+L	A	B	C	D	E
Personal and Business Banking	**44,699,473**	**37,287,646**	**1,077,271**	**4,699,413**	**-**	**886,407**
- Mortgage lending	14,491,506	12,693,138	47,079	1,367,878	-	380,943
- Instalment sales and finance leases	10,191,281	7,686,620	328,970	1,762,946	-	255,776
- Card debtors	291,293	231,195	-	50,712	-	-
- Other loans and advances	19,725,393	16,676,693	701,222	1,517,877	-	249,688
Corporate and Investment Banking	**45,639,943**	**38,626,541**	**3,080,981**	**2,543,834**	**-**	**1,343,880**
- Corporate lending	45,639,943	38,626,541	3,080,981	2,543,834	-	1,343,880
Total recognised loans and advances to customers	**90,339,416**	**75,914,187**	**4,158,252**	**7,243,247**	**-**	**2,230,287**
Percentage of total loans and advances (%)		84.03%	4.6%	8.02%	0.00%	2.47%
Less;						
Balance sheet impairment for performing loans	(888,912)					
Balance sheet impairments for non-performing specifically impaired loans	(1,103,066)					
Net loans and advances to customers	**88,347,438**					

Non-performing loans									
Specifically impaired loans									
NPL* NET OF IIS**									
Doubtful KShs'000 2014	Loss KShs'000 2014	Total KShs'000 2014	Securities and expected recov-eries on specif-ically impaired loans KShs'000 2014	Net after securities and expected recoveries on specifically impaired loans KShs'000 2014	Balance sheet impairments for non-performing specifically impaired loans KShs'000 2014	Gross specific impairment coverage % 2014	Total non-performing loans KShs'000 2014	Non-performing loans as a % 2014	Interest in Suspense KShs'000 2014
F	**G**	**H=E+F+G**	**I**	**J=H-I**	**K**		**L=H+D**		**M**
140,401	**608,335**	**1,635,143**	**682,031**	**908,112**	**908,113**	**58%**	**1,635,143**	**4%**	**241,772**
-	2,468	383,411	333,643	49,768	4,768	13%	383,411	3%	95,707
135,546	21,423	412,745	134,000	278,745	278,745	68%	412,745	4%	52,128
-	9,386	9,386	3,773	5,613	5,613	60%	9,386	3%	-
4,855	575,058	829,601	210,615	618,986	618,987	75%	829,601	4%	93,937
44,707	**-**	**1,388,587**	**1,238,634**	**149,953**	**149,953**	**11%**	**1,388,587**	**3%**	**104,570**
44,707	-	1,388,587	1,238,634	149,953	149,953	11%	1,388,587	3%	104,570
185,108	**608,335**	**3,023,730**	**1,920,665**	**1,103,065**	**1,058,066**	**36%**	**3,023,730**	**3%**	**346,342**
0.20%	0.67%	3.35%	2.13%	1.22%	1.22%		3.35%		0.38%

*NPL – Non performing loans

**IIS – Interest in suspense

Notes (continued)

5 Financial risk management (continued)

b) Credit risk (continued)

(viii) Credit quality (continued)

Year ended 31 December 2013		Performing loans			Non-performing loans	
		Neither past due nor specifically impaired		Not specifically impaired		
	Total loans and advances to customers KShs'000 2013	Normal monitoring KShs'000 2013	Close monitoring KShs'000 2013	Early arrears KShs'000 2013	Non-performing KShs'000 2013	Sub-standard KShs'000 2013
	N=A+B+C+L	A	B	C	D	E
Personal and Business Banking	**34,591,883**	**28,492,057**	**143,215**	**4,614,450**	**-**	**660,117**
- Mortgage lending	11,590,922	9,998,666	-	1,435,845	-	156,378
- Instalment sales and finance leases	8,404,964	6,123,558	-	1,923,314	-	304,462
- Card debtors	324,607	233,343	-	70,298	-	-
- Other loans and advances	14,271,390	12,136,490	143,215	1,184,993	-	199,277
Corporate and Investment Banking	**36,441,648**	**27,730,874**	**2,948,193**	**5,319,895**	**-**	**404,298**
- Corporate lending	36,441,648	27,730,874	2,948,193	5,319,895	-	404,298
Total recognised loans and advances to customers	**71,033,531**	**56,222,931**	**3,091,408**	**9,934,345**	**-**	**1,064,415**
Percentage of total loans and advances (%)		79.15%	4.35%	13.99%	0.00%	1.50%
Less;						
Balance sheet impairment for performing loans	(944,044)					
Balance sheet impairments for non-performing specifically impaired loans	(955,995)					
Net loans and advances to customers	**69,133,492**					

Non-performing loans									
Specifically impaired loans									
NPL* NET OF IIS**									
Doubtful KShs'000 2013	Loss KShs'000 2013	Total KShs'000 2013	Securities and expected recoveries on specifically impaired loans KShs'000 2013	Net after securities and expected recoveries on specifically impaired loans KShs'000 2013	Balance sheet impairments for non-performing specifically impaired loans KShs'000 2013	Gross specific impairment coverage %	Total non-performing loans KShs'000 2013	Non-performing loans as a %	Interest in Suspense KShs'000 2013
F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
16,095	**665,949**	**1,342,161**	**417,167**	**924,994**	**924,994**	**69%**	**1,342,161**	**4%**	**254,701**
-	33	156,411	120,531	35,880	35,880	23%	156,411	1%	61,969
10,008	43,622	358,092	123,846	234,246	234,246	65%	358,092	4%	63,232
-	20,966	20,966	(10,461)	31,427	31,427	150%	20,966	6%	-
6,087	601,328	806,692	183,251	623,441	623,441	77%	806,692	6%	129,500
38,388	**-**	**442,686**	**411,685**	**31,001**	**31,001**	**7%**	**442,686**	**1%**	**13,999**
38,388	-	442,686	411,685	31,001	31,001	7%	442,686	1%	13,999
54,483	**665,949**	**1,784,847**	**828,852**	**955,995**	**955,995**	**54%**	**1,784,847**	**3%**	**268,700**
0.08%	0.94%	2.51%	1.17%	1.35%	1.35%		2.51%		0.38%

*NPL – Non performing loans

**IIS – Interest in suspense

Notes (continued)

5 Financial risk management (continued)

b) Credit risk (continued)

vii) Credit quality (continued)

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary.

The table below shows the ageing of financial assets that are past due at the reporting date but not impaired, per class.

31 December 2014	Performing (Early arrears)			Non - performing		
	Less than 30 days 2014 KShs'000	31 to 60 days 2014 KShs'000	61 to 90 days 2014 KShs'000	91 to 180 days 2014 KShs'000	More than 180 days 2014 KShs'000	Total 2014 KShs'000
Personal and Business Banking	**2,089,094**	**762,805**	**329,636**	**-**	**-**	**3,181,535**
Mortgage lending	964,683	315,647	87,548	-	-	1,367,878
Instalment sales and finance leases	1,103,675	434,481	224,789	-	-	1,762,945
Other loans and advances	20,736	12,677	17,299	-	-	50,712
Corporate and Investment Banking	**1,627,082**	**533,573**	**383,179**	**-**	**-**	**2,543,834**
Corporate lending	1,627,082	533,573	383,179	-	-	2,543,834
Total recognised financial instruments	**3,716,176**	**1,296,378**	**712,815**	**-**	**-**	**5,725,369**

31 December 2013						
Personal and Business Banking	**2,751,296**	**1,255,600**	**607,554**	**-**	**-**	**4,614,450**
Mortgage lending	937,992	325,920	171,933	-	-	1,435,845
Instalment sales and finance leases	1,096,868	612,811	213,635	-	-	1,923,314
Other loans and advances	716,436	316,869	221,986	-	-	1,255,291
Corporate and Investment Banking	**3,469,750**	**1,849,916**	**229**	**-**	**-**	**5,319,895**
Corporate lending	3,469,750	1,849,916	229	-	-	5,319,895
Total recognised financial instruments	**6,221,046**	**3,105,516**	**607,783**	**-**	**-**	**9,934,345**

5 Financial risk management (continued)

c) Market risk

Market risk is the risk of a change in market value, earnings (actual or effective) or future cash-flows of a portfolio of financial instruments (including commodities), caused by moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these measures.

Governance committee

The Group's policy is that all trading activities are undertaken within the Group's trading operations. The Board grants general authority to take on market risk exposure to the Group's Assets and Liabilities Committee (ALCO).

Market risk management process is required to measure, monitor and control market risk exposures. The Group manages market risk through following four principles.

(i) Identification of market risks in the trading and Grouping books

This process entails checking that all market risks are identified. It includes an analysis of new business plans, new products, new pricing models, new risk models and regular reviews by Market Risk staff of financial and management accounts balance sheets, income statements, and portfolio structure hierarchies, accounting classification and accounting elections, jointly with financial control, risk self assessments jointly with operational risk, price testing reports and profit and loss decomposition reports.

(ii) Measurement of market risk

Measurement of market risks deals specifically and separately with normal market conditions and stress market conditions. Measurement of trading exposures under stress market conditions is effected by subjecting the portfolios to stress testing, e.g. historical scenarios, hypothetical scenarios on individual asset classes and across different asset classes. In order to highlight 'points of weakness' and identify particular sources of trading book exposure vulnerability, these stress tests capture the effects of abnormal movements in market variables (yield curves including basis curves, volatility surfaces, spot and/or rate moves, credit spread curves, recovery rate sensitivities etc.).

(iii) Management of market risk

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

(iv) Reporting of market risk

Market Risk has reporting procedures that highlight for attention within Market Risk or by management all forms of exposures i.e. limit breaches or other reports that will periodically be required to submit to different stakeholders e.g. Local ALCO, Local Board, ICAAP stakeholders, Shareholders (Annual financial statements); Rating agencies; Central Bank of Kenya and other regulators.

Market risk exposure on banking operations

Banking-related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and the economic value of equity that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk. The Group's approach to managing Interest Rate Risk in Banking Book (IRRBB) is governed by applicable regulations and is influenced by the competitive environment in which the Group operates. Treasury and Capital Management team monitors banking book interest rate risk together with the country ALCO.

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

Approved regulatory capital approaches

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

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

Trading book market risk

Trading book market risk is represented by financial instruments held on the trading book, arising out of normal global markets' trading activity.

Approach to managing market risk in the trading book

The Group's policy is that all trading activities are undertaken within the Group's trading operations. The market risk functions are independent of trading operations and accountable to ALCO. All VaR and stressed VaR (SVaR) limits require prior approval from ALCO. The market risk functions have the authority to set limits at a lower level.

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

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

a) VaR and SVaR

The Group uses the historical VaR and SVaR approach to quantify market risk under normal conditions and under stressed conditions. For risk management purposes VaR is based on 250 days of unweighted recent historical data, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in four steps:

- Calculate 250 daily market price movements based on 250 days' historical data

Notes (continued)

5 Financial risk management (continued)

c) Market risk (continued)

a) VaR and SVaR (continued)

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

Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days. SVaR uses a similar methodology to VaR, but is based on a period of financial stress and assumes a 10-day holding period and a 99% confidence interval. Where the Group has received internal model approval, the market risk regulatory capital requirement is based on VaR and SVaR, both of which use a confidence level of 99% and a 10-day holding period.
Limitations of historical VaR are acknowledged globally and include:
- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.
- The use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully.
- The use of a 95% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intraday exposures.

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

b) Stop-loss triggers

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

c) Stress tests

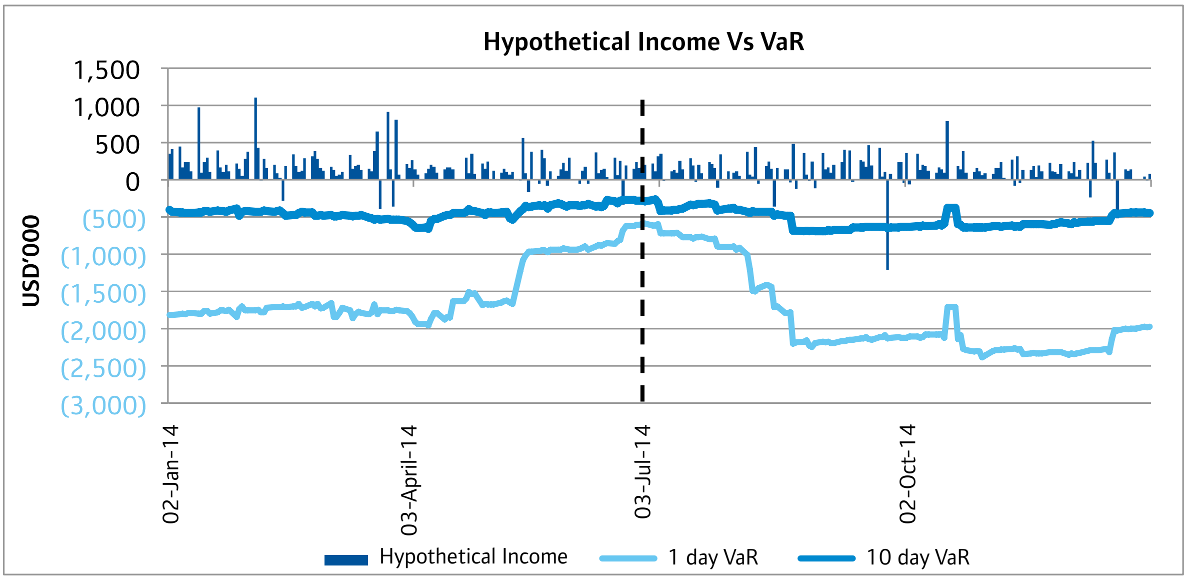
Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical and hypothetical simulations. Daily losses experienced during the year ended 31 December 2014 did not exceed the maximum tolerable losses as represented by the Group's stress scenario limits.

d) Back-testing

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

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

We categorize a VaR model as green, amber or red and assign regulatory capital multipliers based on this categorization. A green model is consistent with a satisfactory VaR model and is achieved for models that have thirteen or less back-testing exceptions in a 12-month period. All the Group's approved models were assigned green status for the year ended 31 December 2014 (2013: green).



5 Financial risk management (continued)

c) Market risk (continued)

e) Specific business unit and product controls

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

f) Trading book portfolio characteristics

VaR for the year under review

Trading book market risk exposures arise mainly from residual exposures from client transactions and limited trading for the Group's own account. In general, the Group's trading desks have run low levels of market risk throughout the year ended 31 December 2014.

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

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

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

Desk Name	Maximum	Minimum	Average	31-Dec-2013	31-Dec-2012
Bankwide	41,466	4,015	17,952	28,384	8,097
FX Trading	5,172	665	2,280	2,876	3,177
Consolidated Interest Rate Trading	33,591	26,311	30,163	29,083	-
Money Markets Trading	30,171	3,696	10,820	20,146	7,376
Fixed Income Trading	21,407	-	6,891	13,747	429
Credit Trading	43	9	26	9	34
Derivatives	190	-	9	35	-

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

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

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

Desk Name	Maximim	Minimum	Average	31-Dec-2013	31-Dec-2012
Bankwide	1,371,909	60,567	607,811	1,318,621	78,593
FX Trading	436,498	6,295	42,977	36,155	644
Consolidated Interest Rate Trading	1,362,531	768,709	952,966	1,332,325	79,022
Money Markets Trading	637,818	55,403	270,859	616,074	66,683
Fixed Income Trading	724,109	17	340,579	715,741	10,802
Credit Trading	2,547	674	1,554	674	1,537
Derivatives	1,002	26	86	406	429

Notes (continued)

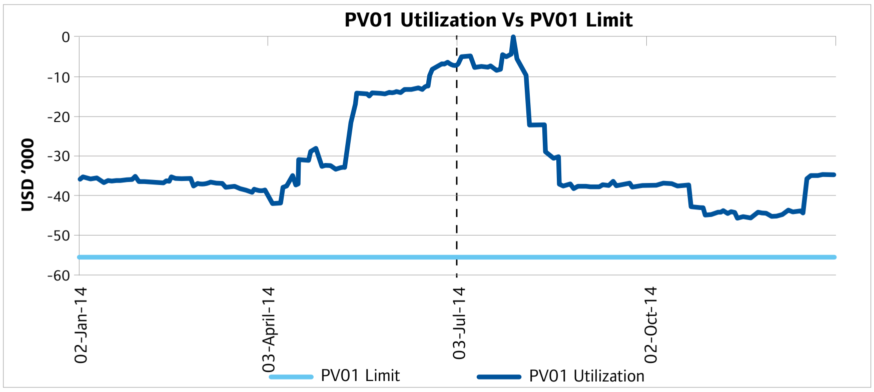
5 Financial risk management (continued)

c) Market risk (continued)

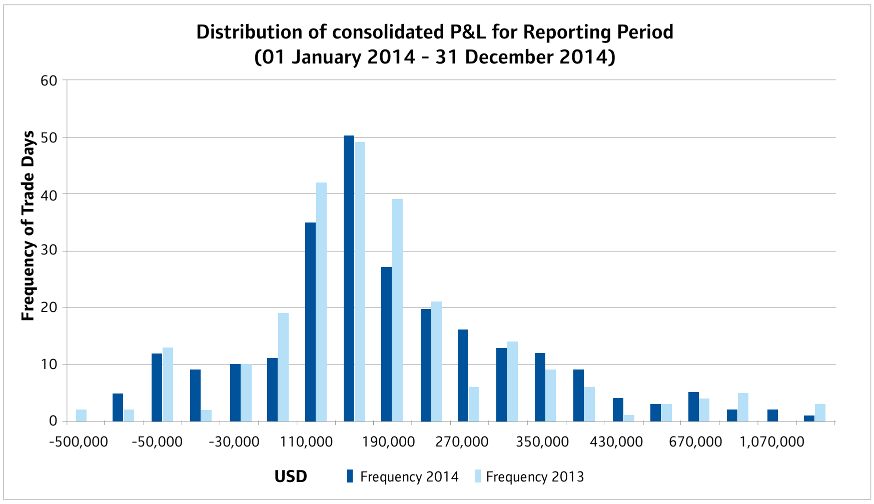
f) Trading book portfolio characteristics

Trading and banking book pv01 utilisation by book

Desk Name	LCY	EUR	GBP	USD	ZAR	Other FCY	Total FCY	31 December 2014	31 December 2013	LCY Limit	FCY Limit
Money Markets Trading	(5,569)	(365)	(1,034)	(5,017)	-	-	(6,416)	(11,985)	(10,751)	(5,569)	(365)
Fixed Income Trading	(22,880)	-	-	86	-	-	86	(22,794)	(24,838)	(22,880)	-
Credit Trading	(619)	-	-	4	-	-	4	(615)	(17)	(619)	-
Derivatives	-	-	-	-	-	-	-	-	111	0	-
FX Trading	122	(21)	(6)	(20)	-	-	(48)	75	(330)	122	(21)
Total Trading	**(28,946)**	**(386)**	**(1,040)**	**(4,947)**	**-**	**-**	**(6,374)**	**(35,319)**	**(35,825)**	**(28,946)**	**(386)**
Money Markets Banking	(26,981)	-	-	-	-	-	-	(26,981)	(20,463)	(26,981)	-
Treasury Capital Management	(168)	-	-	-	-	-	-	(168)	(5,950)	(168)	-
Total Banking	**(27,149)**	**-**	**-**	**-**	**-**	**-**	**-**	**(27,149)**	**(26,413)**	**(27,149)**	**-**
All Desks (Combined)	**(56,095)**	**(386)**	**(1,040)**	**(4,947)**	**-**	**-**	**(6,374)**	**(62,468)**	**(62,238)**	**(56,095)**	**(386)**



Analysis of trading profit



5 Financial risk management (continued)

c) Market risk (continued)

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

For the year ended 31 December 2014, trading profit was positive for 239 out of 248 days.

g) Foreign exchange risk

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

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

Hedging is undertaken in such a way that it does not constrain normal operational activities. In particular, the need for capital to fluctuate with risk-weighted assets is taken into account.

The repositioning of the currency profile is a controlled process based on underlying economic views of the relative strength of currencies. The Group does not ordinarily hold open exposures of any significance with respect to the banking book.

Gains or losses on derivatives are reported in profit or loss.

The table below summarises the Group's exposure to foreign exchange risk at 31 December 2014. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency (all amounts expressed in millions of Kenya Shillings):

At 31 December 2014	USD	GBP	Euro	Others	Total
Assets					
Cash and bank balances	9,409	661	658	6,130	16,858
Loans and advances	38,243	356	4,015	34	42,648
Financial investments assets	-	-	-	243	243
Other assets and prepayments	3,167	1	632	687	4,487
Total financial assets	**50,819**	**1,018**	**5,305**	**7,094**	**64,236**
Liabilities					
Balances due to banking institutions and group companies	19,985	827	185	449	21,446
Customer deposits	33,923	1,468	2,728	5,086	43,205
Other liabilities and accrued expenses	17,747	23	677	1,884	20,331
Total financial liabilities	**71,655**	**2,318**	**3,590**	**7,419**	**84,982**
Net on balance sheet financial position	(20,836)	(1,300)	1,715	(325)	(20,746)
Off balance sheet net notional position	22,171	1,363	(1,613)	(66)	21,855
Overall net position	**1,335**	**63**	**102**	**(391)**	**1,109**
At 31 December 2013					
Net on balance sheet financial position	(15,621)	(569)	(1,494)	2,255	(15,429)
Off balance sheet net notional position	16,485	684	1,374	(1,791)	16,752
Overall net position	**864**	**115**	**(120)**	**464**	**1,323**

Notes (continued)

5 Financial risk management (continued)

c) Market risk (continued)

g) Foreign exchange risk (continued)

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

Year ended 31 December 2014	Increase in currency rate in %	Effect on profit before tax	Effect on profit after tax	Decrease in currency rate in %	Effect on profit before tax	Effect on profit after tax
	2014	2014	2014	2014	2014	2014
Currency		KShs'000	KShs'000		KShs'000	KShs'000
USD	0.45%	(6,007)	(4,205)	**0.58%**	7,742	5,419
GBP	0.90%	(557)	(390)	**1.05%**	650	455
EUR	1.11%	(1,122)	(786)	**1.28%**	1,294	906
Year ended 31 December 2013	**Increase in currency rate in %**	**Effect on profit before tax**	**Effect on profit after tax**	**Decrease in currency rate in %**	**Effect on profit before tax**	**Effect on profit after tax**
	2013	**2013**	**2013**	**2013**	**2013**	**2013**
Currency		**KShs'000**	**KShs'000**		**KShs'000**	**KShs'000**
USD	**1.10%**	(5,290)	(3,703)	0.99%	4,988	3,492
GBP	**1.58%**	(1,297)	(908)	1.74%	1,428	1,000
EUR	**4.22%**	(3,323)	(2,326)	7.56%	5,954	4,168

d) Interest rate risk

Interest rate risk in the banking book (IRRBB)

Definition

These are risks that have an impact on net interest income that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities.
IRRBB is further divided into the following sub risk types:

- Repricing risk: timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities.
- Yield curve risk: shifts in the yield curves that have adverse effects on the bank's income or underlying economic value.
- Basis risk: hedge price not moving in line with the price of the hedged position. Examples include bonds/swap basis, futures/ underlying basis.
- Optionality risk: options embedded in bank asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract.
- Endowment risk: exposure arising from the net differential between interest rate insensitive assets such as non-earning assets, interest rate insensitive liabilities such as non-paying liabilities, and equity.

Approach to managing IRRBB

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

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

Measurement

The analytical techniques used to quantify IRRBB include both earnings- and valuation-based measures. The analysis takes account of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.

Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing or maturity profiles, or through derivative overlays.

Limits

Interest rate risk limits are set in relation to changes in forecast banking book earnings and the economic value of equity. Economic value of equity sensitivity is calculated as the net present value of aggregate asset cash flows less the net present value of aggregate liability cash flows.

All assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on behavioural profiling.

5 Financial risk management (continued)

d) Interest rate risk (continued)

Hedging of endowment risk
IRRBB is predominantly the consequence of endowment exposures, being the net effect of non-rate sensitive assets less non-rate sensitive liabilities and equity.

The endowment risk is hedged using liquid instruments as and when it is considered opportune. Where permissible, hedge accounting is adopted using the derivatives.

The interest rate view is formulated through ALCO processes, following meetings of the monetary policy committees, or notable market developments.

Non-endowment IRRBB (repricing, yield curve, basis and optionality) is managed within the treasury and the global markets portfolios.

The table below indicates the KShs equivalent sensitivity of the Group's banking book earnings (net interest income and banking book mark-to-market profit or loss) and other comprehensive income (OCI) given a parallel yield curve shock. A floor of 0% is applied to all interest rates under the decreasing interest rate

	Increase in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income	Decrease in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
	2014	2014	2014	2014	2014	2014
Currency	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
KShs	350	614,403	(354,811)	300	(626,615)	304,124
Others	100	(423)	-	100	(1,586)	-
	Increase in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income	Decrease in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
	2013	2013	2013	2013	2013	2013
Currency	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
KShs	550	488,246	(886,626)	300	(338,167)	483,614
Others	75	49,579	-	75	(197,019)	-

e) Liquidity risk

Liquidity risk arises when the Group, despite being solvent, is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms. This inability to maintain or generate sufficient cash resources may arise where counterparties who provide the Group with short-term funding withdraw or do not rollover that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

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

31 December 2014	Up to 1 month	1 – 6 months	6 – 12 months	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Cash and bank balances	56,911	-	-	56,911
Other receivables and prepayments	-	-	8,041	8,041
Balances due from Group companies				
Total assets	**56,911**	**-**	**8,041**	**64,952**
Other liabilities and accrued expenses	-	-	(31,220)	(31,220)
Balances due to group companies	-	-	(1,833)	(1,833)
Total liabilities	**-**	**-**	**(33,053)**	**(33,053)**
Net liquidity gap	**56,911**	**-**	**(25,012)**	**31,899**

Notes (continued)

5 Financial risk management (continued)

e) Liquidity risk (continued)

Liquidity risk management - Group
The nature of banking and trading activities results in a continuous exposure to liquidity risk. The Group manages liquidity in accordance with applicable regulations and within Group's risk appetite. The Group's liquidity risk management governance framework supports the measurement and management of liquidity at various levels to ensure that all payment obligations can be met by the Group under both normal and stressed conditions. Liquidity risk management ensures that the Group has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times.

The Group's liquidity risk management framework differentiates between:
- Tactical (shorter-term) risk management: managing intra-day liquidity positions and daily cash flow requirements, and monitoring adherence to prudential and internal requirements and setting deposit rates as informed by ALCO.
- Structural (long-term) liquidity risk management: ensuring a structurally sound balance sheet, a diversified funding base and prudent term funding requirements.
- Contingent liquidity risk management: monitoring and managing early warning liquidity indicators while establishing and maintaining contingency funding plans, undertaking regular liquidity stress testing and scenario analysis, and setting liquidity buffers in accordance with anticipated stress events

Governance committees
The primary governance committee overseeing this risk is the Bank Asset Liability Committee (ALCO), which is chaired by the Chief Executive. There is independent risk oversight of all liquidity limits and guidelines by Market Risk, Finance and Central Asset Liability Management units. ALCO reports to the Board Risk Committee.

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

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

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

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

c) Ensuring the availability of sufficient contingency liquidity
Funding markets are evaluated on an on-going basis to ensure appropriate 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. Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital.

e) Undertaking regular liquidity stress testing
Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on the funding profiles and liquidity positions of the 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. Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the Bank's ability to maintain sufficient liquidity under adverse conditions.

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

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

h) 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. Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital.

i) Undertaking regular liquidity stress testing
Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on the funding profiles and liquidity positions of the 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. Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the Bank's ability to maintain sufficient liquidity under adverse conditions.

5 Financial risk management (continued)

e) Liquidity risk (continued)

Approach to managing liquidity risk (continued)

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

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

	2014	2013
At 31 December	41.4%	67.9%
Average for the year	47.5%	53.6%
Maximum for the year	60.3%	67.9%
Minimum for the year	40.7%	43%

The tables below present the remaining contractual maturities of the Group's non-derivative financial liabilities, it includes a maturity analysis for financial assets that the Groups holds as part of managing liquidity risk – e.g. financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

Notes (continued)

5 Financial risk management (continued)

Liquidity risk management – Group (continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection; loans and advances to banks; and loans and advances to customers. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

	Carrying Value	Gross Nominal inflow/(outflow)	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing After 5 years
	2014	2014	2014	2014	2014	2014	2014	2014
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Non- derivative financial assets								
Cash and balances to banks	**9,555,580**	**9,596,901**	9,538,477	-	58,424	-	-	-
Trading assets	**23,836,927**	**34,972,294**	-	1,913,270	3,127,712	10,667,817	11,753,508	7,509,987
Pledged assets	**2,884,293**	**3,222,832**	-	-	338,640	2,532,880	351,312	-
Financial investments	**25,446,393**	**28,230,603**	-	1,899,825	2,891,943	17,015,090	3,901,482	2,522,263
Loans and advances to banks	**12,862,672**	**12,886,812**	11,479,498	1,292,286	-	115,028	-	-
Loans and advances to customers	**88,347,438**	**139,348,607**	24,750,996	6,702,613	13,677,254	9,095,690	49,837,363	35,284,691
Other assets	**2,417,387**	**2,581,855**	2,581,855	-	-	-	-	-
	165,350,690	**230,839,904**	**48,350,826**	**11,807,994**	**20,093,973**	**39,426,505**	**65,843,665**	**45,316,941**
Derivative assets:	**1,960,415**							
- Inflows	**-**	**529,205**	-	39,408	91,970	220,544	173,087	4,196
- Outflows	**-**	**(283,739)**	-	(12,341)	(33,555)	(147,010)	(90,771)	(62)
	1,960,415	**245,466**	**-**	**27,067**	**58,415**	**73,534**	**82,316**	**4,134**
Non- derivative financial liabilities								
Deposits from banks	**(33,570,266)**	**(37,634,629)**	(5,161,831)	(271,565)	(1,391,183)	(10,260,942)	(20,549,108)	-
Deposits from customers	**(96,838,876)**	**(97,760,321)**	(75,091,989)	-	(15,798,374)	(3,282,446)	(3,587,512)	-
Trading liabilities	**-**	**-**	-	-	-	-	-	-
Borrowings	**(6,513,417)**	**(11,783,316)**	-	(174,232)	(259,000)	(433,232)	(5,880,852)	(5,036,000)
Other liabilities	**(5,948,968)**	**(5,948,971)**	(5,948,971)	-	-	-	-	-
Contingent liabilities	**31,065,787**	**(31,065,787)**	(31,065,787)	-	-	-	-	-
Capital commitments	**581,935**	**(581,935)**	(581,935)	-	-	-	-	-
Operating leases	**2,153,187**	**(2,153,187)**	-	-	-	(392,576)	(1,184,025)	(576,586)
	(109,070,618)	**(186,928,146)**	**(117,850,513)**	**(445,797)**	**(17,448,557)**	**(14,369,196)**	**(31,201,497)**	**(5,612,586)**
Derivative liabilities:	**(2,232,264)**							
- Inflows	**-**	**33,587**	-	10,191	3	23,379	14	-
- Outflows	**-**	**(1,194,504)**		(79,721)	(382,336)	(411,390)	(316,863)	(4,194)
	(2,232,264)	**(1,160,917)**	**-**	**(69,530)**	**(382,333)**	**(388,011)**	**(316,849)**	**(4,194)**

5 Financial risk management (continued)

Liquidity risk management – Group (continued)

	Carrying Value	Gross Nominal inflow/(outflow)	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing After 5 years
	2013	2013	2013	2013	2013	2013	2013	2013
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Non- derivative financial assets								
Cash and balances to banks	9,466,550	9,466,550	9,466,550	-	-	-	-	-
Trading assets	23,205,351	35,317,940	-	16,487	10,148,007	4,768,569	11,101,742	9,283,135
Pledged assets	3,391,972	7,905,979	-	98,719	269,025	1,240,125	2,329,431	3,968,679
Financial investments	21,948,112	23,332,439	-	-	10,639,432	6,454,449	5,238,345	1,000,213
Loans and advances to banks	34,714,199	34,735,683	21,219,664	13,405,632	-	110,387	-	-
Loans and advances to customers	69,133,492	89,530,044	17,223,657	3,437,568	10,486,383	7,476,533	35,173,120	15,732,783
Other assets	2,352,592	2,352,592	2,352,592	-	-	-	-	-
	164,212,268	**202,641,227**	**50,262,463**	**16,958,406**	**31,542,847**	**20,050,063**	**53,842,638**	**29,984,810**
Derivative Assets:	3,003,522	-	-	-	-	-	-	-
- Inflows	-	1,253,809	-	297,877	573,558	361,589	14,993	5,792
- Outflows	-	(136,914)	-	(1,120)	(15,662)	(28,802)	(91,327)	(3)
	3,003,522	**1,116,895**	**-**	**296,757**	**557,896**	**332,787**	**(76,334)**	**5,789**
Non- derivative financial liabilities								
Deposits from banks	(35,558,146)	(37,994,228)	(15,304,720)	(7,200,000)	(658,430)	(572,078)	(14,259,000)	-
Deposits from customers	(94,727,839)	(95,890,759)	(81,121,232)	(4,553,687)	(7,814,849)	(2,090,204)	(310,787)	-
Trading liabilities	(259,676)	(259,966)	-	-	(259,966)	-	-	-
Borrowings	(5,847,752)	(7,187,030)	-	(174,232)	(90,625)	(2,764,857)	(3,270,520)	(886,796)
Other liabilities	(8,683,721)	(8,033,211)	(8,033,211)	-	-	-	-	-
Contingent liabilities	-	(41,026,987)	(21,331,604)	(675,741)	(13,138,283)	(3,949,428)	(1,890,361)	(41,570)
Capital commitments	-	(67,851)	-	(67,851)	-	-	-	-
Operating leases	-	(1,998,484)	-	-	-	(350,685)	(1,164,229)	(483,570)
	(145,077,134)	**(192,458,516)**	**(125,790,767)**	**(12,671,511)**	**(21,962,153)**	**(9,727,252)**	**(20,894,897)**	**(1,411,936)**
Derivative Liabilities:	(2,777,183)	-	-	-	-	-	-	-
- Inflows	-	1,795	-	46	1,688	10	48	3
- Outflows	-	(1,277,043)		(354,213)	(508,861)	(235,675)	(172,502)	(5,792)
	(2,777,183)	**(1,275,248)**	**-**	**(354,167)**	**(507,173)**	**(235,665)**	**(172,454)**	**(5,789)**

Notes (continued)

5 Financial risk management (continued)

e) Liquidity risk (continued)

The amounts in the table above have been compiled as follows:

Type of financial instrument	Basis on which amounts are compiled
None-derivative financial liabilities and financial assets	Undiscounted cash flows which include interest payments
Issued financial guarantee contracts, and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
Derivative financial liabilities and financial assets held for risk management purpose	Contractual undiscounted cashflows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) and the net amounts for derivatives that are net settled.

As part of the management of liquidity risk arising from financial liabilities, the bank holds liquid assets comprises cash and cash equivalents and debt securities issued by sovereigns which can be readily sold to meet liquidity requirements. In addition the bank maintains lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central banks.

g) Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

The following table sets out the impact of offset, as well as financial assets and financial liabilities that are subject to enforceable master netting arrangement or similar agreement, irrespective of whether they have been offset in accordance with IAS 32, as required by IFRS 7R disclosure requirements. The gross amounts of financial asset and financial liabilities and their net amounts disclosed in the table below have been measured in the statement of financial position on the following bases:

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

5 Financial risk management (continued)

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

	Gross amount of recognised financial assets	Gross amounts of recognised financial liabilities offset in statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments, financial collateral and cash collateral received	Net amount
	2014	2014	2014	2014	2014
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets					
Loans and advances	88,347,438	-	88,347,438	3,502,061	91,849,499
Derivative assets	1,960,415	-	1,960,415	-	1,960,415
	90,307,853	**-**	**90,307,853**	**3,502,061**	**93,809,914**
	Gross amount of recognised financial liabilities	Gross amounts of recognised financial assets offset in statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments, financial collateral and cash collateral pledged	Net amount
	2014	2014	2014	2014	2014
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Liabilities					
Deposits	(96,830,280)	-	(96,830,280)	(3,502,061)	(100,332,341)
Derivative liabilities	(2,232,264)	-	(2,232,264)	-	(2,232,264)
	(99,062,544)	**-**	**(99,062,544)**	**(3,502,061)**	**(102,564,605)**

	Gross amount of recognised financial assets	Gross amounts of recognised financial liabilities offset in statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments, financial collateral and cash collateral received	Net amount
	2013	2013	2013	2013	2013
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets					
Loans and advances	69,133,492	-	69,133,492	835,188	69,968,680
Derivative assets	3,003,522	-	3,003,522	-	3,003,522
	72,137,014	**-**	**72,137,014**	**835,188**	**72,972,202**
	Gross amount of recognised financial liabilities	Gross amounts of recognised financial assets offset in statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments, financial collateral and cash collateral pledged	Net amount
	2013	2013	2013	2013	2013
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Liabilities					
Deposits	(95,708,406)	-	(95,708,406)	(835,188)	(96,543,594)
Derivative liabilities	(2,777,183)	-	(2,777,183)	-	(2,777,183)
	(98,485,589)	**-**	**(98,485,589)**	**(835,188)**	**(99,320,777)**

Notes (continued)

5 Financial risk management (continued)

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

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparities following other predetermined events. In addition the Group and its counterparties do not intent to settle on a net basis or to realise the assets and the liabilities simultaneously.

The Group receives collateral in the form of cash in respect of lending

The table below sets out the nature of agreement, and the types of rights relating to items which do not qualify for offset but that are subject to a master netting arrangement or similar agreement.

Financial instrument	Nature of agreement	Basis on which amounts are compiled
Derivative assets and liabilities	ISDAs	The agreement allows for offset in the event of default.
Trading assets and trading liabilities	Global master repurchase agreements	The agreement allows for offset in the event of default.
Loans and advances to banks	Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banks Act requirements.
Deposits and current accounts	Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banks Act requirements.

IAS 32 Financial Instruments: Presentation (IAS 32) requires financial assets and financial liabilities to be offset and the net amount presented in the statement of financial position when, and only when, the Group has a current legally enforceable right to set off recognised amounts, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

6 Interest income

	Group		Company	
	2014	2013	2014	2013
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Interest on loans, advances and short-term funds	8,521,996	7,539,178	27,644	1,092
Interest on government securities available-for-sale	2,845,086	2,262,189	-	-
Placements and other bank balances	273,443	533,020	-	-
Other	1,932	2,105	-	-
	11,642,457	**10,336,492**	**27,644**	**1,092**

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

7 Interest expense

	Group		Company	
	2014	2013	2014	2013
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Current accounts	113,684	55,126	-	-
Savings and term deposit accounts	2,071,390	2,105,089	-	-
Deposits and placements from other banks	463,682	87,357	-	-
Interest on borrowed funds	531,756	546,806	-	-
	3,180,512	**2,794,378**	**-**	**-**

8 Fee and commission revenue

Account transaction fees	1,131,138	945,191	-	-
Knowledge based fees and commission	829,109	474,263	-	-
Electronic banking fees	186,263	539,162	-	-
Foreign service fees	335,806	293,236	-	-
Documentation and administration fees	363,612	405,961	-	-
Other	708,582	531,311	-	-
	3,554,510	**3,189,124**	**-**	**-**

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

9 Fee and commission expense

	Group		Company	
	2014	2013	2014	2013
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Card based commission	81,352	67,429	-	-
Knowledge based fees and commission	57,320	62,147	-	-
Other bank - related fees and commission	108,191	178,822	-	-
	246,863	**308,398**	**-**	**-**

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

Notes (continued)

10 Trading revenue

	Group		Company	
	2014	2013	2014	2013
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Foreign exchange	2,811,026	3,685,615	-	-
Net gain on disposal of trading investments	194,557	680,369		
Interest income - Debt securities at fair value through profit or loss	1,773,739	1,293,258	-	-
	4,779,322	**5,659,242**	**-**	**-**

11 Other income

Gain on disposal of property and equipment	2,278	2,783	-	-
Dividend income	7,881	12,169	1,093,765	250,000
Other income	311,425	106,048	-	-
	321,584	**121,000**	**1,093,765**	**250,000**

12 Employee benefit expense

Salaries and allowances	4,124,526	3,697,142	-	-
Retirement benefit costs	286,820	250,065	-	-
Other staff costs	60,795	82,888	-	-
	4,472,141	**4,030,095**	**-**	**-**

Included in retirement benefit costs are;				
Defined contribution scheme	281,456	247,840	-	-
National Social Security Fund	5,364	2,225	-	-
	286,820	**250,065**	**-**	**-**

13 Other expenses

	Group		Company	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Audit fees	15,213	14,142	1,954	2,248
Directors' fees	7,630	8,997	7,630	8,997
Premises costs	603,110	484,492	-	-
Information technology and communication	937,538	762,657	-	-
Professional fees	598,994	557,360	586	2,017
Marketing and advertising costs	133,699	259,133	4,920	4,583
Security expenses	120,172	125,394	-	-
Travel and entertainment costs	191,408	288,947	-	-
Stationery and printing costs	61,872	76,834	1,743	724
Insurance costs	102,780	84,777	-	-
Administration and membership fees	40,892	26,948	6,346	1,794
Training expenses	104,363	116,252	-	-
Bank charges	156,138	135,099	431	1,032
Deposit Protection Scheme contribution	153,366	150,305	-	-
Other operating costs	211,202	467,686	2,189	(67,840)
	3,438,377	**3,559,023**	**25,799**	**(46,445)**

14 Depreciation and amortisation expense

Amortisation – intangible assets (Note 27)	276,416	324,389	-	-
Depreciation (Note 25)	277,542	296,015	-	60
Amortisation of prepaid operating lease (Note 26)	2,954	2,954	-	-
	556,912	**623,358**	**-**	**60**

Notes (continued)

15 Income tax expense expense

	Group		Company	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Current income tax (Note 34(b))	2,496,850	2,490,333	45	-
Deferred income tax credit (Note 34(c))	(483,265)	(393,484)	-	-
	2,013,585	**2,096,849**	**45**	**-**

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

	Group		Company	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Profit before income tax	7,700,246	7,224,005	1,095,610	297,477
Tax at statutory tax rate of 30% (2013:30%)	2,310,074	2,167,202	328,683	89,243
Tax effect of:				
• Income not subjected to tax	(303,402)	(221,298)	(328,149)	-
• Expenses not deductible for tax purposes	200,165	311,241	7,549	(89,243)
• Utilised tax loss	(8,038)	-	(8,038)	-
• Previous year's current tax under provision	(34,162)	-	-	-
• Previous year's deferred income tax under provision	(151,052)	(160,296)	-	-
Income tax expense	**2,013,585**	**2,096,849**	**45**	**-**

16 Earnings per share

Earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Earnings for the purposes of basic earnings per share (KShs'000)	5,686,661	5,127,156	1,095,565	297,477
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	395,322	395,322	395,322	395,322
Earnings per share (KShs) basic and diluted	**14.38**	**12.97**	**2.77**	**0.75**

There were no potentially dilutive shares as at 31 December 2014 or 31 December 2013. Therefore, diluted earnings per share are the same as basic earnings per share.

17 Dividend per share

	Group		Company	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
The calculation of dividends per share is based on: Dividends for the year attributable to ordinary shareholders				
Interim dividend paid (KShs'000)	375,556	249,053	375,556	249,053
Final dividend proposed (KShs'000)	2,055,673	600,889	2,055,673	600,889
	2,431,229	**849,942**	**2,431,229**	**849,942**
Number of ordinary shares at issue date (thousands)	395,322	395,322	395,322	395,322
Dividends per share – KShs	**6.15**	**2.15**	**6.15**	**2.15**

At the annual general meeting to be held on 21 May 2015, a final dividend in respect of the year ended 31 December 2014 of KShs 5.20 (2013: KShs 1.52) per share amounting to a total of KShs 2,055,673,000 (2013: KShs 600,889,000) is to be proposed. These financial statements do not reflect this dividend payable, the proposed dividend has however been transferred to a separate category of equity.

During the year an interim dividend of KShs 0.95 (2013: KShs 0.63) per share, amounting to a total of KShs 375,556,000 (2013: KShs 249,053,000) was paid. The total dividend for the year is therefore KShs 6.15 (2013: KShs 2.15) per share, amounting to a total of KShs 2,431,229,000 (2013: KShs 849,942,000).

18 Cash, bank balances and balances with Central Bank

	Group		Company	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Cash and bank balances	1,987,658	2,261,432	56,911	92,907
Balances with Central Bank	7,567,922	7,205,118	-	-
	9,555,580	**9,466,550**	**56,911**	**92,907**

Banks are required to maintain a prescribed minimum cash reserve including cash in hand and balances with Central Bank of Kenya. The minimum cash reserve is non-interest earning and is based on the value of deposits as adjusted for by Central Bank of Kenya requirements. At 31 December 2014, the cash reserve requirement was 5.25% of the eligible deposits (2013: 5.25%). The cash reserve requirement balance for the year ended 31 December 2014 is KShs 4,716,147,000 (2013: KShs 4,448,769,000).

Notes (continued)

19 Financial assets - available-for-sale pledged assets

	Group		Company	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Debt securities - pledged as collateral	**2,884,293**	**3,391,972**	**-**	**-**
Maturity analysis				
Maturing after 1 month but within 6 months	-	-		
Maturing after 6 months but within 12 months	2,609,932	1,053,388		
Maturing after 12 months but within 5 years	-	268,059		
Maturing after 5 years	274,361	2,070,525		
	2,884,293	**3,391,972**		

Dated pledged assets had a redemption value at 31 December 2014 of KShs 2,770,000,000 (2013: KShs 3,282,500,000).

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

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

20 Financial investments

	Group	
	2014	2013
	KShs'000	KShs'000
Financial assets – fair value through profit or loss (Note 20(a))	24,015,281	23,205,351
Financial assets - available-for-sale (Note 20(b))	25,250,149	21,926,608
Financial assets – at amortised cost (Note 20(c))	17,890	21,504
	49,283,320	**45,153,463**

a) Financial assets – fair value through profit or loss

Listed securities-trading	**24,015,281**	**23,205,351**
Maturity analysis		
Maturing within 12 months	5,972,156	13,080,782
Maturing after 12 months	17,864,771	9,996,257
Undated securities	178,354	128,312
	24,015,281	**23,205,351**

The maturities represent periods to contractual redemption of trading assets recorded. Dated trading assets had a redemption value at 31 December 2014 of KShs 24,043,100,000 (2013: KShs 23,605,000,000).Trading assets are debt securities issued by the Central Bank of Kenya on behalf of the Government of Kenya. The weighted average effective interest yield on debt securities held for trading at 31 December 2014 was 12.37% (2013: 11.36%).

b) Financial assets - available-for-sale

	Group	
	2014	2013
Classification	**KShs'000**	**KShs'000**
Listed	25,250,149	21,678,120
Unlisted	-	248,488
	25,250,149	**21,926,608**
Comprising:		
Government bonds	5,517,112	5,027,364
Corporate bonds	-	495,483
Treasury bills	19,733,037	16,403,761
	25,250,149	**21,926,608**
Maturity analysis		
Maturing within 12 months	21,169,396	14,745,916
Maturing after 12 months	4,080,753	7,180,692
	25,250,149	**21,926,608**

The weighted average effective interest yield on available-for-sale investment securities at 31 December 2014 was 14.26% (2013: 14.26%). A fair value gain of KShs 196,948,000 on has been recognised in the statement of other comprehensive income on page 51 (2013: KShs 179,361,000).

c) Financial assets – at amortised cost

	Group	
	2014	**2013**
	KShs'000	**KShs'000**
Listed	-	-
Unlisted	17,890	21,504
Comprising:		
Corporate bonds	8,890	13,334
Long term Investment in Nairobi Securities Exchange (NSE) and Central Depository and Settlement Corporation (CDSC)	-	8,170
Commercial paper	9,000	-
	17,890	**21,504**
Maturity analysis		
Maturing after 12 months	**17,890**	**21,504**

Notes (continued)

21 Financial liabilities

	Group	
	2014	2013
	KShs'000	KShs'000
Financial liabilities – designated at fair value through profit or loss	-	259,676
Maturity analysis		
Maturing after 1 month but within 6 months	-	259,676

22 Loans and advances

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

a) Loans and advances to banks

	Group	
	2014	2013
	KShs '000	KShs '000
Balances with banks	4,854,451	20,106,357
Balances with Bank of South Sudan	8,008,221	14,607,842
	12,862,672	**34,714,199**

b) **Loans and advances to customers**

Net loans and advances	**Group**	
	2014	**2013**
	KShs '000	**KShs '000**
Mortgage lending	12,445,155	11,138,654
Instalment sale (Note 22(h))	11,247,487	9,747,435
Overdraft and other demand lending	24,572,345	18,780,499
Term lending	41,783,137	31,042,336
Card lending	291,292	324,607
Gross loans and advances to customers	**90,339,416**	**71,033,531**
Allowances for impairments		
Impairment for non-performing loans	(1,103,066)	(955,995)
Impairment for performing loans	(888,912)	(944,044)
Credit impairment allowances	**(1,991,978)**	**(1,900,039)**
Net loans and advances	**88,347,438**	**69,133,492**
Maturity analysis:		
Redeemable on demand	23,480,591	15,135,738
Maturing within 1 month	893,743	578,829
Maturing after 1 month but within 6 months	9,691,238	6,359,108
Maturing after 6 months but within 12 months	1,857,566	1,711,293
Maturing after 12 months but within 5 years	21,309,288	18,127,177
Maturing after 5 years	31,115,012	27,221,347
Net loans and advances	**88,347,438**	**69,133,492**

The weighted average effective interest rate on loans and advances to customers as at 31 December 2014 was 10.76% (2013: 11.31%). The Group extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment sales and overdrafts.

Notes (continued)

22 Loans and advances (continued)

c) Impairment reserve

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

Year ended 31 December 2013	**Non-performing loans KShs'000**	**Portfolio impairment KShs'000**	**Group Total KShs'000**
At 1 January 2013	751,473	798,441	1,549,914
Amounts written off during the year as uncollectable	(504,248)	-	(504,248)
Amounts recovered during the year	(469,455)	-	(469,455)
Provision for loans impairment	1,178,225	145,603	1,323,828
At 31 December 2013	**955,995**	**944,044**	**1,900,039**

d) Loan impairment charge

	Group	
	2014	**2013**
	KShs'000	**KShs'000**
Loans impairment for non-performing loans	1,298,029	1,178,225
Loans impairment for performing loans	(55,132)	145,603
Amounts recovered during the period	(441,734)	(469,455)
Recoveries of amounts previously written off	(98,341)	(87,772)
Net loans impairment charge on loans and advances	**702,822**	**766,601**

e) Impaired loans and advances

	Group	
	2014	**2013**
	KShs'000	**KShs'000**
Impaired loans and advances	3,023,730	1,784,847
Provision for impairment losses (Note 22 (c))	(1,103,066)	(955,995)
Recoverable amount of impaired loans and advances	**1,920,664**	**828,852**
Interest in suspense	**346,342**	**268,700**

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

f) **Industry analysis**

	Group			
	2014		2013	
	KShs'000	%	KShs'000	%
Agriculture	12,665,224	14%	8,994,916	13%
Electricity and water	1,339,010	2%	171,045	0%
Manufacturing	13,186,069	15%	10,761,364	16%
Building and construction	1,450,950	2%	783,051	1%
Wholesale, retail trade and restaurants	23,065,200	26%	13,398,182	19%
Transport and communication	5,031,094	6%	3,924,220	6%
Finance and insurance	2,087,208	2%	1,790,680	3%
Real estate and business service	5,219,801	6%	2,000,881	3%
Other activities and social service	24,302,882	27%	27,309,153	39%
	88,347,438	**100%**	**69,133,492**	**100%**

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

	Group			
	2014		2013	
	KShs'000	%	KShs'000	%
Agriculture	1,090,830	36%	470,904	26%
Manufacturing	7,203	0%	25,897	1%
Building and construction	112,078	4%	107,790	6%
Wholesale, retail trade and restaurants	336,801	11%	402,992	23%
Transport and communication	71,976	3%	57,276	3%
Finance and insurance	31	0%	4	0%
Real estate and business service	341,636	11%	-	0%
Other activities and social service	1,063,175	35%	719,984	41%
	3,023,730	**100%**	**1,784,847**	**100%**

h) **Instalment sales and finance lease**

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

	2014	2013
	KShs'000	KShs'000
Gross investment in finance leases:		
Not later than 1 year	1,192,394	438,184
Later than 1 year and not later than 5 years	9,839,753	7,567,630
Later than 5 years	225,284	1,780,186
	11,257,431	**9,786,000**
Unearned finance charge	(9,943)	(38,565)
Net investment in finance leases	**11,247,488**	**9,747,435**

The amount of finance lease receivable included above is Kshs 157,047,000 (2013: Kshs 429,433,000)

Impairment provisions of KShs 228,056,000 (2013: KShs 228,948,000) for instalment sale and finance lease receivables are included in the impairment for non-performing loans.

Notes (continued)

22 Loans and advances (continued)

h) Instalment sales and finance lease (continued)

Loans to employees

	2014 KShs'000	2013 KShs'000
At start of year	3,218,623	2,600,993
New loans issued	1,540,874	1,513,585
Interest on loan	220,419	195,586
Loan repayments	(1,305,124)	(1,091,541)
At end of year	**3,674,792**	**3,218,623**

Interest earned on the loans to employees was KShs 391,743,000 (2013: KShs 332,953,000).

23 Other assets and prepayments

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Uncleared effects	1,773,147	1,544,737	-	-
Trade receivables and prepayments	439,415	425,277	500	-
Others	204,825	382,578	7,541	3,393
	2,417,387	**2,352,592**	**8,041**	**3,393**

24 Investment in subsidiaries

	Company			
Company	Beneficial ownership	Country of Incorporation	2014 KShs'000	2013 KShs'000
CfC Stanbic Bank Limited	100%	Kenya	18,009,808	18,009,808
SBG Securities Limited	100%	Kenya	165,530	165,530
			18,175,338	**18,175,338**

25 Property and equipment

a) Group

Year ended 31 December 2014	Land and premises	Equipment furniture & fittings	Motor vehicles	Work in progress	Total
Cost	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2014	385,493	2,740,356	168,901	178,428	3,473,178
Additions	-	164,915	-	296,507	461,422
Disposals	-	(7,252)	(5,284)	-	(12,536)
Work in progress	-	124,568	-	(124,568)	-
Foreign exchange difference	-	(5,601)	(807)	(2,154)	(8,562)
Impairment in 2014	-	-		(548)	(548)
At 31 December 2014	**385,493**	**3,016,986**	**162,810**	**347,665**	**3,912,954**
Depreciation					
At 1 January 2014	(55,064)	(1,127,735)	(115,194)	-	(1,297,993)
Charge for the year	(3,799)	(249,899)	(23,844)	-	(277,542)
Disposals	-	2,189	5,284	-	7,473
Foreign exchange difference	-	2,943	394	-	3,337
At 31 December 2014	**(58,863)**	**(1,372,502)**	**(133,360)**	**-**	**(1,564,725)**
Net book value at 31 December 2014	**326,630**	**1,644,483**	**29,450**	**347,665**	**2,348,229**

Year ended 31 December 2013	Land and premises	Equipment furniture & fittings	Motor vehicles	Work in progress	Total
Cost	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2013	405,886	3,428,616	183,582	16,491	4,034,575
Additions	-	125,166	-	176,581	301,747
Disposals	-	(637)	(11,537)	-	(12,174)
Work in progress	-	13,702	-	(13,702)	-
Foreign currency translation difference	-	26,815	3,238	-	30,053
Impaired assets	(20,393)	(853,306)	(6,382)	(942)	(881,023)
At 31 December 2013	**385,493**	**2,740,356**	**168,901**	**178,428**	**3,473,178**
Depreciation					
At 1 January 2013	(50,024)	(1,574,252)	(107,628)	-	(1,731,904)
Charge for the year	(13,160)	(257,496)	(25,359)	-	(296,015)
Disposals	-	637	11,537	-	12,174
Foreign currency translation difference	-	(1,743)	(126)	-	(1,869)
Impaired assets	8,120	705,119	6,382	-	719,621
At 31 December 2013	(55,064)	(1,127,735)	(115,194)	-	(1,297,993)
Net book value at 31 December 2013	**330,429**	**1,612,621**	**53,707**	**178,428**	**2,175,185**

Notes (continued)

25 Property and equipment (continued)

b) Company

	2014	2013
	Computer Equipment	Computer Equipment
	KShs '000	KShs '000
Cost		
At 1 January	1,659	1,659
At 31 December	**1,659**	**1,659**
Depreciation		
At 1 January	(1,659)	(1,599)
Charge for the year	-	(60)
At 31 December	**(1,659)**	**(1,659)**
Net book value at 31 December	**-**	**-**

As at 31 December 2014 and 31 December 2013, there were no items of property and equipment pledged by the Group and Company to secure liabilities.

Work in progress is composed of refurbishments and equipment for branches and projects that had not been completed as at year end.

The total amount disclosed as property and equipment in the Group and the Company is non-current.

26 Prepaid operating lease

	Group		Company	
	2014	2013	2014	2013
Cost	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	85,499	85,499	-	-
At 31 December	**85,499**	**85,499**	**-**	**-**
Amortisation				
At 1 January	(22,738)	(19,784)	-	-
Charge for the year	(2,954)	(2,954)	-	-
At 31 December	**(25,692)**	**(22,738)**	**-**	**-**
Net book value at 31 December	**59,807**	**62,761**	**-**	**-**

This relates to the leasehold land leased by the Group for a lease term period of 99 years. The total amount disclosed as prepaid operating lease in the Group is non-current.

27 Other intangible assets – Group

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

Year ended 31 December 2013	Software	Other intangible assets	Total
Cost	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2013	1,524,413	1,099,059	**2,623,472**
Additions	49,249	-	**49,249**
At 31 December	**1,573,662**	**1,099,059**	**2,672,721**
Amortisation			
At 1 January 2013	(1,013,303)	(575,739)	**(1,589,042)**
Charge for the year	(227,331)	(97,059)	**(324,390)**
At 31 December 2013	**(1,240,634)**	**(672,798)**	**(1,913,432)**
Net book value at 31 December 2013	**333,028**	**426,261**	**759,289**

The total amount disclosed as intangible assets in the Group and the Company is non-current.

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

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

Notes (continued)

28 Intangible assets - goodwill

	Group		Company	
	2014	2013	2014	2013
Cost	KShs '000	KShs '000	KShs '000	KShs '000
At 1 January and 31st December	9,349,759	9,349,759	-	-

Goodwill relating to CfC Stanbic Holdings Limited was tested for impairment on 31 December 2014. The recoverable amount was determined to be the value in use. Unless indicated otherwise, the value in use in 2014 was determined in a manner consistent with that used in 2013. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use. An eight-year forecast was used as a basis for future cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a nominal growth rate of 13.00% (2013: 12.00%). The pre-tax discount rate used was based on an assessment of the risks applicable to the specific entity and country in which it operates. The cost of equity discount rate calculated for the forecast years was 17.6% per annum (2013: 17.7%). The cost of equity assigned to the cash-generating unit and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is derived from an equity pricing model deemed appropriate based on the entity under review. The risk-free rate used to determine the cost of equity has been derived from the 10-year local Kenyan Government bond. These variables are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash-generating units. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows thereafter. Based on the testing performed, no impairment was identified.

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

29 Ordinary share capital and share premium

Authorised share capital	2014		2013	
	Number of Shares (thousands)	Share Capital KShs '000	Number of Shares (thousands)	Share Capital KShs '000
Balance as at 1 January and 31 December	473,684	2,368,421	473,684	2,368,421

Issued share capital	2014		2013	
	Number of Shares (thousands)	Share Capital KShs '000	Number of Shares (thousands)	Share Capital KShs '000
Balance as at 1 January and 31 December	395,322	1,976,608	395,322	1,976,608
Unissued shares	78,362	391,813	78,362	391,813

Ordinary share premium	2014	2013
	KShs'000	KShs'000
At 1 January and 31 December	16,897,389	16,897,389

30 Derivative assets and liabilities

	2014 Fair values			2013 Fair values		
	Notional contract amount KShs'000	Assets KShs'000	Liabilities KShs'000	Notional contract amount KShs'000	Assets KShs'000	Liabilities KShs'000
Foreign exchange derivatives						
Currency forwards	19,528,134	157,321	495,278	20,861,932	463,063	288,600
Currency swaps	17,184,268	92,088	25,980	30,522,449	937,776	885,102
Currency options	6,468,325	301,544	301,544	3,648,349	57,501	57,501
Total over-the-counter derivatives	**43,180,727**	**550,953**	**822,802**	**55,032,730**	**1,458,340**	**1,231,203**
Interest rate derivatives						
Cross currency interest rate swaps	-	462,596	462,596	45,843,386	1,545,182	1,545,980
Interest rate swaps	36,138,477	946,866	946,866	-	-	-
Total derivative assets held for trading	**79,319,204**	**1,960,415**	**2,232,264**	**100,876,116**	**3,003,522**	**2,777,183**
Current	38,319,237	300,216	579,637	55,143,261	1,073,457	849,004
Non-current	40,999,967	1,660,199	1,652,627	45,732,855	1,930,065	1,928,179

All derivatives are classified as derivatives held for trading.

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

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

Use and measurement of derivative instruments
In the normal course of business, the Group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange exposures. Derivative instruments used by the Group in both trading and hedging activities include forwards and other similar types of instruments based on foreign exchange rates and interest rates.

Notes (continued)

31 Deposits and current accounts

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

	Group	
	2014	2013
	KShs'000	KShs'000
Deposits from banks	**33,570,267**	**35,558,146**
Deposits from customers	**95,838,876**	**94,727,839**
Current accounts	60,671,939	65,975,634
Call deposits	6,406,739	6,353,385
Savings accounts	7,271,383	7,630,559
Term deposits	21,488,815	14,768,261
Total deposits	**129,409,143**	**130,285,985**

Maturity analysis of deposits from customers

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

	Group	
	2014	2013
	KShs'000	KShs'000
Repayable on demand	74,100,584	79,768,952
Maturing within 1 month	-	-
Maturing after 1 month but within 6 months	15,430,440	-
Maturing after 6 months but within 12 months	3,069,262	12,555,871
Maturing after 12 months	3,238,590	2,403,016
	95,838,876	**94,727,839**

Deposit products include cheque accounts, savings accounts, call deposits, and fixed deposits. The weighted average effective interest rate on customer deposits as at 31 December 2014 was 2.74% (2013: 3.41%)

	2014		2013	
	KShs'000	%	KShs'000	%
Central government	8,380,513	8.7%	1,450,695	1.5%
Non-financial public enterprises	3,140,036	3.3%	1,790,366	1.9%
Non-bank financial institutions	230,554	0.2%	471,149	0.5%
Insurance companies	582,091	0.6%	1,228,887	1.3%
Hire purchase companies	43	0.0%	77	0.0%
Private enterprises	82,104,764	85.7%	59,876,326	62.5%
Non-profit institutions and individuals	1,400,875	1.5%	30,910,339	32.3%
	95,838,876	**100%**	**94,727,839**	**100%**

32 Borrowings

At 31 December 2014	Notional value Kshs'000	Carrying value Kshs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	2,402,093	2,402,916	12.50%	07 July 2009	07 July 2016
CfC Stanbic Bond	97,907	97,938	182 day T-bill+175 bps	07 July 2009	07 July 2016
CfC Stanbic Bond	4,000,000	4,012,563	12.95%	15 December 2014	8 December 2021
Total	**6,500,000**	**6,513,417**			

At 31 December 2013	Notional value Kshs'000	Carrying value Kshs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	2,402,093	2,395,390	12.50%	07 July 2009	07 July 2016
CfC Stanbic Bond	97,907	97,939	182 day T-bill+175 bps	07 July 2009	07 July 2016
CfC Stanbic Bond	2,500,000	2,500,497	7.25%	27 December 2010	22 December 2014
IFC Loan*	850,000	853,926	6 Month LIBOR+400 bps	15 June 2009	30 June 2019
Total	**5,850,000**	**5,847,752**			

* IFC - International Finance Corporation

The IFC loan was obtained on 15 June 2009 with a 10-year term and callable at the option of the issuer one day after the fifth anniversary of the issue date or on any interest payment date thereafter. The loan was repaid in June 2014.

The CfC Stanbic bond quoted in the Nairobi Securities Exchange as issued on 27 December 2010 matured in the year and was repaid.

There were no charges placed on any of the Bank's assets in relation to these borrowings. Interest expense incurred in the above borrowings was KShs 531,754,000 (2013: KShs 546,806,000). The weighted average effective interest rate on borrowings as at 31 December 2014 was 9.33% (2013: 9.12%).

The difference between the carrying and notional value represents, accrued interest and the unamortised issue costs.

The borrowings are unsecured subordinated debt instruments.

33 Other liabilities and accrued expenses

a) Other liabilities and accrued expenses

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Accruals	3,010,104	3,319,002	17,109	24,175
Deferred bonus scheme (Note 33(b))	196,304	127,470	-	-
Un-presented bank drafts	156,410	332,827	-	-
Margin on guarantees and letters of credit	469,742	2,541,198	-	-
Items in transit	269,645	822,579	-	-
Sundry creditors	1,846,763	1,540,645	14,111	516
	5,948,968	**8,683,721**	**31,220**	**24,691**

Notes (continued)

33 Other liabilities and accrued expenses (continued)

b) Deferred bonus scheme (DBS)

It is essential for the Group to retain key skills over the longer term. This is done particularly through share-based incentive plans. The purpose of these plans is to align the interests of the Group, its subsidiaries and employees, as well as to attract and retain skilled, competent people.

The Group has implemented a scheme to defer a portion of incentive bonuses over a minimum threshold for key management and executives. This improves the alignment of shareholder and management interests by creating a closer linkage between risk and reward, and also facilitates retention of key employees.

All employees, who are awarded short-term incentives over a certain threshold, are subject to a mandatory deferral of a percentage of their cash incentive into the DBS. Vesting of the deferred bonus occurs after three years, conditional on continued employment at that time. The final payment of the deferred bonus is calculated with reference to the Standard Bank Group share price at payment date. To enhance the retention component of the scheme, additional increments on the deferred bonus become payable at vesting and one year thereafter. Variables on thresholds and additional increments in the DBS are subject to annual review by the remuneration committee, and may differ from one performance year to the next.

In 2012, changes were made to the existing DBS to provide for a single global incentive deferral scheme across the regions. The purpose of the Deferred Bonus Scheme 2012 is to encourage a longer-term outlook in business decision-making and closer alignment of performance with long-term value creation.

The provision in respect of liabilities under the scheme amounts to KShs 196,303,586 at 31 December 2014 (2013: KShs 127,470,497) and the amount charged for the year was KShs 127,707,746 (2013: KShs 101,696,398).

	Units	
Reconciliation	**2014**	**2013**
Units outstanding at beginning of the year	201,528	134,436
Granted	156,629	126,091
Exercised	(66,313)	(34,012)
Lapsed	(17,445)	(24,987)
Transfers	(4,402)	-
Units outstanding at end of the year	**269,997**	**201,528**
Weighted average fair value at grant date (ZAR)	126.87	115.51
Expected life (years)	2.51	2.51
Risk-free interest rate (%)	5.54	5.54

34 a) Current income tax recoverable

	Group		Company	
	2014	**2013**	**2014**	**2013**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
At January	-	158,846	-	140,031
Tax asset utilised during the year	-	(18,815)	-	-
Over-provision of current tax in the prior year	-	9,714	-	9,714
Tax refund	-	(149,745)	-	(149,745)
Current income tax recoverable	**-**	**-**	**-**	**-**

The total amount disclosed as current income tax recoverable is current.

34 Other liabilities and accrued expenses (continued)

b) Current income tax payable

	Group		Company	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
At January	231,689	377,033	-	-
Exchange difference on translation	(8,083)	2,272	-	-
Tax asset utilised during the year	-	(18,815)	-	-
Current income tax charge (Note 15)	2,496,850	2,490,333	45	-
Income tax paid	(2,724,750)	(2,619,134)	-	-
Current income tax (recoverable)/payable	**(4,294)**	**231,689**	**45**	**-**

The total amount disclosed as current income tax (recoverable)/payable is current.

c) Deferred income tax asset

	Group		Company	
	2014	2013	2014	2013
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
At start of year	949,013	478,395	-	-
Credit to statement of profit or loss (Note 15)	483,265	393,484	-	-
Credit/(charge) to other comprehensive income	2,948	77,134	-	-
At end of year	**1,435,226**	**949,013**	**-**	**-**

Deferred income tax assets and liabilities and deferred income tax (credit)/charge in the statement of profit or loss and other comprehensive income (OCI) are attributable to the following items:

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

Notes (continued)

34 Other liabilities and accrued expenses (continued)

c) Deferred income tax asset (continued)

Year ended 31 December 2013	1.1.2013 KShs'000	Credited to statement of profit or loss KShs'000	Credited to OCI KShs'000	31.12.2013 KShs'000
Arising from:				
Property and equipment	(163,490)	85,345	-	(78,145)
Fair value gains on AFS instruments	197,679	(208,521)	(36,376)	(47,218)
De-recognition of deferred income tax-infra-structure bonds	(76,731)	-	76,731	-
Portfolio impairment	367,732	(67,067)	-	300,665
Leasing	-	145,461	-	145,461
Revaluation surplus	(36,779)	-	36,779	-
Other provisions	348,669	409,149	-	757,818
Group intangible assets	(158,685)	29,117	-	(129,568)
Net deferred asset / (liability)	478,395	393,484	77,134	949,013

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

d) Unrecognised deferred tax assets

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2014 KShs'000	2013 KShs'000
Tax losses	-	26,793

The unrecognised tax losses relate to the holding company. The tax losses were fully utilised in 2014.

35 Notes to the cashflow statement

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

	Group		Company	
	2014	2013	2014	2013
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Net income before income tax	7,700,246	7,224,005	1,095,610	297,477
Adjusted for:				
- Depreciation - property and equipment (Note 25)	277,541	296,015	-	60
- Amortisation of intangible assets (Note 27)ss	276,416	324,390	-	-
- Amortisation of prepaid operating lease (Note 26)	2,954	2,954	-	-
- Impairment - property and equipment (Note 25)	548	161,402	-	-
- Tax liability write-back	-	(9,714)	-	(9,714)
- Change in fair value of derivatives	498,188	(764,156)	-	-
- Share based payment reserve	20,685	20,081	-	-
- Gain on disposal of property and equipment	(2,262)	(2,783)	-	-
Cash flow from operating activities	**8,774,316**	**7,252,194**	**1,095,610**	**287,823**

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

	Group		Company	
	2014	2013	2014	2013
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Unrestricted cash and balances with CBK	4,839,433	5,017,781	56,911	92,907
Treasury bills	10,602,683	17,104,540	-	-
Loans and advances to banks	12,746,987	34,604,199	-	-
Amounts due to other banks	(5,578,951)	(15,069,727)	-	-
Cash and cash equivalent at the end of the year	**22,610,152**	**41,656,793**	**56,911**	**92,907**

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

36 Fair value of financial instruments

Valuation process
All financial instruments carried at fair value, regardless of classification, are marked to market using models that have been validated independently by the Group's model validation unit and approved by the market risk methodologies committee. This control applies to both off-the-shelf models as well as those developed internally by the Group. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the market risk unit. Such price validation is performed on at least a monthly basis, and daily where possible given the liquidity of the underlying price inputs. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to market, are carefully validated and tabled at the monthly price validation forum to ensure these are reasonable and used consistently. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis to the market risk committee and ALCO.

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

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

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

Notes (continued)

36 Fair value of financial instruments (continued)

Level hierarchy (continued)

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

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

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

a) Financial instruments measured at fair value

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy:

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

There were no financial assets measured at fair value in level 3 as at 31 December 2014 and 31 December 2013.

36 Fair value of financial instruments (continued)

a) Financial instruments measured at fair value (continued)

	Note	Level 1 Kshs'000	Level 2 Kshs'000	Total Kshs'000
At 31 December 2013				
Assets				
Trading assets	20	128,312	23,077,039	23,205,351
Other financial investments	20	-	21,948,112	21,948,112
Available-for-sale pledged assets	19	-	3,391,972	3,391,972
		128,312	**48,417,123**	**48,545,435**
Comprising:				
Held-for-trading		128,312	23,077,039	23,205,351
Available-for-sale		-	25,340,084	25,340,084
		128,312	**48,417,123**	**48,545,435**
Derivative assets	30	-	3,003,522	3,003,522
Comprising:				
Held-for-trading		-	3,003,522	3,003,522
Liabilities				
Trading liabilities	21	-	259,676	259,676
Derivative liabilities	30		2,777,183	2,777,183
		-	3,036,859	3,036,859
Comprising:				
Designated at fair value through profit or loss		-	3,036,859	3,036,859

There were no financial assets measured at fair value in level 3 as at 31 December 2014 and 31 December 2013.

Financial instruments in level 1
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily of cash and subordinated debt listed on the Nairobi Securities Exchange.

Sensitivity of fair value of level 2 financial instruments
The fair value of level 2 financial instruments is determined using valuation techniques which incorporate assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

Notes (continued)

36 Fair value of financial instruments (continued)

Level 2 financial assets and financial liabilities

2014	Valuation basis/technique	Main assumptions[1]
Derivative instruments	Discounted cash flow model	Discount rate
	Black-Scholes model	Risk-free rate, volatility rate
	Multiple valuation technique	Valuation multiples
Trading assets	Discounted cash flow model	Discount rate, liquidity discount rate
	Black-Scholes model	Risk-free rate, volatility rate
Pledged assets	Discounted cash flow model	Discount rate, liquidity discount rate
Financial investments	Discounted cash flow model	Discount rate, liquidity discount rate
	Multiple valuation technique	Valuation multiples
	Quoted exit price adjusted for notice period	Discount rate
Loans and advances to customers	Discounted cash flow model	Discount rate, liquidity discount rate
Trading liabilities	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from banks	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from customers	Discounted cash flow model	Discount rate, liquidity discount rate
Other financial liabilities	Discounted cash flow model	Discount rate, liquidity discount rate

1 The main assumptions for all instruments include applicable credit spreads.

b) Financial instruments not measured at fair value

Cash and balances with Central Bank of Kenya (CBK)
The carrying amount of cash and balances with CBK is a reasonable approximation of fair value.

Loans and advances to banks
Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight loans is a reasonable approximation of fair value. The estimated fair value of fixed interest bearing loans is based on discounted cash flows using prevailing money-market interest rates for debts (ranging from 9% to 11.75%) with similar credit risk and remaining maturity.

Loans and advances to customers
Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates (ranging from 9% to 11.75%) to determine fair value.

Deposits from banks and customers
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts (ranging from 9% to 11.75%) with similar remaining maturity.

Subordinated debt
The fair value of listed subordinated debt was estimated as the market value listed on the Nairobi Securities Exchange as at 31 December 2014. The fair value of the IFC borrowing was estimated by discounting all future estimated cash flows payable under the contract at current market rates (ranging from 10.35% to 11.79% depending on the timing of cashflows).

36 Fair value of financial instruments (continued)

b) Financial instruments not measured at fair value (continued)

The fair value hierarchy for financial assets not measured at fair value is as shown in the table below:

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs '000	Carrying value KShs'000
At 31 December 2014					
Assets					
Cash and balances with CBK	9,555,580	-	-	9,555,580	9,555,580
Loans and advances to banks	11,479,499	-	1,272,676	12,752,175	12,862,672
Loans and advances to customers	24,572,641	-	63,774,797	88,347,438	88,347,438
	45,607,720	**-**	**65,047,473**	**110,655,193**	**110,765,690**
Liabilities					
Deposits from banks	(5,161,831)	-	(27,290,066)	(32,451,897)	(33,570,267)
Deposits from customers	(75,091,989)	-	(19,800,729)	(94,892,718)	(95,838,876)
Subordinated debt		(7,309,874)	-	(7,309,874)	(6,513,417)
	(80,253,820)	**(7,309,874)**	**(47,090,795)**	**(134,654,489)**	**(135,922,560)**

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 31 December 2013					
Assets					
Cash and balances with CBK	9,466,550	-	-	9,466,550	9,466,550
Loans and advances to banks	21,219,664	-	12,291,676	33,511,340	34,714,199
Loans and advances to customers	17,202,153	-	51,931,339	69,133,492	69,133,492
	47,888,367	**-**	**64,223,015**	**112,111,382**	**113,314,241**
Liabilities					
Deposits from banks	(15,304,720)	-	(17,310,873)	(32,615,593)	(35,558,146)
Deposits from customers	(81,121,232)	-	(12,405,656)	(93,526,888)	(94,727,839)
Subordinated debt	-	(6,098,241)	-	(6,098,241)	(5,847,752)
	(96,425,952)	**(6,098,241)**	**(29,716,529)**	**(132,240,722)**	**(136,133,737)**

The valuation techniques used in determining the fair value of financial assets and liabilities classified within level 2 and level 3.

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 2 and level 3 assets and liabilities not measured at fair value but for which fair value is disclosed:

2014	Valuation basis/technique	Main assumptions
Loans and advances to banks	Discounted cash flow model	Discount rate, liquidity discount rate
Loans and advances to customers	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from banks	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from customers	Discounted cash flow model	Discount rate, liquidity discount rate
Subordinated debt	Discounted cash flow model	Discount rate, liquidity discount rate

Notes (continued)

37 Related party transactions

CfC Stanbic Holdings Limited is a subsidiary of Stanbic Africa Holdings Limited (SAHL), incorporated in the United Kingdom. The ultimate parent of SAHL is Standard Bank Group Limited, which is incorporated in South Africa. There are other companies which are related to CfC Stanbic Group through common shareholdings or common directorships. In the normal course of business, nostro and vostro accounts are operated and placing of both foreign and local currencies are made with the parent company and other Group companies at interest rated in line with the market. The relevant balances are as shown below:

a) Loans due from group banks

	2014 KShs'000	2013 KShs'000
Stanbic Bank Uganda Limited	50,828	11,153
Stanbic Bank Tanzania Limited	28,365	123,063
Standard Bank London Limited	-	601,006
Standard Bank of South Africa Limited	2,146,509	848,508
Standard Bank Isle of Man	452,626	13,062,748
	2,678,328	**14,646,478**
Interest income earned on the above is:	**3,008**	**2,623**

b) Deposits due to group companies

Standard Bank of South Africa Limited	67,690	252,630
Standard Bank London Limited	389,338	1,392
Standard Bank Namibia Limited	1,314	1,011
Stanbic Bank Uganda Limited	575,393	2,686,885
Stanbic Bank Zambia Limited	14	9,383
Stanbic Bank Zimbabwe Limited	136	423
Stanbic Bank Botswana Limited	568	998
Standard Bank Mauritius Limited	64,890	37,307
Stanbic Bank Malawi Limited	22	869
Standard Bank Isle of Man	13,591,222	12,964,637
Stanbic Bank Tanzania Limited	239,842	11,401
Standard Bank PLC	54,732	108,802
Standard Bank Swaziland	21	27
	14,985,182	**16,075,765**
Interest expense incurred on the above is:	**306,431**	**44,032**

The weighted average effective interest rate on amounts due from group companies as at 31 December 2014 is 0.17% (2013: 0.10%) and on amounts due to group companies was 1.70% (2013: 0.50%)

c) Company

	2014 KShs'000	2013 KShs'000
Amounts due to group companies	1,833	158,877

37 Related party transactions (continued)

d) Deposits due to group companies non-bank

	2014 KShs'000	2013 KShs'000
Heritage	134,957	100,521
STANLIB Kenya Limited	63,595	453
CfC Life	53,611	64,355
	252,163	**165,329**

e) Key management compensation

Key management personnel include: the members of the CfC Stanbic Holdings Limited board of directors and prescribed officers effective for 2014 and 2013. Non-executive directors are included in the definition of key management personnel as required by IAS 24 Related Party Disclosures. The definition of key management includes the close family members of key management personnel and any entity over which key management exercise control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by that person in their dealings with the bank. They include the person's domestic partner and children, the children of the person's domestic partner, and dependants of the person or the person's domestic partner.

f) Loans and advances

Included in loans and advances are amounts advanced to certain companies in which directors are involved either as shareholders or directors (associated companies). In addition, there are contingent liabilities including guarantees and letters of credit, which have been issued to associated companies. The balances as at 31 December 2014 and 31 December 2013 are as shown below:

Directors' associated companies

The aggregate amount of loans to directors, affiliates and their families on the statement of financial position is:

	2014 KShs '000	2013 KShs '000
At start of year	53,647	395,610
New loans issued	37,711	47,553
Accrued interest	596	13,439
Loan repayments	(52,847)	(402,955)
At end of year	**39,107**	**53,647**

The aggregate amount of advances to directors, affiliates and their families off the statement of financial position is:

	2014 KShs '000	2013 KShs '000
At start of year	886,805	1,192,187
Facilities issued	472,391	718,233
Facilities settled	(623,854)	(1,023,615)
At end of year	**735,342**	**886,805**

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

Notes (continued)

37 Related party transactions (continued)

g) Key management compensation

	2014 KShs '000	2013 KShs '000
Salaries and other short-term employment benefits	**392,693**	**344,076**
Directors' remuneration		
Fees for services as directors	7,630	8,997
Other emoluments (included in key management compensation above)	80,571	81,602
	88,201	**90,599**

Contingent liabilities at 31 December 2014 include contingencies on behalf of companies associated to the directors of KShs 735,342,000 (2013: KShs 886,805,000).

h) Other receivable due from related companies

	2014 KShs'000	2013 KShs'000
The Heritage Insurance Company Limited	798	823
CfC Stanbic Holdings Limited	1,670	158,713
Stanbic Bank Uganda Limited	2,919	150,829
Stanbic Bank Tanzania Limited	300,830	265,556
Standard Bank Mauritius Limited	22	-
Standard Bank of South Africa Limited	364,452	81,587
Stanbic Bank Zambia Limited	109	-
Stanbic Bank Malawi Limited	10	-
Stanbic Bank Zimbabwe Limited	-	516
Stanbic Bank Lesotho	(183)	116
Frontier Markets Fund Managers Limited	-	521
Standard Bank London	754	-
STANLIB Kenya Limited	91,077	-
	762,458	**658,661**
Provisions on regional costs balances	(280,502)	(370,165)
	481,956	**288,496**

i) Other payables due to related companies

The Group has an outstanding amount due to Standard Bank of South Africa of KShs 888,297,000 (2013: KShs 625,246,000). This balance is included in other liabilities in note 33 (a) above. There is no interest payable accruing for the outstanding liabilities.

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

	2014 Kshs'000	2013 Kshs'000
Standard Bank South Africa		
Franchise fees	426,384	452,967
Information technology	200,608	139,233
Other operating costs	33,806	32,368
	660,798	**624,568**

38 Retirement benefit liability

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

The CfC Bank Limited Staff Retirement Benefits Scheme was incorporated in 1 January 1975 and it operates on a defined contribution basis.

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

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

Until June 2013, pensions continued to be paid to existing pensioners from the SBK Scheme Fund and the terms for benefit provision to deferred pensioners were retained on a defined benefits basis.

During the year, the Trustees of the Scheme sought to outsource the pensioner pay-out's and purchased annuities in respect of all the 37 pensioners already receiving pensions from the Scheme. However, 9 deferred pensioners remained under the defined benefits scheme.

Accordingly, the pension benefits payable to all the deferred pensioners will continue to be met from the resources of the SBK Scheme Fund.

The consulting actuaries carried out an actuarial review of the SBK Scheme as at 31 December 2014. Using the projected unit credit method as prescribed by IAS 19, the net defined obligation amounted to KShs 95,000 comprising of an asset market value of KShs 22,748,000 and a benefit obligation of KShs 22,843,000.

No balances have been recognised on the statement of financial position, the statement of profit or loss and the statement of other comprehensive income on the basis of insignificance.

39 Contingent liabilities - Group

	2014	2013
Commitments with respect to:	**KShs'000**	**KShs'000**
Irrevocable letters of credit	7,714,046	9,123,204
Irrevocable unutilised facilities	7,806,485	15,303,044
Guarantees	13,918,776	12,582,369
Acceptances	1,626,479	4,018,370
	31,065,786	**41,026,987**

a) Nature of contingent liabilities

Letters of credit commit the Group to make payments to third parties, on production of documents, which are subsequently reimbursed by the customers. Guarantees are generally written by a Group to support performance by a customer to third parties. The Group will only be required to meet these obligations in the event of customers' default.

An acceptance is an undertaking by the Group to pay a bill of exchange drawn on a customer.
The Group expects most of the acceptances to be presented, and to be reimbursed by the customer almost immediately.

b) Segmental analysis of off-balance sheet liabilities

	2014		2013	
	KShs'000	**%**	**KShs'000**	**%**
Agriculture	2,021,583	7%	3,269,321	8%
Manufacturing	10,099,055	33%	2,664,931	7%
Construction	323,410	1%	1,655,939	4%
Energy	1,032,960	3%	6,730,299	16%
Transport and Communication	1,178,322	3%	1,547,948	4%
Distribution/Wholesale	11,665,237	38%	2,962,670	7%
Financial Services	3,499,572	11%	186,063	1%
Non-Financial	-	0%	90,752	0%
Tourism	11,306	0%	5,107	0%
Other activities and social service	1,234,342	4%	21,913,957	53%
	31,065,787	**100%**	**41,026,987**	**100%**

Notes (continued)

40 Other reserves

	Note	Group 2014 KShs '000	Group 2013 KShs '000
Statutory reserve		(72,429)	(202,078)
Fair value reserve		218,793	418,754
Foreign currency translation reserve		(69,715)	(4,881)
Share based payment reserve	41	131,001	110,316
Revaluation reserve		122,598	122,598
At end of year		**330,248**	**444,709**

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

Fair value reserve represents the surplus or losses arising on fair valuation of available-for-sale financial instruments and is non-distributable.

Currency translation reserve represents exchange differences arising on the translation of the net investment in foreign entities and is non-distributable.

The statutory reserve represents an appropriation from retained earnings to comply with the Central Bank of Kenya's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognised in accordance with the Company's accounting policy. The reserve is not distributable.

41 Share-based payment reserve

	2014 KShs'000	2013 KShs'000
At the start of the year	110,316	95,751
Options exercised during the year	-	(5,516)
Equity growth scheme for the year	20,685	20,081
As at 31 December	**131,001**	**110,316**

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

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

As at 31 December 2014, the total amount included in staff costs for Group Share Incentive Scheme was KShs.20,229,000 (2013: KShs 18,847,000) and for Equity Growth Scheme was KShs 448,000 (2013: KShs 1,288,000).

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

	Year	% vesting	Expiry
Type A	3, 4, 5	50, 75, 100	10 Years
Type B	5, 6, 7	50, 75, 100	10 Years
Type C	2, 3, 4	50, 75, 100	10 Years
Type D	2, 3, 4	33, 67, 100	10 Years
Type E	3, 4, 5	33, 67, 100	10 Years

41 Share-based payment reserve (continued)

A reconciliation of the movement of share options and appreciation rights is detailed below:

	Option price range (ZAR)	Number of options	
Group Share Incentive Scheme	**2014**	**2014**	**2013**
Options outstanding at beginning of the period	-	503,400	558,250
Transfers	40.65 - 111.94	67,050	17,750
Exercised	62.39 - 111.94	(93,912)	(57,100)
Lapsed	62.39 - 111.94	-	(15,500)
Options outstanding at end of the period		**476,538**	**503,400**

The weighted average SBG share price for the period to 31 December 2014 year end was ZAR 134.83 (2013: ZAR 115.39).

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

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
7,000	65.60	65.60	Year to 31 December 2015
1,300	79.50	79.50	Year to 31 December 2016
7,000	98.00	98.00	Year to 31 December 2017
38,550	92.00	92.00	Year to 31 December 2018
52,500	62.39	62.39	Year to 31 December 2019
183,125	104.53-111.94	109.41	Year to 31 December 2020
187,063	97.80-107.55	99.70	Year to 31 December 2021
476,538			

The following options granted to employees had not been exercised at 31 December 2013:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
7,000	65.60	65.60	Year to 31 December 2015
1,300	79.50	79.50	Year to 31 December 2016
8,300	98.00	98.00	Year to 31 December 2017
28,600	92.00	92.00	Year to 31 December 2018
49,700	62.39	62.39	Year to 31 December 2019
207,250	104.53-111.94	109.26	Year to 31 December 2020
201,250	97.80-107.55	99.66	Year to 31 December 2021
503,400			

Notes (continued)

41 Share-based payment reserve (continued)

Equity Growth Scheme	Option price range (ZAR) 2014	Number of options 2014	2013
Rights outstanding at beginning of the period	-	158,604	305,654
Transfers	-	(114,904)	(108,300)
Exercised	62.39 - 111.94	(6,500)	(37,512)
Lapsed	65.60	-	(1,238)
Rights outstanding at end of the period[2]		**37,200**	**158,604**

1. During the year 3,529 (2013: 9,330) SBG shares were issued to settle the appreciated rights value.

2. At 31 December 2014 the Group would need to issue 16,392 (2013: 93,261) SBG shares to settle the outstanding appreciated rights value.

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

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
3,500	79.50	79.50	Year to 31 December 2016
8,500	98.00	98.00	Year to 31 December 2017
5,500	92.00	92.00	Year to 31 December 2018
19,700	62.39	62.39	Year to 31 December 2019
37,200			

The following options granted to employees had not been exercised at 31 December 2013:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
6,500	65.60	65.60	Year to 31 December 2015
9,204	79.50 – 82.00	81.05	Year to 31 December 2016
19,650	98.00 – 105.25	99.84	Year to 31 December 2017
67,200	92.00	92.00	Year to 31 December 2018
45,550	62.39	62.39	Year to 31 December 2019
4,250	111.94	111.94	Year to 31 December 2020
6,250	98.80	98.80	Year to 31 December 2021
158,604			

42 Capital commitments

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

	2014 KShs'000	2013 KShs'000
Authorised and contracted for	581,935	67,851
Authorised but not contracted for	181,984	364,507

43 Operating leases

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

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

	2014 KShs'000	2013 KShs'000
Less than one year	392,568	350,685
Between one and five years	1,184,020	1,164,229
More than five years	576,601	483,570
	2,153,189	**1,998,484**

44 Fiduciary activities

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

Assets held on behalf of individual's trusts and other institutions	**198,768,544**	**153,173,440**

Shareholder information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Group Shareholding

The ten largest shareholdings in the company and the respective number of shares held at 31 December 2014 are as follows:

Name	Number of shares held	Shareholding (%)
Stanbic Africa Holdings Ltd. (UK)	163,715,735	41.41
CfC Stanbic Nominees (K) Ltd non-resident A/C NR00901	73,477,246	18.59
Standard Chartered Nominees non-resident A/C 9866	23,145,433	5.85
Standard Chartered nominees non-resident A/C 9867	16,024,572	4.05
Sovereign Trust Ltd	10,745,554	2.72
Standard Chartered nominees non-resident A/C KE9053	8,005,533	2.03
Archer & Wilcock Nominees Limited	6,125,000	1.55
The Permanent Secretary to the Treasury of Kenya (on behalf of the Government of Kenya)	4,342,548	1.10
Standard Chartered Nominees account 9230	4,158,922	1.05
SCB A/C Pan African Unit Linked FD	3,399,600	0.86

	Number of shareholders	Number of shares held	Shareholding (%)
1 – 500	1,713	334,719	0.08%
501 – 1,000	572	475,981	0.12%
1001 – 5,000	1,011	2,489,273	0.63%
5,001 – 10,000	461	3,430,470	0.87%
10,001 – 50,000	367	8,084,580	2.04%
50,001 – 100,000	90	6,341,916	1.60%
100,001 – 500,000	86	19,149,675	4.84%
500,001 – 1,000,000	23	14,971,024	3.79%
Over 1,000,000	25	340,044,000	86.02%
Total	**4,348**	**395,321,638**	**100.00%**

Notice of Annual General Meeting

Notice is hereby given that the Sixtieth Annual General Meeting of the Members of CfC Stanbic Holdings Limited will be held on 21 May 2015, at Louis Leakey Memorial Hall at the National Museum, Nairobi, at 12.00 noon to transact the following business:

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

2. To receive and consider the Audited Financial Statements for the year ended 31 December 2014, and the Directors' and Auditor's Report thereon.

3. To consider and approve the payment of a final dividend of KShs 5.20 per ordinary share of KShs 5 each.

4. To elect Directors:
   i) In accordance with Article 110 of the Company's Articles of Association, Mr Fred N Ojiambo retires by rotation and, being eligible, offers himself for re-election.

   ii) In accordance with Article 110 of the Company's Articles of Association, Mrs Jane Babsa-Nzibo retires by rotation and though being eligible, she does not offer herself for re-election.

   iii) In accordance with Article 110 of the Company's Articles of Association and Section 186 (2) of the Companies Act (Cap 486), Mr Gayling R May retires by rotation and, being over seventy years of age, does not offer himself for re-election.

   iv) In accordance with Article 109 of the Company's Articles of Association, Mr. Christopher B Newson, a director appointed as an addition to the Board retires at the dissolution of the meeting and having been recommended by the Board, offers himself for re-election.

5. To approve the Directors' remuneration for the year ended 31 December 2014, as provided in the Audited Financial Statements.

6. To note that Messrs PricewaterhouseCoopers have indicated their willingness to continue in office as the auditors under Section 159(2) of the Companies Act and to authorise the Directors to fix their remuneration.

7. To ratify the incorporation of a subsidiary company of CfC Stanbic Bank to be set up as a bancassurance business.

8. To consider and, if thought fit, to pass an ordinary resolution to increase the number of directors of the Company from a maximum of 12 to a maximum of 15 directors, pursuant to Article 99 of the Company's Articles of Association; and accordingly, to authorise for Article 99 of the Company's Articles of Association to be amended to read as follows:
   "The number of Directors shall not be less than seven (7) and, unless and until otherwise determined by ordinary resolution of the Company in general meeting, shall not exceed fifteen (15)".

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

BY ORDER OF THE BOARD

____
Lillian Mbindyo
Company Secretary
Date: 25 February, 2015

NOTE:

1. *In accordance with section 136(2) of the Companies Act, every member entitled to attend and vote at the above meeting and any adjournment thereof is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy need not be a Member of the Company. A proxy form can be downloaded from the Company's website, www.cfcstanbicbank.co.ke, or obtained from the Registered Office of the Company at CfC Stanbic Centre, Chiromo Road, Westlands, Nairobi.*
2. *Completed proxy forms should be returned to the Company Secretary by delivery to the Registered Office or by post to P.O. Box 72833-00200 Nairobi, to arrive not later than 48 hours before the meeting.*
3. *In accordance with Article 165 of the Company's Articles of Association, a copy of the Annual Report may be obtained from the website stated above or from the Company Secretary at the Registered Office.*
4. *Shareholders wishing to receive a proxy form and/or a copy of the Annual Report by e-mail may send a request, quoting their full name and account number, to registrar@stanbic.com*

Proxy Form

The Company Secretary
CfC Stanbic Holdings Limited
CfC Stanbic Centre
Chiromo Road, Westlands
P.O. Box 72833 – 00200

Nairobi

I/We,………

of P.O. Box ……

being a member of CFC STANBIC HOLDINGS LIMITED hereby appoint ……………………………………………………………………………

……………………………………………………… of …………………………………………………………………………………………………

………………………… or failing him ……

of ………

as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on……………………………………………, 2015,

and any adjournment thereof.

Dated this ……………………………………day of ………………………………………………………………………….2015

Signed ……………………………………………

Name ……………………………………………

Note: The proxy form should be completed and returned to the Company Secretary no later than 48 hours before the meeting or any adjournment thereof.

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Africa is a complex and diverse continent deserving nuanced insight. With differing prospects and performance across the continent, a 'one size fits all' approach is inappropriate. We are able to navigate unique environments by employing and developing local skills. Together with our other competitive advantages, our heritage and footprint, we are in a prime position to turn Africa's challenges into market opportunities.