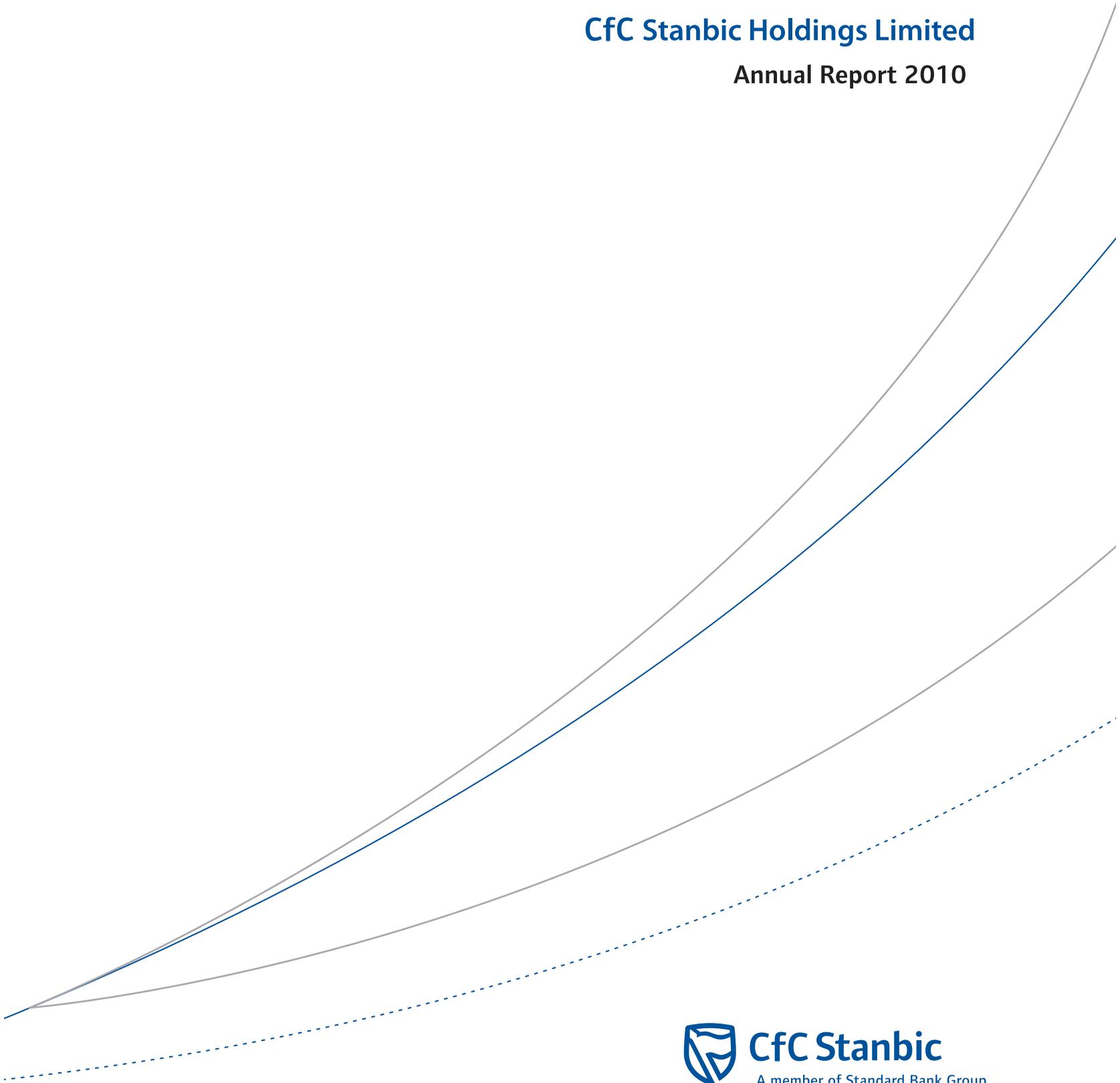


# CfC Stanbic Holdings Limited

## Annual Report 2010





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## Directors, Officers and Administration

Chairman: Fred N. Ojiambo, SC  
Managing Director: K Mbathi  
Non-Executive Directors: J G Kiereini  
J Babsa-Nzibo  
G R Brackenridge\*  
E W Njoroge  
R Kimotho  
GR May\*\*  
RT Ngobi  
CK Muchene

\* South African

\*\* British

Secretary: Mugambi Nandi  
P.O. Box 72833  
00200 Nairobi

Auditor: Pricewaterhouse Coopers  
The Rahimtulla Tower  
Upper Hill Road  
P O Box 43963  
00100 Nairobi

Registered Office: CfC Stanbic Centre  
Chiromo Road  
P O Box 72833  
00200 Nairobi

Principal Bankers: CfC Stanbic Bank Limited  
Chiromo Road  
P O Box 30550  
00100 Nairobi GPO



## Directors, Officers and Administration (continued)



Fred N. Ojiambo - Chairman



Kitili Mbathi - Managing Director



Edward Njorge - Director



Ruth Ngobi - Director



Rose W. Kimotho - Director



Jeremiah Kierieni - Director



Charles Muchene - Director



Gayling May - Director



Jane Babsa-Nzibo - Director



Greg Brackenridge - Director



Mugambi Nandi - Secretary



# Notice of Annual General Meeting

Notice is hereby given that the fifty-sixth Annual General Meeting of the Members of CfC Stanbic Holdings Limited will be held on 25 May 2011, at CfC Stanbic Centre, Chiromo Road, Nairobi, at 2.00pm 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 2010 and the Directors' and Auditors' Report thereon.
3. To consider, and if thought fit, approve the payment of dividend for the year ended 31 December 2010 as recommended by the Directors.
4. To elect Directors:
  - i) In accordance with Article 110 of the Company's Articles of Association, Mr Gayling Richard May retires by rotation and, being eligible, offers himself for re-election.
  - ii) In accordance with Article 110 of the Company's Articles of Association, Ms Rose Wairimu Kimotho retires by rotation and, being eligible, offers herself for re-election.
  - iii) In accordance with Article 109 of the Company's Articles of Association, Mr Charles Kahara Muchene, a director appointed to fill a casual vacancy retires at the dissolution of the meeting and, being eligible, offers himself for re-election.
  - iv) In accordance with Article 109 of the Company's Articles of Association, Ms Ruth Theddesia Ngobi, a director appointed to fill a casual vacancy retires at the dissolution of the meeting and, being eligible, offers herself for re-election.
5. To approve the Directors' remuneration for the year ended 31 December 2010 as provided in the Financial Statements.
6. To note that Messrs PricewaterhouseCoopers continue in office as the auditor under Section 159(2) of the Companies Act and to authorise the Directors to fix their remuneration.
7. Any other business for which due notice has been given.

## BY ORDER OF THE BOARD

### Mugambi Nandi

Company Secretary

Date: 26 April 2011

**NOTE:** In accordance with section 136(2) of the Companies Act every member entitled to attend and vote at the above meeting and any adjournment thereof is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy need not be a Member of the Company. A form of proxy is enclosed and should be returned to the Company Secretary, P.O. Box 72833-00200 Nairobi, to arrive not later than 48 hours before the meeting.



# Chairman's Statement

It is my pleasure to present the Annual Report and Financial Statements for the year ended 31 December 2010.

## Overview

The regional economy continued to experience recovery in 2010. Kenya recorded 4.8% economic growth from 2.5% and 1.7% in 2009 and 2008 respectively. This was mainly supported by the construction industry, communication sector, and infrastructural investments by the Government.

The Group's banking business benefited from the global banking sector recovery stimulated by corrective actions taken across the globe. The Bank continued its expansion into major towns to boost retail banking. It is expected that the licensing of the agency banking in the year coupled with development in mobile banking will improve financial services access to the previously unbanked population.

The Group's stock broking business was stronger due to higher brokerage commissions in line with the NSE rebound. In 2010, the Group injected additional capital to CfC Financial services in compliance with the Finance Act, 2009 increasing the minimum share capital of Investment Banks to Shs 250million.

## Restructure and de-merger

Reference is made to the previous announcements made by the Company in 2009/2010 in relation to demerger transactions of the Insurance Businesses. Key steps in the transaction that have already taken place are:

- Changing the name of CfC Holdings Limited to "CfC Insurance Holdings Limited" (CfCIH) and CfCIH implementing a share split of its ordinary shares and a bonus issue of ordinary shares from its share premium account in order to achieve a demerger ratio of 1:1;
  - CfCIH acquiring the 64.08% holding in the issued share capital of Heritage owned by the Company in exchange for an issue of CfCIH ordinary shares;
- CfCIH acquiring the remaining 35.92% holding in the issued share capital of Heritage owned by African Liason and Consultant Services Limited in exchange for an issue of CfCIH ordinary shares; and
- CfCIH allotting and issuing ordinary shares to Liberty

Holdings limited for cash consideration (based on an arm's-length valuation). The capital raised was applied in meeting certain of the anticipated costs of the Restructuring and Demerger, increasing the capital solvency of the Insurance Businesses and reducing the levels of debts in CfCIH in preparation for its listing on the NSE.

The following regulatory approvals and conditions precedent required to complete this transaction have been obtained or complied with, including:

- The shareholders of CSH approving the Demerger at an extra-ordinary general meeting
- the Insurance Regulatory Authority,
- the Exchange Control Division of the South African Reserve Bank,
- the Johannesburg Stock Exchange,
- the Capital Markets Authority,
- the Nairobi Stock Exchange (NSE) and,
- the Minister of Finance acting through the Monopolies and Prices Commissioner

The transaction will be completed through listing of the CfCIH on the Nairobi Stock Exchange by way of introduction.

## Performance highlights:-

### Income Statement

- Total operating income increased by 35% to Shs 12 billion.
- Non-interest revenue increased by 96% or Shs 2.9 billion mainly driven by enhanced trading volumes and higher investment income.
- Staff costs increased by 46% or Shs 1 billion due to additional head count expansion and new products support.
- Impairment of available for sale securities reduced by 95% to Shs 32m in line with the recovery in the activity of the NSE.
- Total assets increased by 10% to Shs 140 billion.
- The increase in borrowings is the second tranche of the CfC Stanbic Bond issued in December 2010. This was partly offset by settlement of Shs 200m loan.



# Chairman's Statement (continued)

As a result of the overall operating performance the directors recommend the payment of a dividend as indicated in the directors' statement on page 13.

## Human Resources

The Group's total staff complement as at 31 December 2010 was 1,173 compared to 1,127 in 2009. We continue to raise the skills of our human capital to ensure that a high standard of customer service is upheld at all times.

## Compliance

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

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

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

## Directorate

I am delighted to announce that Ms Ruth Theddesia Ngobi and Mr Charles Kahara Muchene joined the board with effect from 1st February 2011. In accordance with the Company's Articles of Association, they will be presented to the Shareholders for approval, at the next Annual General Meeting. Messrs Charles Njonjo, Mike du Toit and Titus Naikuni retired from the board at the last Annual General Meeting. I take this opportunity to thank them for their commitment to the Company's growth.

## Leadership

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

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

## Outlook

In 2011 the economy is expected to grow by 5.7%, mainly aided by the public spending on infrastructure and private sector. The Group will continue to strategically position itself in the market by providing relevant and cutting edge products and services to its target markets. Key activity will be the remaining steps in the restructuring and demerger of Insurance businesses.

## Appreciation

I would like to thank all our stakeholders and particularly customers for their continued loyal support which has enabled the Group achieve these excellent results.

I would also like to appreciate our staff across the Group. They have continued to render dedication and service. We also wish to acknowledge with gratitude my colleagues on the Board and its Committees for their diligence, guidance and support.

**Fred N Ojiambo, SC**  
Chairman

18 March 2011



# Corporate Governance Report

## Standard Bank Group Limited - Overview

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

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

## CfC Stanbic Group – Overview

The CfC Stanbic Group operates in a highly regulated industry and is committed to complying with legislation, regulation and codes of best practice and seeks to maintain the highest standards of governance, including transparency and accountability.

Whilst the Group continues to nurture a strong culture of governance and responsible risk management in line with the Standard Bank Group's risk appetite and governance framework, the Group is constantly monitoring its practices to ensure that they are the best fit for the Group and serve to enhance business and community objectives.

## Codes and regulations

The Group complies with all applicable legislation, regulations, standards and codes, with the Board continually monitoring regulatory compliance.

## Shareholders' responsibilities

The shareholders' role is to appoint the Board of Directors and the external auditor. This role is extended to holding the Board accountable and responsible for efficient and effective corporate governance.

## Board of Directors

The Group is led by independent members of the Board who, by their skills and diversity, contribute to the efficient running of the Group.

The Board is responsible for the overall corporate governance of the Group, ensuring that appropriate controls, systems and practices are in place.

## Board composition and evaluation

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

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

## Strategy

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

## Directors' appointment, induction and training

Since the last Annual General Meeting, the Directors have appointed Ms Ruth Theddesia Ngobi and Mr Charles Kahara Muchene to the Company's Board of Directors.

Ruth is a lawyer of over twenty-five years standing, having been admitted as an Advocate of the High Court of Kenya



## Corporate Governance Report (continued)

in 1985. She holds a bachelors degree in law from University of Kent at Canterbury and a Master of Laws degree from University of Cambridge, both in the United Kingdom. Until recently, Ruth was the Area Legal Counsel, East and Central Africa for BAT. She doubled up as the Company Secretary, a role she continues to hold in a non-executive capacity.

Charles holds a Bachelor of Commerce degree from the University of Nairobi. He is a Fellow of the Institute of Certified Public Accountants of Kenya, and a member of other professional associations. He joined Price Waterhouse in 1979, and worked his way up through the grades to partnership in 1992. He was appointed Country Senior Partner for Kenya in 1998 on formation of PricewaterhouseCoopers, a position he held for 11 years.

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

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

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

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

### Going concern

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

### Remuneration

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

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

### Social responsibility

As a Kenyan business, the Group understands the challenges and benefits of doing business in Kenya, and owes its existence to the people and societies within which it operates. The Group is committed therefore not only to the promotion of the economic development but also to the strengthening of civil society and human well-being.

The Group concentrates its social investment expenditure in defined focus areas in order to make the greatest impact. These areas of focus are subject to annual revision as the country's socio-economic needs change.

### Board meetings

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

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

*Directors' Attendance, 2010*

| Name                    | Apr | May | Aug | Aug | Nov |
|-------------------------|-----|-----|-----|-----|-----|
| Mr Charles Njonjo       | ✓   | n/a | n/a | n/a | n/a |
| Mr Fred N. Ojiambo      | n/a | ✓   | ✓   | ✓   | ✓   |
| Mr Kitili Mbathi        | ✓   | ✓   | ✓   | ✓   | ✓   |
| Mr Jeremiah G. Kiereini | ✓   | ✓   | ✓   | ✓   | ✓   |
| Mr Gayling R. May       | ✓   | ✓   | ✓   | ✓   | ✓   |
| Ms Rose Kimotho         | ✓   | ✓   | ✓   | ✓   | ✓   |
| Mrs Jane Babsa-Nzibo    | n/a | ✓   | ✓   | ✓   | ✓   |
| Mr. Michael L du Toit   | AP  | n/a | n/a | n/a | n/a |
| Dr. Titus Naikuni       | AP  | n/a | n/a | n/a | n/a |
| Mr. Edward W. Njoroge   | n/a | ✓   | ✓   | ✓   | AP  |
| Mr Greg R. Brackenridge | ✓   | ✓   | ✓   | ✓   | ✓   |

✓: Attended AP: Absent with Apology



# Corporate Governance Report (continued)

## Board committees

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

The Board monitors the agreed financial and corporate governance objectives for the following year. The performance against financial and corporate governance objectives is monitored by the Board through management's quarterly reporting. The implementation of the Group's strategic objectives is done at the individual subsidiary companies, through various established Board and management committees.

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

The Board Audit Committee was reconstituted in August 2010. The Committee meets at least twice a year in accordance with the half-yearly financial reporting period adopted by the Group.

The members attended the meetings as shown below;

### Directors' BAC attendance, 2010

| Name                    | Mar | Aug |
|-------------------------|-----|-----|
| Mr Gayling R. May       | ✓   | ✓   |
| Mr Kitili Mbathi        | ✓   | ✓   |
| Mr Jeremiah G. Kiereini | ✓   | ✓   |
| Ms Rose Kimotho         | ✓   | ✓   |
| Mr. Edward Njoroge      | n/a | ✓   |
| Mrs Jane Babsa-Nzibo    | n/a | ✓   |



# Sustainability Report

## Introduction

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

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

## Our stakeholders

### Shareholders

Enhanced shareholder value is a key component of building a sustainable business. The Group's business model is to drive higher sustainable revenue whilst embracing a strong risk management framework. In 2010, the Group's focus was to increase in shareholder value.

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

### Customers

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

### Employees

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

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

## Regulators

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

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

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

## Supply chain management

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

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

## Environmental friendliness

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



## Sustainability Report (continued)

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

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

### Community

In 2010, the Group continued to dedicate a part of its earnings to assisting the community through various programmes and projects. The Group carries on corporate social initiatives activities through its subsidiary companies.

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

- **Kijani Kenya Trust**

The Kijani Festival brings out artists from London and Germany and combines with local artists to do performances in Nairobi, Mombasa and Nanyuki. The Group sponsored this event which supports a number of homes throughout the country taking care of children who have HIV/AIDS.

- **The Great Turkwel Peace Race**

The annual Great Turkwel Peace Race and Cultural Beauty Show is a peace resolution effort spearheaded by the Tegla Lorupe Foundation. Turkwel, in north western Kenya, has been at the centre of protracted inter-communal conflicts between the Pokot and Turkana communities. The 10km race through the spectacular Turkwel Gorge aims to build peace by creating a forum for different communities in the region to interact. The Group sponsored members of staff to participate in this noble initiative.

- **Huruma Health Centre**

The Pope John II Huruma Health Centre is a charitable institution in Nanyuki. The health centre serves the destitute in the town most of whom suffer from terminal illnesses with HIV/AIDS and cancer patients forming the majority. In light of the town's teething water supply problems, the Group undertook the purchase and the installation of a water tank for the Health Centre.

- **Kenya Community Centre for Learning (KCCL)**

Learning Disorder (LD) as it is commonly known is a condition that affects the brain's ability to receive and process information. In Kenya, more than 750,000 children and youth suffer from LD.

To create awareness for this cause, the Kenya Community Centre for Learning (KCCL) kicked off a three year campaign that started with a 10km run/walk on October 16th 2010.

The Group through CFC Stanbic Bank participated in the inaugural walk as the lead sponsor in a bid to give the children a decent start to life.

- **Palm House Foundation**

The Foundation was set up to help underprivileged students who perform exceptionally well at Standard 8 level to get quality education at some of Kenya's top National secondary schools such as Alliance Girls, Kenya High School and Nairobi School. The Group sponsored 4 students in 2010. The sponsorship will cater for their entire secondary school education (4 years)

- **Westgate Adopt a Tree**

The Group participated in the Westgate Shopping Mall Christmas campaign called "Adopt the Tree". The campaign was put together to raise funds towards this cause.



# Sustainability Report (continued)

- **Rabuor Self Help Group**

Rabuor Self Help Group in Kisumu was formed in 2009 with the main aim of encouraging the youth to engage in self sustaining activities like farming and small

scale business. Most of the youth in this area are orphans having been affected by the high scourge of HIV AIDs in this region. The Group undertook to help in the construction of a septic tank for the group's slaughterhouse which is a key income generating avenue for the youth in the area.

- **Annual Mater Heart Run**

The Mater Heart Run is an annual event that seeks to raise funds for needy children to undergo complicated heart surgery. As part of its community service plan to improve health levels in the society, the Group sponsored this event that involved members of staff taking part in the run.

- **Community engagement programmes – education sector**

As part of its "Corporate Social Investment" initiatives, the Group has been offering scholarships to children of staff, agents and policy holders who register the best performance in the Kenya Certificate of Primary Education (KCPE) examination. This is a program that has been in place for more than ten years and grants Shs10,000 per year to each student for the four years of secondary school education. The total number of students who have benefited from the program to date is fifty six and more students will be enrolled into the program, starting March 2011.

The Group has supported various schools through donations of necessary items such as books, computers, furniture and equipment.

- **The CfC Life-Ladies Club**

The CfC Life-Ladies Club is a non-profit making venture involved in charity work to help less fortunate members of our society. Membership is drawn from CfC Life staff and agents. The clubs activities are mainly sponsored by the CfC Life Assurance Limited, but donations from the general public and income generating activities

conducted by members supplement the kitty.

The CfC Life-Ladies Club has been instrumental in directly shaping the lives of young Kenyans thereby making a difference in Kenyan society. The activities include payment of fees and mentoring youth. In 2010, the Club sponsored 12 students in secondary schools across Kenya.

In addition to providing school fees for selected needy students, the Club also supports a number of childrens homes - Rescue Dada, St. Francis Childrens home in Karen and Joy Valley Childrens Home in Kayole.

## Focus areas for social investment in 2011

The main focus areas for social relevance in 2011 are:

- Education - supporting learning initiatives addressing science, maths and accounting deficiencies from primary through to higher learning institutions.
- Entrepreneurship and Enterprise Development through provision of training in entrepreneurship and mentorship programmes.
- Community Health and Wellness- Investment directed towards HIV/AIDS, tuberculosis (TB) and malaria.



# Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2010, which disclose the state of affairs of the Group and the Company.

## 1. Principal activities

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

## 2. Results and dividends

The comprehensive income for the year was Shs 3,692,066,000 (2009: Shs 1,054,497,000) as shown below.

|  | 2010<br>Shs '000 | 2009<br>Shs '000 |
|--|------------------|------------------|
| Profit before taxation                             | 2,630,825        | 709,301          |
| Taxation   | (843,457)        | (673,373)        |
| Net profit   | <b>1,787,368</b> | <b>35,928</b>    |
| Other comprehensive income for the year net of tax | 1,904,698        | 1,018,569        |
| Total comprehensive income for the year            | <b>3,692,066</b> | <b>1,054,497</b> |

The Directors have resolved to recommend a final dividend of Shs. 220,220,372 (Shs 0.804 per share) at the Annual General Meeting, to be held on 25 May 2011. The dividend which is subject to withholding tax will be paid on or after 25 May 2011 to the shareholders on the Register of Members as at the close of business on 19 May 2011, the Books Closure Date.

## 3. Share capital

The total number of shares as at 31 December 2010 was 273,684,211 (2009: 273,684,211), ordinary shares of Shs 5 each. The details of share capital are set out in note 30.

## 4. Directors

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

|                          |                               |
|--------------------------|-------------------------------|
| <b>F.N Ojiambo SC</b>    | (Appointed: 21 May 2010)      |
| <b>K Mbathi</b>          | (Appointed: 31 May 2008)      |
| <b>J G Kiereini</b>      | (Appointed: 1 December 1995)  |
| <b>J Babsa-Nzibo</b>     | (Appointed: 21 May 2010)      |
| <b>G R May**</b>         | (Appointed: 22 August 2008)   |
| <b>R Kimotho</b>         | (Appointed: 31 May 2008)      |
| <b>G R Brackenridge*</b> | (Appointed: 21 May 2010)      |
| <b>E W Njoroge</b>       | (Appointed: 21 May 2010)      |
| <b>M L du Toit*</b>      | (Retired: 21 May 2010)        |
| <b>C M Njonjo</b>        | (Retired: 21 May 2010)        |
| <b>T T Naikuni</b>       | (Retired: 21 May 2010)        |
| <b>R T Ngobi</b>         | (Appointed: 01 February 2011) |
| <b>C K Muchene</b>       | (Appointed: 01 February 2011) |
| * - South African        | ** - British                  |

## 5. Auditor

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

## 6. Approval of financial statements

The financial statements were approved at a meeting of the Directors held on 18 March 2011.

### BY ORDER OF THE BOARD

Mugambi Nandi, SECRETARY, 18 March 2011



## Statement of Directors' Responsibilities

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

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

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

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

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

**18 March 2011**



## Financial highlights - six year review

|   | 2005              | 2006              | 2007              | 2008               | 2009               | 2010               |
|---|-------------------|-------------------|-------------------|--------------------|--------------------|--------------------|
|   | Shs '000          | Shs '000          | Shs '000          | Shs '000           | Shs '000           | Shs '000           |
| <b>Assets</b>   |                   |                   |                   |                    |                    |                    |
| Cash and balances with CBK  | 1,389,193         | 1,581,064         | 1,971,627         | 6,289,827          | 4,606,140          | 5,444,892          |
| Government and other securities   | 11,710,767        | 13,676,839        | 13,164,589        | 20,194,094         | 29,727,224         | 21,998,217         |
| <b>Total loans and advances</b>   | <b>14,370,227</b> | <b>16,532,720</b> | <b>18,926,529</b> | <b>65,210,086</b>  | <b>70,922,412</b>  | <b>75,224,630</b>  |
| Loans and advances to banks   | 2,708,513         | 1,479,696         | 2,224,009         | 20,548,781         | 25,081,964         | 16,239,669         |
| Loans and advances to customers   | 11,661,714        | 15,053,024        | 16,702,520        | 44,661,305         | 45,840,448         | 58,984,961         |
| Current income tax recoverable  | 117,710           | 141,210           | -                 | 351,222            | 166,882            | 158,846            |
| Deferred income tax asset   | -                 | -                 | 147,614           | 280,722            | 11,424             | -                  |
| Other assets  | 3,029,567         | 5,367,144         | 5,322,235         | 3,823,885          | 5,961,542          | 1,475,623          |
| Intangible assets - goodwill  | 1,084,647         | 1,084,647         | 1,084,647         | 10,434,405         | 10,434,405         | 10,434,405         |
| Interest in associated companies  | 109,533           | 108,889           | 172,191           | 236,770            | 337,675            | 100,111            |
| Other intangible assets   | 16,505            | 197,104           | 483,577           | 1,610,735          | 2,074,927          | 1,726,053          |
| Property and equipment  | 958,111           | 1,266,966         | 1,495,241         | 2,296,530          | 2,962,665          | 1,911,102          |
| Prepaid operating lease rentals   | 31,953            | 31,579            | 75,702            | 34,023             | 73,654             | 71,622             |
| Investment properties   | 293,981           | 380,500           | 418,829           | 366,500            | 412,000            | -                  |
| Assets classified as held for distribution                                      | -                 | -                 | -                 | -                  | -                  | 21,534,701         |
| <b>Total assets</b>   | <b>33,112,194</b> | <b>40,368,662</b> | <b>43,262,781</b> | <b>111,128,799</b> | <b>127,690,950</b> | <b>140,080,202</b> |
| <b>Equity and Liabilities</b>   |                   |                   |                   |                    |                    |                    |
| Equity  | 3,976,458         | 5,610,317         | 6,012,969         | 19,247,973         | 20,341,602         | 24,768,615         |
| <b>Liabilities</b>  |                   |                   |                   |                    |                    |                    |
| <b>Total Deposits 1</b>   | <b>7,588,785</b>  | <b>20,846,309</b> | <b>22,070,935</b> | <b>73,071,678</b>  | <b>82,534,005</b>  | <b>85,694,598</b>  |
| Deposits from banks   | 2,794,743         | 2,917,882         | 1,972,975         | 11,096,605         | 21,059,626         | 14,269,483         |
| Deposits from customers   | 14,794,042        | 17,928,427        | 20,097,960        | 61,975,073         | 61,474,379         | 71,425,115         |
| Current taxation  | 58,589            | 119,419           | 32,065            | 257,033            | -                  | 246,827            |
| Other liabilities   | 11,362,445        | 13,655,607        | 14,338,048        | 16,359,850         | 19,493,754         | 3,118,581          |
| Derivative liabilities  | -                 | -                 | -                 | 55,383             | 16,228             | -                  |
| Trading liabilities   | -                 | -                 | -                 | -                  | -                  | 729,153            |
| Borrowings  | -                 | -                 | 693,842           | 2,080,161          | 5,256,618          | 7,066,362          |
| Deferred taxation   | 125,917           | 137,010           | 114,922           | 56,721             | 48,743             | 200,443            |
| Liabilities directly associated with assets classified as held for distribution | -                 | -                 | -                 | -                  | -                  | 18,255,623         |
| <b>Total equity and liabilities</b>   | <b>33,112,194</b> | <b>40,368,662</b> | <b>43,262,781</b> | <b>111,128,799</b> | <b>127,690,950</b> | <b>140,080,202</b> |

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



## Financial highlights - six year review (continued)

|                              | 2005           | 2006             | 2007             | 2008             | 2009           | 2010             |
|------------------------------|----------------|------------------|------------------|------------------|----------------|------------------|
|                              | Shs '000       | Shs '000         | Shs '000         | Shs '000         | Shs '000       | Shs '000         |
| Interest income              | 2,401,525      | 3,025,201        | 3,599,308        | 5,804,824        | 7,096,328      | 6,788,056        |
| Interest expense             | (881,876)      | (1,009,394)      | (1,331,113)      | (2,087,294)      | (2,443,813)    | (1,980,108)      |
| Non-interest revenue (NIR)   | 3,343,829      | 4,661,191        | 2,374,590        | 3,345,908        | 4,153,031      | 7,085,415        |
| Credit impairment charges    | (91,264)       | (171,966)        | (318,103)        | (859,959)        | (599,149)      | (521,441)        |
| Operating expenditure        | (3,935,838)    | (5,159,589)      | (3,009,287)      | (4,952,288)      | (7,579,334)    | (8,840,905)      |
| Profit/ (loss) in associates | 29,503         | 21,469           | 37,524           | 71,165           | 82,238         | 99,808           |
| <b>Profit before tax</b>     | <b>865,879</b> | <b>1,366,912</b> | <b>1,352,919</b> | <b>1,322,356</b> | <b>709,301</b> | <b>2,630,825</b> |
| Income tax                   | (313,388)      | (426,772)        | (428,202)        | (475,763)        | (673,373)      | (843,457)        |
| <b>Profit for the year</b>   | <b>552,491</b> | <b>940,140</b>   | <b>924,717</b>   | <b>846,593</b>   | <b>35,928</b>  | <b>1,787,368</b> |
| Selected ratios              |                |                  |                  |                  |                |                  |
| Return on equity %           | 9.85%          | 15.64%           | 4.80%            | 4.16%            | 0.18%          | 7.22%            |
| Return on assets %           | 1.37%          | 2.17%            | 0.83%            | 0.66%            | 0.03%          | 1.28%            |
| NIR to total income %        | 58.20%         | 60.64%           | 39.75%           | 36.56%           | 36.92%         | 51.07%           |
| Cost to income ratio %       | 80.93%         | 77.27%           | 64.82%           | 70.11%           | 86.07%         | 74.33%           |

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

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

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of CfC Stanbic Holdings Limited (the company) and its subsidiaries (together, the group), as set out on pages 18 to 95. These financial statements comprise the consolidated statement of financial position at 31 December 2010 and the consolidated statement of comprehensive income, 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 2010 and the statement of comprehensive income and changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

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

## Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the group and of the company at 31 December 2010 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

## Report on other legal requirements

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

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

  
**pwc**  
Certified Public Accountants  
Nairobi  
18 March 2011



## Consolidated and Company Statement of Financial Position

|   |     | 31 December<br>2010<br>Shs'000 | Group<br>31 December<br>2009<br>Shs'000 | 31 December<br>2010<br>Shs'000 | Company<br>31 December<br>2009<br>Shs'000 |
|---|-----|--------------------------------|---|--------------------------------|---|
| <b>Assets</b>   |     |                                |   |                                |   |
| Cash, banks and Central Bank of Kenya balances                                  | 1 9 | 5,444,892                      | 4,606,140                               | 859                            | 2,228                                     |
| Pledged assets  | 2 0 | 2,940,007                      | 3,351,812                               | -                              | -   |
| Derivative assets   | 3 1 | 29,508                         | -                                       | -                              | -   |
| Financial investments   | 2 1 | 19,058,210                     | 26,375,412                              | -                              | -   |
| Loans and advances  | 2 2 | 75,224,630                     | 70,922,412                              | -                              | -   |
| Loans and advances to banks   |     | 16,239,669                     | 25,081,964                              | -                              | -   |
| Loans and advances to customers   |     | 58,984,961                     | 45,840,448                              | -                              | -   |
| Balances due from group companies   |     | -                              | -                                       | 243,009                        | 275,586                                   |
| Other assets  | 2 3 | 1,446,115                      | 5,961,542                               | -                              | 133,023                                   |
| Investment in subsidiaries and associates                                       | 2 4 | 100,111                        | 337,675                                 | 14,294,644                     | 14,890,349                                |
| Property and equipment  | 2 5 | 1,911,102                      | 2,962,665                               | 5,138                          | 7,721                                     |
| Investment properties   | 2 6 | -                              | 412,000                                 | -                              | -   |
| Prepaid operating lease   | 2 7 | 71,622                         | 73,654                                  | -                              | -   |
| Intangible assets - Goodwill  | 2 9 | 10,434,405                     | 10,434,405                              | -                              | -   |
| Other intangible assets   | 2 8 | 1,726,053                      | 2,074,927                               | -                              | -   |
| Current tax recoverable   |     | 158,846                        | 166,882                                 | 140,031                        | 140,031                                   |
| Deferred income tax asset   | 3 5 | -                              | 11,424                                  | -                              | -   |
| Assets classified as held for distribution                                      | 4 2 | 21,534,701                     | -                                       | 661,505                        | -   |
| <b>Total assets</b>   |     | <b>140,080,202</b>             | <b>127,690,950</b>                      | <b>15,345,186</b>              | <b>15,448,938</b>                         |
| <b>Equity and liabilities</b>   |     |                                |   |                                |   |
| Equity  |     | 24,768,615                     | 20,341,602                              | 15,147,776                     | 14,890,598                                |
| Equity attributable to company's equity holders                                 |     | 21,833,761                     | 19,451,787                              | 15,147,776                     | 14,890,598                                |
| Ordinary share capital  | 3 0 | 1,368,421                      | 1,368,421                               | 1,368,421                      | 1,368,421                                 |
| Ordinary share premium  | 3 0 | 13,586,847                     | 13,586,847                              | 13,586,847                     | 13,586,847                                |
| Revenue reserves  |     | 4,676,820                      | 3,184,382                               | 192,508                        | (64,670)                                  |
| Other reserves  | 4 1 | 2,201,673                      | 1,312,137                               | -                              | -   |
| <b>Non controlling interest</b>   |     | <b>2,934,854</b>               | <b>889,815</b>                          | -                              | -   |
| <b>Total liabilities</b>  |     | <b>115,311,587</b>             | <b>107,349,348</b>                      | <b>197,410</b>                 | <b>558,340</b>                            |
| Derivative liabilities  | 3 1 | -                              | 16,228                                  | -                              | -   |
| Trading liabilities   | 2 1 | 729,153                        | -                                       | -                              | -   |
| Deposits and current accounts   | 3 2 | 85,694,598                     | 82,534,005                              | -                              | -   |
| Deposits from banks   |     | 14,269,483                     | 21,059,626                              | -                              | -   |
| Deposits from customers   |     | 71,425,115                     | 61,474,379                              | -                              | -   |
| Borrowings  | 3 3 | 7,066,362                      | 5,256,618                               | -                              | 200,000                                   |
| Other liabilities   | 3 4 | 3,118,581                      | 19,493,754                              | 18,914                         | 33,908                                    |
| Balances due to group companies   |     | -                              | -                                       | 178,496                        | 324,432                                   |
| Current income tax payable  |     | 246,827                        | -                                       | -                              | -   |
| Deferred income tax liability   | 3 5 | 200,443                        | 48,743                                  | -                              | -   |
| Liabilities directly associated with assets classified as held for distribution | 4 2 | 18,255,623                     | -                                       | -                              | -   |
| <b>Total equity and liabilities</b>   |     | <b>140,080,202</b>             | <b>127,690,950</b>                      | <b>15,345,186</b>              | <b>15,448,938</b>                         |

The financial statements on pages 18 to 95 were approved for issue by the Board of Directors on 18 March 2011 and signed on its behalf by:

**Fred N Ojiambo, SC**  
Chairman

**Kitili Mbathi**  
Managing Director

**Gayling R. May**  
Director

**Mugambi Nandi**  
Secretary



# Consolidated and Company Statement of Comprehensive Income

|   | Notes     | 31 Dec<br>2010<br>Shs'000 | Group<br>31 Dec<br>2009<br>Shs'000 | 31 Dec<br>2010<br>Shs'000 | Company<br>31 Dec<br>2009<br>Shs'000 |
|---|-----------|---------------------------|------------------------------------|---------------------------|--------------------------------------|
| <b>Net interest income</b>  |           | <b>4,807,948</b>          | <b>4,652,515</b>                   | -                         | <b>(2,505)</b>                       |
| Interest income   | 6         | 6,788,056                 | 7,096,328                          | 5,807                     | 102,616                              |
| Interest expense  | 7         | (1,980,108)               | (2,443,813)                        | (5,807)                   | (105,121)                            |
| <b>Non-interest revenue</b>   |           | <b>5,967,766</b>          | <b>3,046,903</b>                   | <b>301,034</b>            | -                                    |
| Net fee and commission revenue  |           | 2,099,513                 | 1,454,059                          | -                         | -                                    |
| Fee and commission revenue  | 8         | 2,207,804                 | 1,465,277                          | -                         | -                                    |
| Fee and commission expense  | 9         | (108,291)                 | (11,218)                           | -                         | -                                    |
| Trading revenue   | 10        | 2,384,425                 | 1,359,330                          | -                         | -                                    |
| Other revenue   | 11        | 1,483,828                 | 233,514                            | 301,034                   | -                                    |
| Income from associates  | 24        | 99,808                    | 82,238                             | -                         | -                                    |
| Insurance underwriting income   | 12        | 1,117,649                 | 1,106,128                          | -                         | -                                    |
| <b>Total income</b>   |           | <b>11,993,171</b>         | <b>8,887,784</b>                   | <b>301,034</b>            | <b>(2,505)</b>                       |
| Credit impairment charges   | 13        | (521,441)                 | (599,149)                          | -                         | -                                    |
| Impairment on available-for-sale securities                               |           | (32,153)                  | (699,449)                          | -                         | -                                    |
| <b>Income after impairment charges</b>                                    |           | <b>11,439,577</b>         | <b>7,589,186</b>                   | <b>301,034</b>            | <b>(2,505)</b>                       |
| Operating expenses  |           | <b>(8,808,752)</b>        | <b>(6,879,885)</b>                 | <b>(43,856)</b>           | <b>(104,113)</b>                     |
| Staff costs   | 14        | (3,370,497)               | (2,306,249)                        | (6,410)                   | (39,563)                             |
| Other operating expenses  | 15        | (5,438,255)               | (4,573,636)                        | (37,446)                  | (64,550)                             |
| Profit before taxation  |           | 2,630,825                 | 709,301                            | 257,178                   | (106,618)                            |
| Income tax expense  | 16        | (843,457)                 | (673,373)                          | -                         | -                                    |
| <b>Profit for the year</b>  |           | <b>1,787,368</b>          | <b>35,928</b>                      | <b>257,178</b>            | <b>(106,618)</b>                     |
| <b>Other comprehensive income for the year</b>                            |           | <b>1,904,698</b>          | <b>1,018,569</b>                   | -                         | -                                    |
| Exchange differences on translation of foreign operations                 |           | (3,437)                   | 6,049                              | -                         | -                                    |
| Gains on fair valuation of available for sale financial assets            |           | 2,050,231                 | 429,800                            | -                         | -                                    |
| Deferred tax (charge) / credit on revaluation of AFS financial assets     |           | (178,219)                 | (103,830)                          | -                         | -                                    |
| Impairment loss on AFS equity securities charged through income statement |           | 32,153                    | 699,449                            | -                         | -                                    |
| Gains /(Losses) on property revaluations                                  |           | 18,058                    | (1,937)                            | -                         | -                                    |
| Other comprehensive expense   |           | (14,088)                  | (10,962)                           | -                         | -                                    |
| <b>Total comprehensive income for the year</b>                            |           | <b>3,692,066</b>          | <b>1,054,497</b>                   | <b>257,178</b>            | <b>(106,618)</b>                     |
| <b>Profit attributable to:</b>  |           |                           |                                    |                           |                                      |
| Equity holders of parent  |           | 1,604,773                 | (59,871)                           | 257,178                   | (106,618)                            |
| Non controlling interest  |           | 182,595                   | 95,799                             | -                         | -                                    |
|   |           | <b>1,787,368</b>          | <b>35,928</b>                      | <b>257,178</b>            | <b>(106,618)</b>                     |
| <b>Total comprehensive income attributable to:</b>                        |           |                           |                                    |                           |                                      |
| Equity holders of parent  |           | 2,687,764                 | 907,153                            | 257,178                   | (106,618)                            |
| Non controlling interest  |           | 1,004,302                 | 147,344                            | -                         | -                                    |
| <b>Total comprehensive income for the year</b>                            |           | <b>3,692,066</b>          | <b>1,054,497</b>                   | <b>257,178</b>            | <b>(106,618)</b>                     |
| <b>Earnings per share basic and diluted (Shs)</b>                         | <b>17</b> | <b>5.86</b>               | <b>(0.22)</b>                      | <b>0.94</b>               | <b>(0.39)</b>                        |



# Consolidated Statement of Changes in Equity

| Year ended  | Share Capital | Share Premium    | Capital Reserve   | Statutory Reserve | Fair Value Reserve | Revaluation Reserve | Currency Translation Reserve | Share-based Payment Reserve | Revenue Reserve | Non controlling Interest | Total equity     |                   |
|---|---------------|------------------|-------------------|-------------------|--------------------|---------------------|------------------------------|-----------------------------|-----------------|--------------------------|------------------|-------------------|
| 31 December 2010  | Note          | Shs'000          | Shs'000           | Shs'000           | Shs'000            | Shs'000             | Shs'000                      | Shs'000                     | Shs'000         | Shs'000                  | Shs'000          |                   |
| At start of year  |               | 1,368,421        | 13,586,847        | 273,371           | 358,706            | 393,751             | 301,732                      | (28,911)                    | 13,488          | 3,184,382                | 889,815          | 20,341,602        |
| <b>Total comprehensive income for the year</b>            |               | -                | -                 | -                 | <b>149,421</b>     | <b>1,202,884</b>    | <b>12,318</b>                | <b>(3,437)</b>              | -               | <b>1,326,578</b>         | <b>1,004,302</b> | <b>3,692,066</b>  |
| Profit for the year                                       |               | -                | -                 | -                 | -                  | -                   | -                            | -                           | -               | 1,604,773                | 182,595          | 1,787,368         |
| <b>Other comprehensive income:</b>                        |               |                  |                   |                   |                    |                     |                              |                             |                 |                          |                  |                   |
| Gains on revaluation of land and buildings                |               | -                | -                 | -                 | -                  | 9,590               | -                            | -                           | -               | -                        | 8,468            | 18,058            |
| Transfer from statutory reserves                          |               | -                | -                 | -                 | 149,421            | -                   | -                            | -                           | (275,467)       | 126,046                  | -                | -                 |
| Available-for-sale financial assets                       |               | -                | -                 | -                 | -                  | -                   | -                            | -                           | -               | -                        | -                | -                 |
| net of tax  |               | -                | -                 | -                 | -                  | 1,202,884           | -                            | -                           | -               | 701,281                  | -                | 1,904,165         |
| Currency translation differences                          |               | -                | -                 | -                 | -                  | -                   | (3,437)                      | -                           | -               | -                        | -                | (3,437)           |
| Other comprehensive income for the year, net of tax       |               | -                | -                 | -                 | -                  | 2,728               | -                            | -                           | (2,728)         | (14,088)                 | -                | (14,088)          |
| <b>Total other comprehensive income</b>                   |               | -                | -                 | -                 | <b>149,421</b>     | <b>1,202,884</b>    | <b>12,318</b>                | <b>(3,437)</b>              | -               | <b>(278,195)</b>         | <b>821,707</b>   | <b>1,904,698</b>  |
| <b>Contribution and distributions to owners</b>           |               |                  |                   |                   |                    |                     |                              |                             |                 |                          |                  |                   |
| Special Dividend paid in 2010                             |               | -                | -                 | -                 | -                  | -                   | -                            | -                           | -               | (143,680)                | -                | (143,680)         |
| Share based payment reserve                               | 41            | -                | -                 | -                 | -                  | -                   | -                            | 18,906                      | -               | -                        | -                | 18,906            |
| Share capital injection by non-controlling interests      |               | -                | -                 | -                 | -                  | -                   | -                            | -                           | -               | 859,721                  | -                | 859,721           |
| Other effects of group restructuring                      |               | -                | -                 | 14,802            | (261,798)          | (61,971)            | (181,589)                    | -                           | -               | 165,860                  | 324,696          | -                 |
| <b>Total contributions by and distributions to owners</b> |               | -                | -                 | <b>14,802</b>     | <b>(261,798)</b>   | <b>(61,971)</b>     | <b>(181,589)</b>             | -                           | <b>18,906</b>   | <b>165,860</b>           | <b>1,040,737</b> | <b>734,947</b>    |
| <b>At year-end</b>  |               | <b>1,368,421</b> | <b>13,586,847</b> | <b>288,173</b>    | <b>246,329</b>     | <b>1,534,664</b>    | <b>132,461</b>               | <b>(32,348)</b>             | <b>32,394</b>   | <b>4,676,820</b>         | <b>2,934,854</b> | <b>24,768,615</b> |



## Consolidated Statement of Changes in Equity

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



## Company Statement of Changes in Equity

|   | Share<br>capital<br>Shs'000 | Share<br>Premium<br>Shs'000 | Fair Value<br>Reserve<br>Shs'000 | Statutory<br>Reserve<br>Shs'000 | Revenue<br>Reserve<br>Shs'000 | Total<br>Shs'000  |
|---|-----------------------------|-----------------------------|----------------------------------|---------------------------------|-------------------------------|-------------------|
| <b>Year ended 31 December 2010</b>                        |                             |                             |                                  |                                 |                               |                   |
| At start of year  | 1,368,421                   | 13,586,847                  | -                                | -                               | (64,670)                      | 14,890,598        |
| <b>Total comprehensive income for the year</b>            | -                           | -                           | -                                | -                               | 257,178                       | 257,178           |
| Profit or loss  | -                           | -                           | -                                | -                               | 257,178                       | 257,178           |
| Total other comprehensive income                          | -                           | -                           | -                                | -                               | -                             | -                 |
| <b>Total contributions by and distributions to owners</b> | -                           | -                           | -                                | -                               | -                             | -                 |
| <b>At end of year</b>                                     | <b>1,368,421</b>            | <b>13,586,847</b>           | <b>-</b>                         | <b>-</b>                        | <b>192,508</b>                | <b>15,147,776</b> |

|   | Share<br>capital<br>Shs'000 | Share<br>Premium<br>Shs'000 | Fair Value<br>Reserve<br>Shs'000 | Statutory<br>Reserve<br>Shs'000 | Revenue<br>Reserve<br>Shs'000 | Total<br>Shs'000  |
|---|-----------------------------|-----------------------------|----------------------------------|---------------------------------|-------------------------------|-------------------|
| <b>Year ended 31 December 2009</b>                        |                             |                             |                                  |                                 |                               |                   |
| At start of year  | 1,368,421                   | 13,586,847                  | -                                | -                               | 41,948                        | 14,997,216        |
| <b>Total comprehensive income for the year</b>            | -                           | -                           | -                                | -                               | (106,618)                     | (106,618)         |
| Profit or loss  | -                           | -                           | -                                | -                               | (106,618)                     | (106,618)         |
| Total other comprehensive income                          | -                           | -                           | -                                | -                               | -                             | -                 |
| <b>Total contributions by and distributions to owners</b> | -                           | -                           | -                                | -                               | -                             | -                 |
| <b>At end of year</b>                                     | <b>1,368,421</b>            | <b>13,586,847</b>           | <b>-</b>                         | <b>-</b>                        | <b>(64,670)</b>               | <b>14,890,598</b> |



## Consolidated Statement of Cash Flows

|  | Note          | 31 December<br>2010<br>Shs '000 | 31 December<br>2009<br>Shs '000 |
|--|---------------|---------------------------------|---------------------------------|
| <b>Cash flows generated from operating activities</b>                                  | <b>36 (a)</b> | <b>3,073,328</b>                | <b>1,263,928</b>                |
| Income tax paid  |               | (575,383)                       | (560,551)                       |
| <b>Net cash generated from operating activities before changes in operating assets</b> |               | <b>2,497,945</b>                | <b>703,377</b>                  |
| <b>Changes in operating assets and liabilities</b>                                     |               | <b>(6,471,899)</b>              | <b>(7,126,554)</b>              |
| Loans and advances to customers  |               | (14,291,249)                    | (1,179,143)                     |
| Other assets   |               | 1,952,070                       | (2,137,657)                     |
| Cash ratio requirement   |               | (396,102)                       | (211,701)                       |
| Financial investments  |               | (5,683,420)                     | (6,222,614)                     |
| Customer deposits  |               | 10,679,889                      | (500,694)                       |
| Other liabilities  |               | 1,266,913                       | 3,125,255                       |
| <b>Net cash used in operating activities</b>   |               | <b>(3,973,954)</b>              | <b>(6,423,177)</b>              |
| <b>Cash flow from investing activities</b>   |               | <b>332,415</b>                  | <b>(1,750,935)</b>              |
| Additions to property and equipment  |               | (358,561)                       | (1,035,733)                     |
| Additions to intangible assets   | 28            | (200,549)                       | (788,363)                       |
| Proceeds from the sale of equipment  |               | 5,234                           | 8,990                           |
| Proceeds from sale of investment properties  |               | -                               | 35,500                          |
| Proceeds from sale of Fund management division   |               | -                               | 5,476                           |
| Dividend from associates   | 24            | 10,129                          | 23,195                          |
| Investment in associates   |               | (3,263)                         | -                               |
| Investment by minority shareholders  |               | 879,425                         | -                               |
| <b>Cash flows from financing activities</b>  |               | <b>2,166,064</b>                | <b>3,150,813</b>                |
| Dividends paid to Non controlling shareholders   |               | (143,680)                       | (25,644)                        |
| Proceeds from borrowing and shareholder loan   |               | 2,309,744                       | 3,176,457                       |
| Currency translation differences   |               | (8,654)                         | (16,048)                        |
| <b>Net increase in cash and cash equivalents</b>                                       |               | <b>(1,484,129)</b>              | <b>(5,039,347)</b>              |
| <b>Cash and cash equivalents at 1 January</b>  |               | <b>10,088,244</b>               | <b>15,127,591</b>               |
| <b>Cash and cash equivalents at 31 December</b>  | <b>36 (b)</b> | <b>8,604,115</b>                | <b>10,088,244</b>               |



# Notes

## 1. General information

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

CfC Stanbic Centre  
Chiromo Road  
P O Box 72833  
00200 Nairobi

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

## 2. Summary of significant accounting policies

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

### a. Basis of preparation

The consolidated and company financial statements ('financial statements') are prepared in accordance with International Financial Reporting Standards (IFRS) and the Kenyan Companies Act. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. The areas involving a higher degree of judgement or complexity or where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

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

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

## Changes in accounting policies

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

### Amendments and interpretations effective in 2010 but not relevant

In 2010, the following new amendments to standards and interpretations became effective for the first time but have not had an impact on the company's financial statements:

**IFRS 1:** First-time Adoption of International Financial Reporting Standards - Additional exemptions for first-time adopters

**IFRS 2** (amended): Share-based payment – Group cash-settled share-based payment transaction

**IFRS 2:** Share-based Payment (part of Annual Improvement Project 2009) - Scope of IFRS 2 and revised IFRS 3

**IFRS 3:** Business combinations

**IFRS 5:** Non-current Assets Held for Sale and Discontinued Operations (part of Annual Improvement Project 2009) – Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations

**IAS 27**(revised): Consolidated and Separate Financial Statements

**IAS 38:** Intangible assets (part of Annual Improvement Project 2009)– Additional consequential amendments arising from revised IFRS 3

**IAS 39:** Financial Instruments: Recognition and Measurement (part of Annual Improvement Project 2009)

- (i) Treating loan prepayment penalties as closely related embedded derivatives
- (ii) Scope exemption for business combination contracts

**IFRIC 9 & IAS 39:** Reassessment of embedded derivatives & Financial Instruments: Recognition and Measurement

**IFRIC 17:** Distribution of non-cash assets to owners

**IFRIC 18:** Transfers of assets from customers



# Notes (continued)

## 2. Summary of significant accounting policies (continued)

### a. Basis of preparation (continued)

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

The following new standards, amendments to existing standards and interpretations have been issued and are mandatory for the Bank's accounting periods beginning on or after 1 January 2011 or later periods and are not expected to be relevant to the Bank, except for IFRS 9.

| Standard/ Interpretation | Title  | Applicable for financial years beginning on/after |
|--------------------------|--|---|
| IFRS 1 (amended)         | First-time Adoption of International Financial Reporting – Limited exemption from comparative IFRS 7 disclosures for first-time adopters | 1 July 2010                                       |
| IFRS 9                   | Financial instruments part 1: Classification and measurement   | 1 January 2013                                    |
| IAS 24 (amended)         | Related party disclosures  | 1 January 2011                                    |
| IAS 32 (amended)         | Financial instruments: Presentation – Classification of rights issue   | 1 February 2010                                   |
| IFRIC 14 (amended)       | IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interaction   | 1 January 2011                                    |
| IFRIC 19                 | Extinguishing Financial Liabilities with Equity Instruments  | 1 July 2010                                       |

The Directors have assessed the relevance of these amendments and interpretations with respect to the Bank's

operations and concluded that they will not have a significant impact on the Company's financial statements for 2011.

#### IFRS 9, Financial instruments part 1: Classification and measurements and part 2: Financial liabilities and Derecognition of financial instruments

IFRS 9, part 1 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Bank is considering the implications of the Standard, the impact on the Bank and the timing of its adoption by the Bank.



## Notes (continued)

### 2. Summary of significant accounting policies (continued)

#### a. Basis of preparation (continued)

- IFRS 9, part 2 was issued in October 2010 and includes guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation of financial liabilities and for derecognising financial instruments has been relocated from IAS 39, „Financial instruments: Recognition and Measurements without change except for financial liabilities that are designated at fair value through profit or loss.
- Under the new standard, entities with financial liabilities at fair value through profit or loss recognise changes in the liability's credit risk directly in other comprehensive income. There is no subsequent recycling of the amounts in other comprehensive income to profit or loss, but accumulated gains or losses may be transferred within equity.

#### b. Basis of consolidation

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

#### Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the sum of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred. Identifiable

assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the consideration, the amount of any non controlling interest in the acquiree and the acquisition date fair value of the groups share of the identifiable net assets acquired is recorded as goodwill.

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

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

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

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

#### Associates

Associates are those entities in which the Group has significance influence, but not control, over the financial and operating policies. Significant influence generally accompanies, but is not limited to, a shareholding of between 20% and 50% of the voting rights.

Investments in mutual funds over whose financial and operating policies the Group is able to exercise significant influence (including those in which the Group has between 20% and 50% economic interest) are also classified as associates.

Interest in associates is accounted for using the equity method and is measured in the consolidated statement of financial position at an amount that reflects the Group's share of the net assets of the associate (including goodwill). Equity accounting involves recognising the investment initially at cost, including goodwill, and subsequently adjusting the carrying value for the Group's



## Notes (continued)

### 2. Summary of significant accounting policies (continued)

#### b. Basis of consolidation (continued)

share of the associates' income and expenses and other comprehensive income. Equity accounting of losses in associates is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the Group has an obligation or has made payments on behalf of the associate.

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

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

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

#### c. Foreign currency translations

##### Functional and presentation currency

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

##### Consolidation of group entities

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

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

other comprehensive income, being the foreign currency translation reserve.

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

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

##### Transactions and balances

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

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

#### d. Cash and cash equivalents

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



## Notes (continued)

### 2. Summary of significant accounting policies (continued)

#### e. Financial instruments

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

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

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

##### (i) Classification

###### Held-to-maturity

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

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

###### Loans and receivables

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

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

and receivables category.

###### Trading assets and liabilities

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

Subsequent to initial recognition, the fair values are remeasured at each reporting date.

All gains and losses arising from changes in fair value are recognised in profit or loss as trading revenue under non-interest revenue.

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

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

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

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



## Notes (continued)

### 2. Summary of significant accounting policies (continued)

#### e. Financial instruments (continued)

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

##### Available-for-sale

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

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

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

##### (ii) Impairment of financial assets

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

#### Assets carried at amortised cost

The Group first assesses whether there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Retail loans and advances are considered non-performing when amounts are due and unpaid for three months.

Corporate loans are analysed on a case-by-case basis taking into account breaches of key loan conditions. The impairment of non-performing loans takes account of past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan carried at amortised cost has been identified as impaired, the carrying amount of the loan is reduced to an amount equal to the present value of estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised as credit impairment in profit or loss.

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

Impairment of performing loans is only recognised if there is objective evidence that a loss event has occurred after the initial recognition of the financial asset but before the reporting date.

In order to provide for latent losses in a portfolio of loans that have not yet been individually identified as impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods. Loans are also impaired when adverse



## Notes (continued)

### 2. Summary of significant accounting policies (continued)

#### e. Financial instruments (continued)

economic conditions develop after initial recognition, which may impact future cash flows.

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

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

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

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

#### Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant, and whose terms have been renegotiated are no longer considered to be past due but are reset to performing loan status. Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered impaired or past due.

#### Available-for-sale financial assets

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

In that instance, the cumulative loss, measured as the difference between the acquisition price and the current

fair value, less any previously recognised impairment losses on that financial asset, is transferred from other comprehensive income to profit or loss.

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

#### (iii) Offsetting financial instruments

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

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

#### (iv) Derecognition of financial instruments

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

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

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



## Notes (continued)

### 2. Summary of significant accounting policies (continued)

#### e. Financial instruments (continued)

Transfers of assets with retention of all or substantially all risks and rewards include securities lending and repurchase agreements.

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

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

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

#### f. Financial guarantee contracts

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

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

#### g. Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements are reclassified in the statement of financial position

as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposit and current accounts.

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

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

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

#### h. Investment property

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

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

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

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



## Notes (continued)

### 2. Summary of significant accounting policies (continued)

#### h. Investment property (continued)

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

#### i. Intangible assets

##### Goodwill

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

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

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

##### Computer software

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

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

Direct costs include software development employee costs and an appropriate portion of relevant overheads. Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (two to 10 years), and are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired.

##### Other intangible assets

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

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

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

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.



## Notes (continued)

### 2. Summary of significant accounting policies (continued)

#### j. Property and equipment

##### Equipment and owner-occupied properties

All categories of property and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. All other equipment, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

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

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

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

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

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

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

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

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

#### k. Impairment of non-financial assets

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

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

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



## Notes (continued)

### Summary of significant accounting policies (continued)

#### I. Leases

##### Group as lessee

Leases, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the

present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is recognised in profit or loss over the lease period, and the capital repayment, which reduces the liability to the lessor.

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

##### Group as lessor

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

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

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

When an operating lease is terminated before the lease

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

#### m. Provisions and contingent liabilities

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

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

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

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

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

#### n. Employee benefits

##### (i) Defined contribution plan

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



## Notes (continued)

### Summary of significant accounting policies (continued)

#### n. Employee benefits (continued)

retirement benefit plan under which the Group pays fixed contributions into a separate entity.

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

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

#### (ii) Defined benefit plan

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

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

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

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

sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets.

#### (iii) Short-term benefits

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

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

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

#### o. Tax

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

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

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

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and

investments in subsidiaries and jointly controlled entities (excluding mutual funds) where the Group controls the timing of the reversal of temporary



## Notes (continued)

### Summary of significant accounting policies (continued)

#### o. Tax (continued)

- differences and it is probable that these differences will not reverse in the foreseeable future.

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

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

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

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

Non-current assets held as investments for the benefit of policyholders as part of the Group's investment management and life insurance activities are not classified as held for sale as ongoing investment management implies regular purchases and sales in the ordinary course of business. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies.

Thereafter, the assets (or components of a disposal group) are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss.

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

accounting policy for these contracts is described under note 2(f) to the financial statements.

#### q. Revenue and expenditure

##### Banking activities

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

##### Net interest income

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

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

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

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

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



## Notes (continued)

### Summary of significant accounting policies (continued)

#### q. Revenue & Expenditure (continued)

##### Non-interest revenue

###### **Net fee and commission revenue**

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

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

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

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

###### **Trading revenue**

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

###### **Other revenue**

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

Net income from financial instruments designated at fair value includes all gains and losses from changes in the fair value of undated financial assets and liabilities designated

at fair value through profit or loss, including dividend income arising on these financial instruments.

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

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

###### **Dividend income**

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

#### r. Classification of insurance contracts

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

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

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

###### **Long term insurance business**

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

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



## Notes (continued)

### Summary of significant accounting policies (continued)

#### r. Classification of Insurance Contracts (continued)

##### General insurance business

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

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

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

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

#### s. Premium income

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

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

#### t. Claims

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

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

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

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

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



## Notes (continued)

### Summary of significant accounting policies (continued)

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

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

- for short term insurance business, DAC is amortised over the terms of the policies as premium is earned; and
- for long-term insurance contracts with fixed and guaranteed terms, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities.

#### v. Liability adequacy test

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

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

#### w. Reinsurance contracts held

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

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

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

#### x. Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

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

#### y. Reinsurance premiums

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



## Notes (continued)

### Summary of significant accounting policies (continued)

#### z. Acquisition costs

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

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

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

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

#### bb. Investment income

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

#### cc. Management fees on assets under management

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

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

#### dd. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

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

#### ee. Share capital

Ordinary shares are classified as equity.

#### ff. Dividends on ordinary shares

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

#### gg. Segment reporting

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

#### hh. Fiduciary activities

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

#### ii. Comparative figures

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



## Notes (continued)

### 3. Critical accounting estimates and judgements in applying accounting policies

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

#### a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Retail loans are individually impaired if the amounts are past due and unpaid for three or more months. Corporate loans are analysed on a case-by-case basis taking into account breaches of key loan conditions. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### b) Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed

by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect reported fair value of financial instruments.

#### c) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(b). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note 29.

#### d) Income taxes

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

#### e) Impairment of available-for-sale assets

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



## Notes (continued)

### 4. Segmental reporting

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

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

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

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

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

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

#### Personal and Business Banking (PBB)

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

- Mortgage lending – provides residential accommodation loans to individual customers.
- Instalment sales and finance leases – comprises two areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.
- Card products – provides card facilities to individuals and businesses.
- Transactional and lending products – transactions in products associated with the various points of contact

channels such as ATMs, Internet, and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.

#### Corporate and Investment Banking (CIB)

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

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

#### Insurance

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

#### Major Customers

The Group does not have any one major customer that contributes more than 10 percent of its revenues. However the Group has one major customer whose deposits contribute 20.2% percent of total deposits as at December 2010. The interest expense paid to this customer is reported under the Corporate and Investment Banking segment.



## Notes (continued)

### 4. Segmental reporting (continued)

#### a) Results by business units

|  | 31 December 2010 |                  |                       |                   |
|--|------------------|------------------|-----------------------|-------------------|
|  | CIB<br>Shs' 000  | PBB<br>Shs' 000  | Insurance<br>Shs' 000 | Total<br>Shs' 000 |
| Net interest income                                    | 2,551,679        | 1,777,518        | 478,751               | 4,807,948         |
| Non interest revenue                                   | 3,714,971        | 752,984          | 1,499,811             | 5,967,766         |
| Net premiums   | -                | -                | 4,320,404             | 4,320,404         |
| Net claims   | -                | -                | (3,202,755)           | (3,202,755)       |
| Income from associates                                 | 44,016           | -                | 55,792                | 99,808            |
| Impairments on loans and advances                      | (156,936)        | (364,505)        | 0                     | (521,441)         |
| Impairment of available for sale financial investments | -                | -                | (32,153)              | (32,153)          |
| Staff cost   | (1,240,065)      | (1,266,823)      | (863,610)             | (3,370,497)       |
| Operating expenses                                     | (1,643,278)      | (2,105,059)      | (1,689,919)           | (5,438,255)       |
| Profit before tax                                      | 3,270,387        | (1,205,885)      | 566,321               | 2,630,825         |
| Taxation   | (948,006)        | 336,506          | (231,958)             | (843,457)         |
| <b>Profit after taxation</b>                           | <b>2,322,381</b> | <b>(869,379)</b> | <b>334,363</b>        | <b>1,787,368</b>  |
| Assets   | 88,810,729       | 29,734,772       | 21,534,701            | 140,080,202       |
| Loans and advances                                     | 56,265,161       | 18,959,469       | -                     | 75,224,630        |
| Investments in associates                              | 100,111          | -                | -                     | 100,111           |
| Customer deposits                                      | 68,795,394       | 16,899,204       | -                     | 85,694,598        |
| Property and equipment                                 | 1,101,607        | 809,495          | -                     | 1,911,102         |
| Intangibles  | 5,530,713        | 6,629,745        | -                     | 12,160,458        |
| Total liabilities                                      | (74,671,549)     | (22,384,415)     | (18,255,623)          | (115,311,587)     |
| Borrowings   | (2,814,652)      | (4,251,710)      | -                     | (7,066,362)       |
| Derivative assets                                      | 29,508           | -                | -                     | 29,508            |
| Additions to property and equipment                    | 154,395          | 203,272          | -                     | 357,667           |
| Additions to intangible assets                         | 101,424          | 99,125           | -                     | 200,549           |
| <b>Depreciation and amortisation for the year</b>      | <b>249,852</b>   | <b>379,988</b>   | <b>-</b>              | <b>629,840</b>    |



## Notes (continued)

### 4. Segmental reporting (continued)

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



## Notes (continued)

### 4. Segmental reporting (continued)

#### b) Results on geographical spread

The Group's operations are located in Kenya and Tanzania. The Tanzanian subsidiary contributes over 10% of the Group's consolidated income.

|  | <b>31 December 2010</b> |                 |                 |
|--|-------------------------|-----------------|-----------------|
|  | <b>Kenya</b>            | <b>Tanzania</b> | <b>Group</b>    |
|  | <b>Shs' 000</b>         | <b>Shs' 000</b> | <b>Shs' 000</b> |
| Net interest income                        | 4,757,629               | 50,319          | 4,807,948       |
| Non interest revenue                       | 5,690,409               | 277,357         | 5,967,766       |
| Net premiums                               | 3,748,534               | 571,870         | 4,320,404       |
| Net claims                                 | (2,879,814)             | (322,941)       | (3,202,755)     |
| Assets                                     | 137,553,925             | 2,526,277       | 140,080,202     |
| Loans and advances                         | 75,224,630              | -               | 75,224,630      |
| Customer deposits                          | 85,594,968              | 99,630          | 85,694,598      |
| Property and equipment                     | 1,894,556               | 16,546          | 1,911,102       |
| Intangibles                                | 12,160,458              | -               | 12,160,458      |
| Total liabilities                          | (113,508,288)           | (1,803,299)     | (115,311,587)   |
| Borrowings                                 | (7,066,362)             | -               | (7,066,362)     |
| Derivative liabilities                     | 29,508                  | -               | 29,508          |
| Additions to property and equipment        | 349,979                 | 7,688           | 357,667         |
| Additions to intangible assets             | 200,549                 | -               | 200,549         |
| Depreciation and amortisation for the year | 620,164                 | 9,676           | 629,840         |



## Notes (continued)

### 4. Segmental reporting (continued)

#### b) Results on geographical spread

|  | 31 December 2009  |                      |                   |
|--|-------------------|----------------------|-------------------|
|  | Kenya<br>Shs' 000 | Tanzania<br>Shs' 000 | Group<br>Shs' 000 |
| Net interest income                        | 4,614,725         | 37,790               | 4,652,515         |
| Non interest revenue                       | 2,937,247         | 109,656              | 3,046,903         |
| Net premiums                               | 3,354,489         | 560,963              | 3,915,452         |
| Net claims                                 | (2,464,549)       | (344,775)            | (2,809,324)       |
| Assets                                     | 124,103,868       | 3,587,082            | 127,690,950       |
| Loans and advances                         | 70,922,412        | -                    | 70,922,412        |
| Customer deposits                          | 82,534,005        | -                    | 82,534,005        |
| Property and equipment                     | 2,943,459         | 19,206               | 2,962,665         |
| Intangibles                                | 12,509,332        | -                    | 12,509,332        |
| Total liabilities                          | (104,358,160)     | (2,991,188)          | (107,349,348)     |
| Borrowings                                 | (5,256,618)       | -                    | (5,256,618)       |
| Derivative liabilities                     | (16,228)          | -                    | (16,228)          |
| Additions to property and equipment        | 1,026,747         | 8,986                | 1,035,733         |
| Additions to intangible assets             | 788,363           | -                    | 788,363           |
| Depreciation and amortisation for the year | 606,839           | 11,129               | 617,968           |



## Notes (continued)

### 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 or the respective subsidiary on their activities.

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

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

#### a) Capital management

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

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

#### Capital management – company

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



## Notes (continued)

### 5. Financial risk management (continued)

#### a. Capital Management (continued)

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

Total capital is calculated as equity plus net debt.

|                                 | 2010<br>Shs'000   | 2009<br>Shs'000   |
|---------------------------------|-------------------|-------------------|
| Total borrowings                | -                 | 200,000           |
| Less: cash and cash equivalents | (859)             | (2,228)           |
| Net debt                        | -                 | 197,772           |
| Total equity                    | 15,147,776        | 14,890,598        |
| Total capital                   | <b>15,147,776</b> | <b>15,088,370</b> |
| <b>Gearing ratio</b>            | <b>0.0%</b>       | <b>1.31%</b>      |

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

#### Capital management - Banking division

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

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

The Bank monitors the adequacy of its capital using ratios established by the Central Bank of Kenya (CBK), which ratios are broadly in line with those for the Bank for International Settlements (BIS). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

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

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



## Notes (continued)

### 5. Financial risk management (continued)

#### a. Capital Management (continued)

The bank is required at all times to maintain:

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

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

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

#### Regulatory Capital

|  | 2010<br>Shs'000   | 2009<br>Shs'000   |
|--|-------------------|-------------------|
| Tier 1 capital (Core capital)              |                   |                   |
| Share capital                              | 2,441,375         | 2,441,375         |
| Share premium                              | 534,118           | 534,118           |
| Retained earnings                          | 4,939,952         | 3,765,536         |
| <b>Total Tier 1 capital (Core capital)</b> | <b>7,915,445</b>  | <b>6,741,029</b>  |
| Tier 2 capital                             |                   |                   |
| Statutory credit risk reserve              | 440,445           | 427,899           |
| Subordinated debt                          | 3,957,722         | 3,370,515         |
| <b>Total Tier 2 capital</b>                | <b>4,398,167</b>  | <b>3,798,414</b>  |
| <b>Total capital (Tier 1 + Tier 2)</b>     | <b>12,313,612</b> | <b>10,539,443</b> |
| <b>Risk weighted assets</b>                |                   |                   |
| On-balance sheet                           | 65,584,422        | 54,891,877        |
| Off- balance sheet                         | 10,419,602        | 10,805,513        |
| <b>Total risk weighted assets</b>          | <b>76,004,024</b> | <b>65,697,390</b> |
| <b>Capital adequacy ratios</b>             |                   |                   |
|  | <b>2010</b>       | <b>2009</b>       |
| Core capital / total risk weighted assets  | 10.41%            | 10.26%            |
| Minimum regulatory requirement             | 8.00%             | 8.00%             |
| Total capital / total risk weighted assets | 16.20%            | 16.04%            |
| <b>Minimum regulatory requirement</b>      | <b>12.00%</b>     | <b>12.00%</b>     |



## Notes (continued)

### 5. Financial risk management (continued)

#### a. Capital Management (continued)

##### Capital management - Insurance division

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

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

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

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

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

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

The solvency margin of the companies as at 31 December 2010 is illustrated below:

##### CfC Life Assurance Limited

|                        | <b>Long-term<br/>business<br/>2010<br/>Shs'000</b> | <b>Short-term<br/>business<br/>2010<br/>Shs'000</b> | <b>Long-term<br/>business<br/>2009<br/>Shs'000</b> | <b>Short-term<br/>business<br/>2009<br/>Shs'000</b> |
|------------------------|--|---|--|---|
| Admitted assets        | 13,073,715   | 396,415   | 10,310,991   | 451,802   |
| Admitted liabilities   | (11,162,949)                                       | (330,898)   | (9,647,488)  | (417,342)   |
| Solvency margin        | <b>1,910,766</b>                                   | <b>65,517</b>                                       | <b>663,503</b>                                     | <b>34,460</b>                                       |
| <b>Required margin</b> | <b>558,147</b>                                     | <b>114,812</b>                                      | <b>515,550</b>                                     | <b>90,274</b>                                       |



## Notes (continued)

### 5. Financial risk management (continued)

#### a. Capital Management (continued)

##### Heritage Insurance Company (K) Limited

|  | Long-term<br>business<br>2010<br>Shs'000 | Short-term<br>business<br>2010<br>Shs'000 | Long-term<br>business<br>2009<br>Shs'000 | Short-term<br>business<br>2009<br>Shs'000 |
|--|--|---|--|---|
| Total admitted assets  | <b>1,832,603</b>                         | <b>2,953,372</b>                          | <b>1,514,279</b>                         | <b>2,245,609</b>                          |
| Total admitted liabilities   | (1,621,276)                              | (2,664,410)                               | (1,508,976)                              | (2,021,208)                               |
| Add: 5% of admitted assets   | (81,064)                                 | -   | (75,449)                                 | -   |
| Add: 15% of previous year's net written premium for general business | -  | (234,898)                                 | -  | (211,644)                                 |
| Total liabilities & minimum requirement                              | <b>(1,702,340)</b>                       | <b>(2,899,308)</b>                        | <b>(1,584,425)</b>                       | <b>(2,232,852)</b>                        |
| Solvency margin  | <b>130,263</b>                           | <b>54,064</b>                             | <b>(70,146)</b>                          | <b>12,757</b>                             |

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

|                      | 2010<br>Shs' 000 | 2009<br>Shs' 000 |
|----------------------|------------------|------------------|
| Admitted assets      | 996,810          | 1,658,885        |
| Admitted liabilities | (915,077)        | (1,426,175)      |
| Solvency Margin      | <b>81,733</b>    | <b>232,710</b>   |
| Required margin      | <b>81,733</b>    | <b>115,953</b>   |

#### b) Credit risk

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

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

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



## Notes (continued)

### 5. Financial risk management (continued)

#### b. Credit risk (continued)

Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date.

#### Maximum exposure to credit risk (before collateral)

|                                   | 2010<br>Shs '000   | Group<br>2009<br>Shs '000 | 2010<br>Shs '000 | Company<br>2009<br>Shs '000 |
|-----------------------------------|--------------------|---------------------------|------------------|-----------------------------|
| Balances with Central Bank        | 4,129,734          | 2,444,150                 | -                | -                           |
| Balances with other banks         | 17,554,827         | 26,347,747                | -                | 2,228                       |
| Loans and advances to customers   | 58,984,961         | 45,840,448                | -                | -                           |
| Government and other securities   | 22,027,725         | 26,712,867                | -                | -                           |
| Balances due from group companies | -                  | -                         | 243,009          | 275,586                     |
| Other assets                      | 1,446,115          | 5,961,542                 | -                | 133,023                     |
| <b>Total</b>                      | <b>104,143,362</b> | <b>107,306,754</b>        | <b>243,009</b>   | <b>410,837</b>              |
| Off-balance sheet items           | 73,375,543         | 11,684,621                | -                | -                           |
| <b>Total credit risk exposure</b> | <b>177,518,905</b> | <b>118,991,375</b>        | <b>243,009</b>   | <b>410,837</b>              |

#### Credit exposures classified in terms of maturity

|                               | 2010<br>Shs '000   | 2009<br>Shs '000   | 2010<br>Shs '000 | 2009<br>Shs '000 |
|-------------------------------|--------------------|--------------------|------------------|------------------|
| Neither past due nor impaired | 173,171,180        | 112,779,284        | 243,009          | 135,251          |
| Past due but not impaired     | 2,460,029          | 4,466,881          | -                | -                |
| Impaired                      | 1,887,696          | 1,745,210          | -                | -                |
|                               | <b>177,518,905</b> | <b>118,991,375</b> | <b>243,009</b>   | <b>135,251</b>   |

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



## Notes (continued)

### 5. Financial risk management (continued)

#### b. Credit risk (continued)

##### Credit risk management - Banking division

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

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

##### (i) Management reporting

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

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

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

##### (ii) Credit risk measurement

Loans and advances

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

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

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

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



## Notes (continued)

### 5. Financial risk management (continued)

#### b. Credit risk (continued)

##### Collateral

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

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

Longer-term finance and lending to corporate entities is generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise possible credit loss the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

##### Derivatives

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

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

##### Credit related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused



## Notes (continued)

### 5. Financial risk management (continued)

#### b. Credit risk (continued)

commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

#### (iii) Impairment and provisioning policy

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

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

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

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

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

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

#### (iv) Credit tailored to customer profile

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

- Corporate and Investment Banking
- Personal and Business Banking

A diverse range of performance analysis techniques are applied across product sets in recognition of differing asset and maturity profiles. Defaulting accounts receive prompt attention and in instances where loss is anticipated, they are handled centrally by rehabilitation and recoveries resources within the credit department.

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

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



## Notes (continued)

### 5. Financial risk management (continued)

#### b. Credit risk (continued)

|   | 2010<br>Shs '000   | 2009<br>Shs '000   |
|---|--------------------|--------------------|
| Balances with Central Bank                    | 4,129,734          | 2,444,150          |
| Loans and advances to banks                   | 16,239,669         | 25,081,964         |
| Loans and advances to customers               | 58,984,961         | 44,977,967         |
| Government and trading securities             | 21,905,060         | 18,572,510         |
| Other assets                                  | 1,638,278          | 2,517,017          |
| <b>Total recognised financial instruments</b> | <b>102,897,702</b> | <b>93,593,608</b>  |
| Off-balance sheet items                       | 73,375,543         | 11,684,621         |
| <b>Total credit risk exposure</b>             | <b>176,273,245</b> | <b>105,278,229</b> |

The above table represents a worst-case scenario of credit risk exposure to the Bank at 31 December 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 73% of the total recognised credit risk exposure is derived from loans and advances to banks and customers (2009: 75%); 21% represents investments in debt securities (2009: 20%).

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

- 97% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2009: 96%);
- Mortgage loans, are backed by collateral;
- 97% of the loans and advances portfolio are considered to be neither past due nor impaired (2009: 96%);
- 92% of all debt securities, which the bank has invested in, are issued by the Central Bank of Kenya. (2009: 92%)

#### (vi) Valuation of collateral

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

#### (vii) Credit quality

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

|                               | 2010<br>Shs '000  | 2009<br>Shs '000  |
|-------------------------------|-------------------|-------------------|
| Neither past due nor impaired | 56,255,343        | 40,618,279        |
| Past due but not impaired     | 2,032,372         | 4,436,511         |
| Impaired                      | 1,742,050         | 1,745,210         |
| <b>Gross</b>                  | <b>60,029,765</b> | <b>46,800,000</b> |



## Notes (continued)

### 5. Financial risk management (continued)

#### b. Credit risk (continued)

##### (viii) Collateral repossessed

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

##### Credit risk management - Insurance division

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

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

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

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



## Notes (continued)

### 5. Financial risk management (continued)

#### b. Credit risk (continued)

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

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

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

|  | 2010<br>Shs '000  | 2009<br>Shs '000  |
|--|-------------------|-------------------|
| Reinsurance receivables                      | 210,057           | 211,334           |
| Insurance receivables                        | 505,609           | 859,372           |
| Reinsurers' share notified claims            | 922,811           | 1,986,945         |
| Government securities held-to-maturity       | 2,349,654         | 2,606,017         |
| Government securities available-for-sale     | 5,161,681         | 4,397,698         |
| Deposits with financial institutions         | 2,181,279         | 1,032,713         |
| Corporate bonds                              | 1,825,553         | 1,232,536         |
| Commercial paper                             | 770               | 25,333            |
| Mortgage loans                               | 1,146,736         | 1,075,069         |
| Other receivables                            | 441,463           | 946,548           |
| Cash at bank                                 | 582,666           | 283,522           |
| Investment in the Kenya Motor Insurance Pool | -                 | 6,905             |
|  | <b>15,328,280</b> | <b>14,663,992</b> |

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

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



## Notes (continued)

### 5. Financial risk management (continued)

#### b. Credit risk (continued)

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

Insurance receivables are summarised as follows:

|                                | 2010<br>Shs '000 | 2009<br>Shs '000 |
|--------------------------------|------------------|------------------|
| Neither past due nor impaired  | 77,952           | 276,260          |
| Past due but not impaired      | 427,657          | 459,192          |
| Impaired                       | 145,646          | 165,492          |
| Gross                          | <b>651,255</b>   | <b>900,944</b>   |
| Less: allowance for impairment | (145,646)        | (41,572)         |
| <b>Net</b>                     | <b>505,609</b>   | <b>859,372</b>   |

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

|  | 2010<br>Shs '000 | 2009<br>Shs '000 |
|--|------------------|------------------|
| Past due but not impaired:             |                  |                  |
| - by up to 30 days                     | 110,155          | 52,748           |
| - by 31 to 60 days                     | 62,991           | 45,541           |
| - by 61 to 150 days                    | 136,039          | 127,139          |
| - by 151 to 360 days                   | 118,473          | 233,764          |
| <b>Total past due but not impaired</b> | <b>427,657</b>   | <b>459,192</b>   |

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



## Notes (continued)

### 5. Financial risk management (continued)

#### c) Market risk

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

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

#### Market risk management - Banking division

##### Market risk measurement techniques:

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

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

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

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

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

#### (a) Foreign exchange risk

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

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

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



## Notes (continued)

### 5. Financial risk management (continued)

#### c. Market risk (continued)

| Currency | Increase in<br>currency rate<br>in %<br>2010 | Effect on<br>profit before<br>tax<br>2010<br>Shs '000 | Effect on<br>profit after<br>tax<br>2010<br>Shs '000 | Increase in<br>currency rate<br>in %<br>2009 | Effect on<br>profit before<br>tax<br>2009<br>Shs '000 | Effect on<br>profit after<br>tax<br>2009<br>Shs '000 |
|----------|--|---|--|--|---|--|
| USD      | 6  | (423,201)   | (296,241)  | 3  | (156,985)   | (109,889)  |
| GBP      | 1  | (233)   | (163)  | 8  | 627,034   | 438,924  |
| EUR      | 2  | 7,014   | 4,910  | 1  | 5,072   | 3,550  |
| Others   | 10   | 31,127  | 21,789   | 6  | (61,986)  | (43,390)   |

| Currency | Decrease in<br>currency rate<br>in %<br>2010 | Effect on<br>profit before<br>tax<br>2010<br>Shs '000 | Effect on<br>profit after<br>tax<br>2010<br>Shs '000 | Decrease in<br>currency rate<br>in %<br>2009 | Effect on<br>profit before<br>tax<br>2009<br>Shs '000 | Effect on<br>profit after<br>tax<br>2009<br>Shs '000 |
|----------|--|---|--|--|---|--|
| USD      | 6  | 423,201   | 296,241  | 3  | 156,985   | 109,889  |
| GBP      | 1  | 233   | 163  | 8  | (627,034)   | (438,924)  |
| EUR      | 2  | (7,014)   | (4,910)  | 1  | (5,072)   | (3,550)  |
| Others   | 10   | (31,127)  | (21,789)   | 6  | 61,986  | 43,390   |

#### (b) Interest rate risk

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

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

| Year ended 31 December 2010 | Increase in<br>basis points | Sensitivity of<br>net interest<br>income<br>Shs '000 | Decrease in<br>basis points | Sensitivity of<br>net interest<br>income<br>Shs '000 |
|-----------------------------|-----------------------------|--|-----------------------------|--|
| Currency                    |                             |  |                             |  |
| Shs                         | 200                         | 158,853  | 200                         | (233,902)  |
| Others                      | 75                          | 150,410  | 75                          | (28,075)   |

| Year ended 31 December 2009 | Increase in<br>basis points | Sensitivity of<br>net interest<br>income<br>Shs '000 | Decrease in<br>basis points | Sensitivity of<br>net interest<br>income<br>Shs '000 |
|-----------------------------|-----------------------------|--|-----------------------------|--|
| Currency                    |                             |  |                             |  |
| Shs                         | 200                         | 158,853  | 200                         | (233,902)  |
| Others                      | 75                          | 150,410  | 75                          | (28,075)   |



## Notes (continued)

### 5. Financial risk management (continued)

#### c. Market risk management - Insurance division

##### (i) Foreign exchange risk

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

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

At 31 December 2010, if the Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the post tax profit for the period would have been Shs 7,050,000 (2009: Shs 11,007,725) higher/lower, mainly as a result of US dollar investments, receivables and bank balances.

##### (ii) Price risk

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

At 31 December 2010, if the NSE Index had increased/decreased by 5% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation to the index, equity would have been Shs 200,068,535 (2009: Shs 138,181,579) higher/lower.

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

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

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

For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in interest rate will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. The level of the reduction of the level of interest rate that will trigger an adjustment is an interest rate of 1 % (2009: 1 %). Investment contracts with fixed and guaranteed terms, government securities and deposits with financial institutions held-to-maturity are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of interest rates.

#### d) Liquidity risk

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



## Notes (continued)

### 5. Financial risk management (continued)

#### d. Liquidity risk (continued)

##### 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.

| <b>31 December 2010</b>           | <b>Up to<br/>1 month<br/>Shs'000</b> | <b>1 – 6<br/>Months<br/>Shs'000</b> | <b>6 – 12<br/>Months<br/>Shs'000</b> | <b>Total<br/>Shs'000</b> |
|-----------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|--------------------------|
| Cash and bank balances            | 859                                  | -                                   | -                                    | 859                      |
| Other assets                      | -                                    | -                                   | -                                    | -                        |
| Balances due from Group companies | -                                    | -                                   | 243,009                              | 243,009                  |
| <b>Total assets</b>               | <b>859</b>                           | <b>-</b>                            | <b>243,009</b>                       | <b>243,868</b>           |
| Borrowings                        | -                                    | -                                   | -                                    | -                        |
| Other liabilities                 | 18,914                               | -                                   | -                                    | 18,914                   |
| Balances due to Group companies   | -                                    | -                                   | 178,496                              | 178,496                  |
| <b>Total liabilities</b>          | <b>18,914</b>                        | <b>-</b>                            | <b>178,496</b>                       | <b>197,410</b>           |
| <b>Net liquidity gap</b>          | <b>(18,055)</b>                      | <b>-</b>                            | <b>64,513</b>                        | <b>46,458</b>            |
| <b>31 December 2009</b>           | <b>Up to<br/>1 month<br/>Shs'000</b> | <b>1 – 6<br/>Months<br/>Shs'000</b> | <b>6 – 12<br/>Months<br/>Shs'000</b> | <b>Total<br/>Shs'000</b> |
| Cash and bank balances            | 2,228                                | -                                   | -                                    | 2,228                    |
| Other assets                      | 133,023                              | -                                   | -                                    | 133,023                  |
| Balances due from Group companies | -                                    | -                                   | 275,586                              | 275,586                  |
| <b>Total assets</b>               | <b>135,251</b>                       | <b>-</b>                            | <b>275,586</b>                       | <b>410,837</b>           |
| Borrowings                        | -                                    | -                                   | 200,000                              | 200,000                  |
| Other liabilities                 | 33,908                               | -                                   | -                                    | 33,908                   |
| Balances due to Group companies   | -                                    | -                                   | 324,432                              | 324,432                  |
| <b>Total liabilities</b>          | <b>33,908</b>                        | <b>-</b>                            | <b>524,432</b>                       | <b>558,340</b>           |
| <b>Net liquidity gap</b>          | <b>101,343</b>                       | <b>-</b>                            | <b>(248,846)</b>                     | <b>(147,503)</b>         |



## Notes (continued)

### 5. Financial risk management (continued)

#### d. Liquidity risk (continued)

##### Liquidity risk management – Banking division

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

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

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

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

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

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

## 5. Financial risk management (continued)

### d. Liquidity risk (continued)

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

|   | 2010<br>Up to<br>1 month<br>Shs '000 | 2010<br>1 - 6<br>months<br>Shs '000 | 2010<br>6 - 12<br>months<br>Shs '000 | 2010<br>1 - 5<br>years<br>Shs '000 | 2010<br>Over<br>5 years<br>Shs '000 | 2010<br>Total<br>Shs '000 |
|---|--------------------------------------|-------------------------------------|--------------------------------------|------------------------------------|-------------------------------------|---------------------------|
| <b>Financial assets</b>                       |                                      |                                     |                                      |                                    |                                     |                           |
| Cash and balances with Central Bank           | 2,297,038                            | -                                   | -                                    | -                                  | 3,146,868                           | 5,443,906                 |
| Investment securities                         | 6,830,545                            | 5,365,153                           | 525                                  | 8,056,721                          | 1,681,624                           | 21,934,568                |
| Loans and advances to banks                   | 11,336,398                           | 2,516,080                           | 1,684,903                            | 702,288                            | -                                   | 16,239,669                |
| Loans and advances to customers               | 21,369,175                           | 5,010,482                           | 2,566,098                            | 16,583,810                         | 13,455,396                          | 58,984,961                |
|   | <b>41,833,156</b>                    | <b>12,891,715</b>                   | <b>4,251,526</b>                     | <b>25,342,819</b>                  | <b>18,283,888</b>                   | <b>102,603,104</b>        |
| <b>Financial liabilities</b>                  |                                      |                                     |                                      |                                    |                                     |                           |
| Contractual amounts payable on derivatives    | 729,153                              | -                                   | -                                    | -                                  | -                                   | 729,153                   |
| Deposits from banks                           | 14,204,632                           | 64,851                              | -                                    | -                                  | -                                   | 14,269,483                |
| Deposits from customers                       | 60,882,782                           | 10,599,899                          | 1,248,483                            | 72,694                             | -                                   | 72,803,858                |
| Subordinated bonds                            | -                                    | 200,000                             | 400,000                              | 2,700,000                          | 4,115,816                           | 7,415,816                 |
| Other Liabilities                             | 2,113,262                            | -                                   | -                                    | -                                  | -                                   | 2,113,262                 |
| <b>Total recognised financial instruments</b> | <b>77,929,829</b>                    | <b>10,864,750</b>                   | <b>1,648,483</b>                     | <b>2,772,694</b>                   | <b>4,115,816</b>                    | <b>97,331,572</b>         |
| <b>Net liquidity gap</b>                      | <b>(36,096,673)</b>                  | <b>2,026,965</b>                    | <b>2,603,043</b>                     | <b>22,570,125</b>                  | <b>14,168,072</b>                   | <b>5,271,532</b>          |



## Notes (continued)

### 5. Financial risk management (continued)

#### d. Liquidity risk (continued)

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



## Notes (continued)

### 5. Financial risk management (continued)

#### d. Liquidity risk (continued)

##### Liquidity risk management – Insurance division

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

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

| <b>As at 31 December 2010</b>                          | <b>1 - 3<br/>months<br/>Shs'000</b> | <b>3 - 12<br/>months<br/>Shs'000</b> | <b>1 - 5<br/>years<br/>Shs'000</b> | <b>Over 5<br/>years<br/>Shs'000</b> | <b>Total<br/>Shs'000</b> |
|--|-------------------------------------|--------------------------------------|------------------------------------|-------------------------------------|--------------------------|
| <b>Liabilities</b>                                     |                                     |                                      |                                    |                                     |                          |
| Insurance contract liabilities                         | 777,726                             | 1,276,310                            | 2,321,517                          | 1,150,223                           | 5,525,776                |
| Payable under deposit administration                   | 232,037                             | 1,008,761                            | 4,460,773                          | 3,001,702                           | 8,703,273                |
| Outstanding claims                                     | 191,187                             | 68,197                               | -                                  | -                                   | 259,384                  |
| Creditors arising from reinsurance                     | 81,895                              | 197,389                              | -                                  | -                                   | 279,284                  |
| Other payables   | 857,939                             | 37,809                               | -                                  | -                                   | 895,748                  |
| <b>Total financial liabilities (expected maturity)</b> | <b>2,140,784</b>                    | <b>2,588,466</b>                     | <b>6,782,290</b>                   | <b>4,151,925</b>                    | <b>15,663,465</b>        |

| <b>As at 31 December 2009</b>                          | <b>1 - 3<br/>months<br/>Shs'000</b> | <b>3 - 12<br/>months<br/>Shs'000</b> | <b>1 - 5<br/>years<br/>Shs'000</b> | <b>Over 5<br/>years<br/>Shs'000</b> | <b>Total<br/>Shs'000</b> |
|--|-------------------------------------|--------------------------------------|------------------------------------|-------------------------------------|--------------------------|
| <b>Liabilities</b>                                     |                                     |                                      |                                    |                                     |                          |
| Insurance contract liabilities                         | 142,473                             | 1,752,460                            | 459,569                            | 153,045                             | 2,507,547                |
| Payable under deposit administration                   | 213,779                             | 883,939                              | 3,890,780                          | 2,620,538                           | 7,609,036                |
| Outstanding claims                                     | 204,954                             | 813,318                              | -                                  | -                                   | 1,018,272                |
| Creditors arising from reinsurance                     | 20,674                              | 603,244                              | -                                  | -                                   | 623,918                  |
| Other payables   | 601,948                             | 86,312                               | -                                  | -                                   | 688,260                  |
| <b>Total financial liabilities (expected maturity)</b> | <b>1,183,828</b>                    | <b>4,139,273</b>                     | <b>4,350,349</b>                   | <b>2,773,583</b>                    | <b>12,447,033</b>        |

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



## Notes (continued)

### 5. Financial risk management (continued)

#### d. Liquidity risk (continued)

#### Management of insurance and financial risk for Insurance division

##### General and Life Insurance divisions

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

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

##### e. Insurance risk

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

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

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

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



## Notes (continued)

### 5. Financial risk management (continued)

#### e. Insurance risk (continued)

##### Maximum insured loss 2010

| General insurance business     |              | Shs 0m –Shs<br>15m<br>Shs'000 | Shs 15m –Shs<br>250m<br>Shs'000 | Shs 250m<br>–Shs 1,000m<br>Shs'000 | Total<br>Shs'000   |
|--------------------------------|--------------|-------------------------------|---------------------------------|------------------------------------|--------------------|
| Personal accident              | Gross        | 17,935,388                    | 3,092,997                       | 1,848,227                          | 22,876,612         |
|                                | Net          | 17,875,125                    | 2,457,601                       | -                                  | 20,332,726         |
| Motor                          | Gross        | 38,986,638                    | 50,453,564                      | 60,756,552                         | 150,196,754        |
|                                | Net          | 38,560,664                    | 38,050,410                      | 9,159,530                          | 85,770,604         |
| Fire                           | Gross        | 7,104,213                     | 16,930,006                      | 487,299,132                        | 511,333,351        |
|                                | Net          | 6,961,212                     | 11,214,342                      | 2,786,927                          | 20,962,481         |
| Other                          | Gross        | 13,180,286                    | 23,501,116                      | 134,737,156                        | 171,418,558        |
|                                | Net          | 12,514,114                    | 13,876,376                      | 11,239,272                         | 37,629,762         |
| <b>Life assurance business</b> |              |                               |                                 |                                    |                    |
| Ordinary life                  | Gross        | 20,894,255                    | 4,024,335                       | -                                  | 24,918,590         |
|                                | Net          | 14,515,664                    | 2,089,115                       | -                                  | 16,604,779         |
| Group life                     | Gross        | 16,910,248                    | 5,960,411                       | 8,027,742                          | 30,898,401         |
|                                | Net          | 8,514,553                     | 1,757,412                       | 4,254,703                          | 14,526,668         |
| <b>Total</b>                   | <b>Gross</b> | <b>115,011,028</b>            | <b>103,962,429</b>              | <b>692,668,809</b>                 | <b>911,642,266</b> |
|                                | <b>Net</b>   | <b>98,941,332</b>             | <b>69,445,256</b>               | <b>27,440,432</b>                  | <b>195,827,020</b> |

##### Maximum insured loss 2009

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



## Notes (continued)

### 6. Interest income

|  | 2010<br>Shs' 000 | Group<br>2009<br>Shs' 000 | 2010<br>Shs' 000 | Company<br>2009<br>Shs' 000 |
|--|------------------|---------------------------|------------------|-----------------------------|
| Interest on loans, advances and short-term funds | 5,127,670        | 5,058,223                 | -                | -                           |
| Government securities- held- to-maturity         | 143,389          | 390,628                   | -                | -                           |
| Government securities- available-for-sale        | 1,032,178        | 1,170,714                 | -                | -                           |
| Placements and other bank balances               | 483,657          | 406,188                   | -                | -                           |
| Other  | 1,162            | 70,575                    | 5,807            | 102,616                     |
|  | <b>6,788,056</b> | <b>7,096,328</b>          | <b>5,807</b>     | <b>102,616</b>              |

### 7. Interest expense

|  | 2010<br>Shs' 000 | Group<br>2009<br>Shs' 000 | 2010<br>Shs' 000 | Company<br>2009<br>Shs' 000 |
|--|------------------|---------------------------|------------------|-----------------------------|
| Current accounts                         | 157,280          | 183,167                   | -                | -                           |
| Savings and deposit accounts             | 1,247,254        | 1,849,845                 | -                | -                           |
| Deposits and placements from other banks | 97,964           | 31,779                    | -                | -                           |
| Other interest-bearing liabilities       | 477,610          | 379,022                   | 5,807            | 105,121                     |
|  | <b>1,980,108</b> | <b>2,443,813</b>          | <b>5,807</b>     | <b>105,121</b>              |

### 8. Fee and commission revenue

|                                       | 2010<br>Shs' 000 | Group<br>2009<br>Shs' 000 |
|---------------------------------------|------------------|---------------------------|
| Account transaction fees              | 606,392          | 637,328                   |
| Knowledge-based fees and commission   | 303,482          | 272,617                   |
| Electronic banking fees               | 229,190          | 210,642                   |
| Foreign currency service fees         | 117,247          | 65,867                    |
| Documentation and administration fees | 469,962          | 58,289                    |
| Insurance – fees and commissions      | 342,082          | 97,539                    |
| Trust and asset management fees       | 42,595           | 42,595                    |
| Other                                 | 96,854           | 80,400                    |
|                                       | <b>2,207,804</b> | <b>1,465,277</b>          |

### 9. Fee and commission expense

|  | 2010<br>Shs' 000 | Group<br>2009<br>Shs' 000 |
|--|------------------|---------------------------|
| Card based commission                    | 101,326          | 4,334                     |
| Knowledge based fees and commission      | 6,964            | 881                       |
| Other bank - related fees and commission | 1                | 6,003                     |
|  | <b>108,291</b>   | <b>11,218</b>             |



## Notes (continued)

### 10. Trading revenue

|                           | 2010<br>Shs'000  | Group<br>2009<br>Shs'000 |
|---------------------------|------------------|--------------------------|
| Foreign exchange          | 1,389,137        | 1,067,188                |
| Debt securities           | 988,886          | 267,694                  |
| Equities and other income | 6,402            | 24,448                   |
|                           | <b>2,384,425</b> | <b>1,359,330</b>         |

### 11. Other revenue

|   | 2010<br>Shs'000  | 2009<br>Shs'000 | 2010<br>Shs'000 | 2009<br>Shs'000 |
|---|------------------|-----------------|-----------------|-----------------|
| Gain on disposal of property and equipment                | 275              | 6,019           | -               | -               |
| Gain/(loss) on disposal of available for sale investments | 1,191,962        | -               | -               | -               |
| Rental income from investment property                    | 24,408           | -               | -               | -               |
| Fair value gains on investment property                   | 60,606           | -               | -               | -               |
| Dividend income   | 87,874           | -               | 301,034         | -               |
| Other revenue   | 118,703          | 227,495         | -               | -               |
|   | <b>1,483,828</b> | <b>233,514</b>  | <b>301,034</b>  | -               |

### 12. Insurance underwriting income

|                                   | 2010<br>Shs'000  | 2009<br>Shs'000  |
|-----------------------------------|------------------|------------------|
| Gross premiums                    | 6,243,269        | 5,635,876        |
| Less: reinsurance                 | (1,922,866)      | (1,720,424)      |
| Net premiums                      | 4,320,404        | 3,915,452        |
| Claims – Gross                    | 3,706,130        | 4,004,508        |
| Less: Recoveries from reinsurance | (503,375)        | (1,195,184)      |
| Net claims                        | <b>3,202,755</b> | <b>2,809,324</b> |
| <b>Net premiums less claims</b>   | <b>1,117,649</b> | <b>1,106,128</b> |

### 13. Credit impairment charges

|   | 2010<br>Shs'000 | 2009<br>Shs'000 |
|---|-----------------|-----------------|
| Net credit impairments raised for loans and advances    | 914,412         | 1,002,649       |
| Recoveries on loans and advances previously written off | (392,971)       | (403,500)       |
|   | <b>521,441</b>  | <b>599,149</b>  |
| <b>Comprising:</b>                                      |                 |                 |
| Net credit impairment charges for non-performing loans  | 419,482         | 658,879         |
| Credit impairments for non-performing loans             | 812,453         | 1,062,379       |
| Recoveries on loans and advances previously written off | (392,971)       | (403,500)       |
| Credit impairments for performing loans                 | 101,959         | (59,730)        |
|   | <b>521,441</b>  | <b>599,149</b>  |



## Notes (continued)

### 14. Staff costs

|                               | 2010<br>Shs'000  | Group<br>2009<br>Shs'000 | 2010<br>Shs'000 | Company<br>2009<br>Shs'000 |
|-------------------------------|------------------|--------------------------|-----------------|----------------------------|
| Salaries and allowances       | 3,012,370        | 1,987,695                | 6,410           | 32,341                     |
| Retirement benefit costs      | 228,961          | 183,208                  | -               | 3,037                      |
| National Social Security Fund | 2,822            | 4,019                    | -               | -                          |
| Other staff costs             | 126,344          | 131,327                  | -               | 4,185                      |
|                               | <b>3,370,497</b> | <b>2,306,249</b>         | <b>6,410</b>    | <b>39,563</b>              |

### 15. Other operating expenses

|   | 2010<br>Shs'000  | Group<br>2009<br>Shs'000 | 2010<br>Shs'000 | Company<br>2009<br>Shs'000 |
|---|------------------|--------------------------|-----------------|----------------------------|
| Amortisation - intangible assets                  | 346,780          | 291,216                  | -               | 101,681                    |
| Audit fees  | 36,660           | 33,595                   | 2,311           | 1,882                      |
| Depreciation (Note 25)                            | 282,934          | 323,876                  | 2,582           | 4,089                      |
| Write off of property and equipment               | 182              | 22,025                   | -               | -                          |
| Directors' fees                                   | 31,178           | 10,684                   | 7,113           | 5,710                      |
| Amortisation of prepaid operating lease (Note 27) | 126              | 2,876                    | -               | -                          |
| Premises  | 378,151          | 254,652                  | 1,621           | 6,372                      |
| Information technology and communication          | 817,185          | 516,646                  | 2,259           | -                          |
| Professional fees                                 | 498,178          | 319,821                  | 2,644           | -                          |
| Impairment loss on available for sale securities  | 32,153           | 699,449                  | -               | -                          |
| Other expenses                                    | 3,014,728        | 2,098,796                | 18,916          | (55,184)                   |
|   | <b>5,438,255</b> | <b>4,573,636</b>         | <b>37,446</b>   | <b>64,550</b>              |

### 16. Income tax expense

|   | 2010<br>Shs'000 | 2009<br>Shs'000 |
|---|-----------------|-----------------|
| Current income tax  | 860,527         | 639,326         |
| Deferred income tax (Note 35)                             | 56,578          | 18,507          |
| Previous year deferred tax under/over provision (Note 35) | (5,298)         | 15,540          |
| Previous year current tax under provision                 | (68,350)        | -               |
|   | <b>843,457</b>  | <b>673,373</b>  |

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

|   | 2010<br>Shs'000  | 2009<br>Shs'000 |
|---|------------------|-----------------|
| <b>Profit before income tax</b>                             | <b>2,630,825</b> | <b>709,301</b>  |
| Tax at statutory tax rate of 30% (2009 – 30%)               | 789,248          | 212,790         |
| Tax effect of:  |                  |                 |
| Income not subjected to tax                                 | (172,765)        | (82,357)        |
| Expenses not deductible for tax purposes                    | 163,597          | 350,795         |
| Previous year current and deferred tax under/over provision | (73,648)         | 15,540          |
| Other items resulting in increased tax                      | 137,025          | 176,605         |
| <b>Income tax expense</b>                                   | <b>843,457</b>   | <b>673,373</b>  |



## Notes (continued)

### 17. Earnings per share (Group)

Earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

|  | Group           |                 | Company         |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2010<br>Shs'000 | 2009<br>Shs'000 | 2010<br>Shs'000 | 2009<br>Shs'000 |
| Earnings   | 1,604,773       | (59,871)        | 257,178         | (106,618)       |
| Number of shares   |                 |                 |                 |                 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 273,684         | 273,684         | 273,684         | 273,684         |
| Earnings per share (Shs) basic and diluted   | <b>5.86</b>     | <b>(0.22)</b>   | <b>0.94</b>     | <b>(0.39)</b>   |

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

### 18. Dividends

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. Dividend proposed for the 2010 financial year is as follows.

|                               | Group           |                 |
|-------------------------------|-----------------|-----------------|
|                               | 2010<br>Shs'000 | 2009<br>Shs'000 |
| Proposed dividend             | 220,220         | -               |
| Number of Shares in thousands | 273,684         | 273,684         |
| Dividend per share            | <b>0.80</b>     | -               |

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

CfC Insurance Holdings Limited declared and paid a special dividend of Kshs 143,680,000 to African Liason and Consultant Services Ltd as part of the demerger transaction.

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

|                                     | Group            |                  | Company         |                 |
|-------------------------------------|------------------|------------------|-----------------|-----------------|
|                                     | 2010<br>Shs'000  | 2009<br>Shs'000  | 2010<br>Shs'000 | 2009<br>Shs'000 |
| Cash and bank balances              | 1,315,158        | 2,161,990        | 859             | 2,228           |
| Balances with Central Bank of Kenya | 4,129,734        | 2,444,150        | -               | -               |
|                                     | <b>5,444,892</b> | <b>4,606,140</b> | <b>859</b>      | <b>2,228</b>    |

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



## Notes (continued)

### 20. Pledged assets

|   | Group           |                 |
|---|-----------------|-----------------|
|   | 2010<br>Shs'000 | 2009<br>Shs'000 |
| Securities pledged as collateral        |                 |                 |
| Debt securities - pledged as collateral | 2,940,007       | 3,351,812       |

Dated pledged assets had a redemption value at 31 December 2010 of Shs 2,661,470,212 (2009 - Shs 3,194,391,363).

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

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

### 21 Financial investments

|  |       | Group             |                   |
|--|-------|-------------------|-------------------|
|  |       | 2010<br>Shs'000   | 2009<br>Shs'000   |
| Financial investments - trading assets                     | 21(a) | 4,549,458         | 5,933,761         |
| Financial investments - Fair value through profit and loss | 21(a) | 6,801,037         | 1,729,256         |
| Financial investments - available for sale                 | 21(b) | 7,627,715         | 15,967,680        |
| Financial investments - held to maturity                   | 21(c) | 80,000            | 2,744,715         |
|  |       | <b>19,058,210</b> | <b>26,375,412</b> |

#### (a) Financial investments - trading assets

|   | Group             |                  |
|---|-------------------|------------------|
| Classification  | 2010<br>Shs'000   | 2009<br>Shs'000  |
| Listed securities-trading                               | 4,549,458         | 5,933,761        |
| Unlisted securities -Fair value through profit and loss | 6,801,037         | 1,729,256        |
|   | <b>11,350,495</b> | <b>7,663,017</b> |

#### Maturities

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

|                           | Group             |                  |
|---------------------------|-------------------|------------------|
|                           | 2010<br>Shs'000   | 2009<br>Shs'000  |
| Maturing within 12 months | 10,635,594        | 5,589,359        |
| Maturing after 12 months  | 701,744           | 2,013,226        |
| Undated securities        | 13,157            | 60,432           |
|                           | <b>11,350,495</b> | <b>7,663,017</b> |

The maturities represent periods to contractual redemption of trading assets recorded. Dated trading assets had a redemption value at 31 December 2010 of Shs 11,315,214,065 (2009 - Shs 7,642,861,102). 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 2010 was 5.6% (2009 - 5.75%)



## Notes (continued)

### 21. Financial investments (continued)

| <b>Financial investments - trading liabilities</b>                     | <b>2010<br/>Shs'000</b> | <b>2009<br/>Shs'000</b> |
|--|-------------------------|-------------------------|
| Trading liabilities – designated at fair value through profit and loss | 729,153                 | -                       |
|  | <b>729,153</b>          | <b>-</b>                |

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| <b>Maturity analysis</b> | <b>2010<br/>Shs'000</b> | <b>2009<br/>Shs'000</b> |
|--------------------------|-------------------------|-------------------------|
| Redeemable on demand     | -                       | -                       |
| Maturing within 1 month  | 729,153                 | -                       |
|                          | <b>729,153</b>          | <b>-</b>                |

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

| <b>Classification</b> | <b>Group</b>            |                         |
|-----------------------|-------------------------|-------------------------|
|                       | <b>2010<br/>Shs'000</b> | <b>2009<br/>Shs'000</b> |
| Listed                | 7,627,715               | 14,335,040              |
| Unlisted              | -                       | 1,632,640               |
|                       | <b>7,627,715</b>        | <b>15,967,680</b>       |

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| <b>Comprising:</b>    | <b>2010<br/>Shs'000</b> | <b>2009<br/>Shs'000</b> |
|-----------------------|-------------------------|-------------------------|
| Government securities | 7,064,587               | 11,526,229              |
| Corporate bonds       | 563,128                 | 1,487,526               |
| Listed equities       | -                       | 2,853,394               |
| Unlisted equities     | -                       | 100,531                 |
|                       | <b>7,627,715</b>        | <b>15,967,680</b>       |

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| <b>Maturity analysis</b>  | <b>2010<br/>Shs'000</b> | <b>2009<br/>Shs'000</b> |
|---------------------------|-------------------------|-------------------------|
| Maturing within 12 months | 1,531,121               | 977,118                 |
| Maturing after 12 months  | 6,096,594               | 12,036,637              |
| Undated securities        | -                       | 2,953,925               |
|                           | <b>7,627,715</b>        | <b>15,967,680</b>       |

The weighted average effective interest yield on available-for-sale investment dated securities at 31 December 2010 was 10.88% (2009: 10.09%)

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

|          | <b>2010<br/>Shs'000</b> | <b>2009<br/>Shs'000</b> |
|----------|-------------------------|-------------------------|
| Listed   | -                       | 2,646,215               |
| Unlisted | 80,000                  | 98,500                  |
|          | <b>80,000</b>           | <b>2,744,715</b>        |

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| <b>Maturity analysis</b>  | <b>2010<br/>Shs'000</b> | <b>2009<br/>Shs'000</b> |
|---------------------------|-------------------------|-------------------------|
| Maturing within 12 months | 31,500                  | 183,656                 |
| Maturing after 12 months  | 48,500                  | 2,561,059               |
|                           | <b>80,000</b>           | <b>2,744,715</b>        |



## Notes (continued)

### 22. Loans and advances

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

#### (a) Loans and advances to banks

|                     | Group            |                  |
|---------------------|------------------|------------------|
|                     | 2010<br>Shs '000 | 2009<br>Shs '000 |
| Balances with banks | 16,239,669       | 25,081,964       |

The weighted average effective interest rate during the year for deposits due from banking institutions at 31 December 2010 was 1.91% (2009: 0.35%)

#### (b) Loans and advances to customers

|   | Group             |                   |
|---|-------------------|-------------------|
|   | 2010<br>Shs '000  | 2009<br>Shs '000  |
| Gross loans and advances to customers             | <b>60,029,765</b> | <b>46,800,028</b> |
| Mortgage lending                                  | 7,295,747         | 6,787,179         |
| Term lending                                      | 29,765,832        | 18,867,020        |
| Installment sales                                 | 8,593,042         | 6,842,955         |
| Overdrafts and other demand lending               | 14,375,144        | 14,302,874        |
| Credit impairment for loans and advances          | <b>1,044,804</b>  | <b>959,580</b>    |
| Impairments for non-performing loans (Note 22(d)) | 856,504           | 873,239           |
| Impairments for performing loans                  | 188,300           | 86,341            |
| Net loans and advances                            | <b>58,984,961</b> | <b>45,840,448</b> |

#### Maturity analysis

|  | Group             |                   |
|--|-------------------|-------------------|
|  | 2010<br>Shs '000  | 2009<br>Shs '000  |
| Redeemable on demand                         | 19,734,287        | 21,095,862        |
| Maturing within 1 month                      | 1,634,888         | 1,681,727         |
| Maturing after 1 month but within 6 months   | 5,010,482         | 3,396,886         |
| Maturing after 6 months but within 12 months | 2,566,098         | 2,022,503         |
| Maturing after 12 months                     | 30,039,206        | 17,643,470        |
|  | <b>58,984,961</b> | <b>45,840,448</b> |

The weighted average effective interest rate on loans and advances to customers as at 31 December 2010 was 11%. (2009:9%).



## Notes (continued)

### 22. Loans and advances (continued)

#### (c) Segmental analysis – industry

|   | 2010              |             | Group 2009        |             |
|---|-------------------|-------------|-------------------|-------------|
|   | Shs'000           | %           | Shs'000           | %           |
| Agriculture                             | 8,234,342         | 14%         | 6,164,082         | 13%         |
| Manufacturing                           | 10,359,550        | 18%         | 5,851,403         | 13%         |
| Electricity and water                   | 4,435,398         | 8%          | 2,062,299         | 4%          |
| Building and construction               | 670,445           | 1%          | 845,030           | 2%          |
| Wholesale, retail trade and restaurants | 4,315,826         | 7%          | 839,815           | 2%          |
| Transport and communication             | 8,405,637         | 14%         | 6,834,225         | 15%         |
| Finance and insurance                   | 1,574,816         | 3%          | 2,125,678         | 5%          |
| Real estate and business service        | 3,277,626         | 6%          | 435,825           | 1%          |
| Other activities and social service     | 17,711,321        | 30%         | 20,682,091        | 45%         |
|   | <b>58,984,961</b> | <b>100%</b> | <b>45,840,448</b> | <b>100%</b> |

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

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

#### Impairment reserve for the year ended 31 December 2009

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



## Notes (continued)

### 23. Other assets

|  | Group            |                  | Company         |                 |
|--|------------------|------------------|-----------------|-----------------|
|  | 2010<br>Shs'000  | 2009<br>Shs'000  | 2010<br>Shs'000 | 2009<br>Shs'000 |
| Off market loan prepayment               | 91,523           | 47,393           | -               | -               |
| Uncleared effects                        | 880,480          | 2,017,179        | -               | -               |
| Insurance premium receivables            | -                | 859,373          | -               | -               |
| Due from reinsurers                      | -                | 211,334          | -               | -               |
| Reinsurance share of technical provision | -                | 1,986,945        | -               | -               |
| Trade receivables and prepayments        | 239,168          | 539,681          | -               | -               |
| Others                                   | 234,944          | 299,637          | -               | 133,023         |
|  | <b>1,446,115</b> | <b>5,961,542</b> | <b>-</b>        | <b>133,023</b>  |

### 24. Investment in subsidiaries and associates

#### Associates

|  | Group            |                  |
|--|------------------|------------------|
|  | 2010<br>Shs' 000 | 2009<br>Shs' 000 |
| At 1 January                             | 337,675          | 236,770          |
| Additions                                | 3,263            | -                |
| Currency translation adjustment          | (21,500)         | -                |
| Share of profit after tax                | 99,808           | 82,238           |
| Dividends                                | (10,129)         | (23,195)         |
| Share of fair value (losses)/gains       | 4,173            | 41,862           |
| Transfer to assets held for distribution | (313,179)        | -                |
| <b>At 31 December</b>                    | <b>100,111</b>   | <b>337,675</b>   |

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

The summarised financial information of the associates is as follows:

|  | Total<br>assets<br>Shs'000 | Total<br>liabilities<br>Shs'000 | Revenue<br>Shs'000 | Profit after<br>tax<br>Shs'000 | % Interest<br>held<br>Shs'000 |
|--|----------------------------|---------------------------------|--------------------|--------------------------------|-------------------------------|
| <b>Year ended 31 December 2010</b>                   |                            |                                 |                    |                                |                               |
| Stanbic Investment Management Services (E.A) Limited | 666,388                    | 301,556                         | 520,053            | 180,320                        | 24%                           |
| Alliance Insurance Corporation Limited               | 1,193,235                  | 684,493                         | 682,019            | 89,142                         | 45%                           |
| Strategis Insurance (Tanzania) Limited               | 641,818                    | 484,115                         | 394,527            | 35,105                         | 49%                           |
| <b>Year ended 31 December 2009</b>                   |                            |                                 |                    |                                |                               |
| Stanbic Investment Management Services (E.A) Limited | 340,813                    | 122,598                         | 385,977            | 90,145                         | 24%                           |
| Alliance Insurance Corporation Limited               | 1,300,892                  | 924,807                         | 406,600            | 93,236                         | 45%                           |
| Strategis Insurance (Tanzania) Limited               | 421,145                    | 219,105                         | 157,481            | 37,916                         | 49%                           |



## Notes (continued)

### 24. Investment in subsidiaries and associates (continued)

#### Subsidiaries

| Company   | Beneficial ownership | Country of Incorporation | Company           |                   |
|---|----------------------|--------------------------|-------------------|-------------------|
|   |                      |                          | 2010<br>Shs'000   | 2009<br>Shs'000   |
| CfC Stanbic Bank Limited  | 100%                 | Kenya                    | 14,129,114        | 14,129,114        |
| CfC Stanbic Financial Services Limited                            | 100%                 | Kenya                    | 165,530           | 100,530           |
| The Heritage Insurance Company (K) Limited                        | 64%                  | Kenya                    | -                 | 65,705            |
| Azali Limited   | 64%                  | Kenya                    | -                 | -                 |
| The Heritage Insurance Company (T) Limited                        | 38%                  | Tanzania                 | -                 | -                 |
| CfC Insurance Holdings Limited<br>(formerly CfC Holdings Limited) | 53%                  | Kenya                    | 661,505           | 595,000           |
| CfC Life Assurance Limited  | 100%                 | Kenya                    | -                 | -                 |
| CfC Investments Limited   | 100%                 | Kenya                    | -                 | -                 |
|   |                      |                          | <b>14,956,149</b> | <b>14,890,349</b> |
| <b>Less:</b>  |                      |                          |                   |                   |
| <b>Assets classified as held for distribution</b>                 |                      |                          |                   |                   |
| CfC Insurance Holdings Limited<br>(formerly CfC Holdings Limited) | 53%                  | Kenya                    | 661,505           | -                 |
|   |                      |                          | <b>14,294,644</b> | <b>14,890,349</b> |

### 25. Property and equipment

#### (a) Group

| Cost / valuation                                  | Land and premises | Equipment furniture & fittings | Motor vehicles | Total            |
|---|-------------------|--------------------------------|----------------|------------------|
|   | Shs'000           | Shs'000                        | Shs'000        | Shs'000          |
| At 1 January 2010                                 | 1,105,410         | 3,248,973                      | 178,398        | 4,532,781        |
| Additions   | 5,664             | 327,143                        | 24,860         | 357,667          |
| Disposals   | -                 | (9,661)                        | (6,873)        | (16,534)         |
| Eliminated on write off                           | -                 | (11,934)                       | -              | (11,934)         |
| Revaluation                                       | 31,558            | -                              | -              | 31,558           |
| Reclassification                                  | 2,867             | (9,150)                        | 32,482         | 26,199           |
| Currency translation                              | -                 | (2,565)                        | (787)          | (3,352)          |
| Transfer to assets held for distribution(Note 42) | (741,567)         | (875,064)                      | (97,401)       | (1,714,032)      |
| <b>At 31 December 2010</b>                        | <b>403,932</b>    | <b>2,667,742</b>               | <b>130,679</b> | <b>3,202,353</b> |
| <b>Depreciation</b>                               |                   |                                |                |                  |
| At 1 January 2010                                 | 23,895            | 1,431,997                      | 114,224        | 1,570,116        |
| Eliminated on write off                           | -                 | (11,064)                       | (688)          | (11,752)         |
| Charge for the year                               | 7,856             | 244,423                        | 30,655         | 282,934          |
| Disposals   | -                 | (5,452)                        | (5,848)        | (11,300)         |
| Currency adjustment                               | -                 | (2,035)                        | (647)          | (2,682)          |
| Transfer to assets held for distribution(Note 42) | (8,281)           | (461,588)                      | (66,196)       | (536,065)        |
| <b>At 31 December 2010</b>                        | <b>23,470</b>     | <b>1,196,281</b>               | <b>71,500</b>  | <b>1,291,251</b> |
| <b>Net book value at 31 December 2010</b>         | <b>380,462</b>    | <b>1,471,461</b>               | <b>59,179</b>  | <b>1,911,102</b> |

As at 31 December 2010, there were no items of property and equipment pledged by the Group to secure liabilities. Buildings were revalued as at 31 December 2010, by Tysons Limited, independent valuers, on the basis of the market value for existing use. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to the revaluation surplus in shareholders equity.



## Notes (continued)

### 25. Property and equipment (continued)

#### Analysis of property and equipment classified as held for distribution

|   | Land and premises | Equipment furniture & fittings | Motor vehicles | Total            |
|---|-------------------|--------------------------------|----------------|------------------|
| Cost / valuation                          | Shs'000           | Shs'000                        | Shs'000        | Shs'000          |
| Cost / valuation                          | 741,567           | 875,064                        | 97,401         | 1,714,032        |
| Less : accumulated depreciation           | (8,281)           | (461,589)                      | (66,196)       | (536,066)        |
| <b>Net book value</b>                     | <b>733,286</b>    | <b>413,475</b>                 | <b>31,205</b>  | <b>1,177,966</b> |
| <b>Cost / valuation</b>                   |                   |                                |                |                  |
| At 1 January 2009                         | 1,209,192         | 2,231,780                      | 165,067        | 3,606,039        |
| Additions                                 | 86,274            | 931,767                        | 17,692         | 1,035,733        |
| Disposals                                 | -                 | (45,607)                       | (9,166)        | (54,773)         |
| Eliminated on write off                   | -                 | (26,703)                       | -              | (26,703)         |
| Revaluation                               | (1,937)           | -                              | -              | (1,937)          |
| Reclassification                          | (219,358)         | 219,358                        | -              | -                |
| Currency translation                      | -                 | 3,221                          | 1,070          | 4,291            |
| Adjustments                               | 31,239            | (64,843)                       | 3,735          | (29,869)         |
| <b>At 31 December 2009</b>                | <b>1,105,410</b>  | <b>3,248,973</b>               | <b>178,398</b> | <b>4,532,781</b> |
| <b>Depreciation</b>                       |                   |                                |                |                  |
| At 1 January 2009                         | 20,498            | 1,199,678                      | 89,333         | 1,309,509        |
| Eliminated on write off                   | -                 | (4,678)                        | -              | (4,678)          |
| Charge for the year                       | 16,235            | 276,199                        | 31,442         | 323,876          |
| Disposals                                 | -                 | (41,529)                       | (7,272)        | (48,801)         |
| Currency adjustment                       | -                 | 2,327                          | 721            | 3,048            |
| Eliminated on revaluation                 | (4,527)           | -                              | -              | (4,527)          |
| Adjustments                               | (8,311)           | -                              | -              | (8,311)          |
| <b>At 31 December 2009</b>                | <b>23,895</b>     | <b>1,431,997</b>               | <b>114,224</b> | <b>1,570,116</b> |
| <b>Net book value at 31 December 2009</b> | <b>1,081,515</b>  | <b>1,816,976</b>               | <b>64,174</b>  | <b>2,962,665</b> |

As at 31 December 2009, there were no items of property and equipment pledged by the Group to secure liabilities. Buildings were revalued as at 31 December 2009, by Tysons Limited, independent valuers, on the basis of the market value for existing use. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to the revaluation surplus in shareholders equity.



## Notes (continued)

### 25. Property and equipment (continued)

#### b) Company

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

As at 31 December 2010 and 31 December 2009, there were no items of property and equipment pledged by the Company to secure liabilities.

|   | Computer<br>Equipment<br>Shs '000 | Motor vehicles<br>Shs '000 | Total<br>Shs'000 |
|---|-----------------------------------|----------------------------|------------------|
| <b>Cost</b>                               |                                   |                            |                  |
| At 1 January 2009                         | 1,659                             | 14,500                     | 16,159           |
| <b>At 31 December 2009</b>                | <b>1,659</b>                      | <b>14,500</b>              | <b>16,159</b>    |
| <b>Depreciation</b>                       |                                   |                            |                  |
| At 1 January 2009                         | (724)                             | (3,625)                    | (4,349)          |
| Charge for the year                       | (464)                             | (3,625)                    | (4,089)          |
| <b>At 31 December 2009</b>                | <b>(1,188)</b>                    | <b>(7,250)</b>             | <b>(8,438)</b>   |
| <b>Net book value at 31 December 2009</b> | <b>471</b>                        | <b>7,250</b>               | <b>7,721</b>     |

### 26. Investment properties

|   | 2010<br>Shs '000 | 2009<br>Shs '000 |
|---|------------------|------------------|
| As at January                                     | 412,000          | 366,500          |
| Additions   | 894              | -                |
| Net gain from fair value adjustments              | 47,106           | -                |
| Disposals   | -                | (32,500)         |
| Transfer to assets held for distribution(Note 42) | (460,000)        | 78,000           |
| <b>At 31 December</b>                             | <b>-</b>         | <b>412,000</b>   |



## Notes (continued)

### 27. Prepaid operating lease

|   | 2010<br>Shs'000 | Group<br>2009<br>Shs'000 |
|---|-----------------|--------------------------|
| <b>Cost</b>   |                 |                          |
| At 1 January  | 86,818          | 36,000                   |
| Transfer to assets held for distribution                  | (1,000)         |                          |
| Reclassification  | (319)           | -                        |
| Adjustment  | -               | 50,818                   |
| <b>At 31 December</b>                                     | <b>85,499</b>   | <b>86,818</b>            |
| <b>Amortisation</b>                                       |                 |                          |
| At 1 January  | 13,164          | 1,977                    |
| Charge for the year                                       | 126             | 2,876                    |
| Transfer to assets held for distribution(Note 42)         | (329)           |                          |
| Reclassification  | 916             | -                        |
| Adjustment  | -               | 8,311                    |
| <b>At 31 December</b>                                     | <b>13,877</b>   | <b>13,164</b>            |
| <b>Net book value at 31 December</b>                      | <b>71,622</b>   | <b>73,654</b>            |
|   | <b>Shs'000</b>  | <b>Total<br/>Shs'000</b> |
| <b>Prepaid leases classified as held for distribution</b> |                 |                          |
| Cost / valuation  | 1,000           | 1,000                    |
| Less : accumulated depreciation                           | (329)           | (329)                    |
| <b>Net book value</b>                                     | <b>671</b>      | <b>671</b>               |

### 28. Intangible assets

|   | Software<br>Shs'000 | Other<br>intangible<br>assets<br>Shs'000 | 2010<br>Total<br>Shs'000 |
|---|---------------------|--|--------------------------|
| <b>Cost</b>                                       |                     |  |                          |
| At 1 January 2010                                 | 1,621,096           | 1,099,059                                | 2,720,155                |
| Additions   | 200,549             | -  | 200,549                  |
| Reclassifications to other receivables            | (35,593)            | -  | (35,593)                 |
| Transfer to assets held for distribution(Note 42) | (322,845)           | -  | (322,845)                |
| <b>At 31 December 2010</b>                        | <b>1,463,207</b>    | <b>1,099,059</b>                         | <b>2,562,266</b>         |
| <b>Amortisation</b>                               |                     |  |                          |
| At 1 January 2010                                 | -                   | -  | -                        |
| Charge for the year                               | 482,200             | 163,028                                  | 645,228                  |
| Transfer to assets held for distribution(Note 42) | 215,026             | 131,754                                  | 346,780                  |
|   | (155,795)           | -  | (155,795)                |
| <b>At 31 December 2010</b>                        | <b>541,431</b>      | <b>294,782</b>                           | <b>836,213</b>           |
| <b>Net book value at 31 December 2010</b>         | <b>921,776</b>      | <b>804,277</b>                           | <b>1,726,053</b>         |



## Notes (continued)

### 28. Intangible assets (continued)

|  | Software<br>Shs'000 | Other<br>intangible<br>assets<br>Shs'000 | 2010<br>Total<br>Shs'000 |
|--|---------------------|--|--------------------------|
| <b>Cost</b>                                      |                     |  |                          |
| At 1 January 2009                                | 865,688             | 1,099,059                                | 1,964,747                |
| Additions  | 788,363             | -  | 788,363                  |
| Transfer on disposal of Fund management division | (95)                | -  | (95)                     |
| Reclassifications to other receivables           | (32,860)            | -  | (32,860)                 |
| <b>At 31 December 2009</b>                       | <b>1,621,096</b>    | <b>1,099,059</b>                         | <b>2,720,155</b>         |
| <b>Amortisation</b>                              |                     |  |                          |
| At 1 January                                     | 292,665             | 61,347                                   | 354,012                  |
| Charge for the year                              | 189,535             | 101,681                                  | 291,216                  |
| <b>At 31 December 2009</b>                       | <b>482,200</b>      | <b>163,028</b>                           | <b>645,228</b>           |
| <b>Net book value at 31 December 2009</b>        | <b>1,138,896</b>    | <b>936,031</b>                           | <b>2,074,927</b>         |

|  | Software<br>Shs'000 | Total<br>Shs'000 |
|--|---------------------|------------------|
| <b>Analysis of intangibles classified as held for distribution</b> |                     |                  |
| Cost   | 322,845             | 322,845          |
| Less : accumulated depreciation                                    | (155,795)           | (155,795)        |
| <b>Net book value</b>  | <b>167,050</b>      | <b>167,050</b>   |

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

|                        | Cost<br>Shs'000  | Useful life<br>years |
|------------------------|------------------|----------------------|
| Trade names            | 260,000          | 15                   |
| Customer relationships | 475,000          | 5 - 15               |
| Others                 | 364,059          | 2 - 5                |
|                        | <b>1,099,059</b> |                      |

### 29. Intangible assets - goodwill

|                       | Group             |                   |
|-----------------------|-------------------|-------------------|
|                       | 2010<br>Shs '000  | 2009<br>Shs '000  |
| <b>Cost</b>           |                   |                   |
| At 1 January          | 10,434,405        | 10,434,405        |
| <b>At 31 December</b> | <b>10,434,405</b> | <b>10,434,405</b> |

During the year, the Group assessed the recoverable amount of goodwill and determined that goodwill associated with the life assurance business and banking business was not impaired. The recoverable amount of the life assurance and banking business was assessed by reference to the cash generating unit's value-in-use. A discount factor of 10% per annum (2009: 10% per annum) was applied in the value-in-use model.



## Notes (continued)

### 30. Ordinary share capital

#### Authorised share capital

|   | Group and<br>Number of Ordinary<br>shares<br>(thousands) | Company<br>shares<br>Shs '000 |
|---|--|-------------------------------|
| Balance as at 1 January 2009  | 273,684  | 1,368,421                     |
| Balance as at 31 December 2009, 1 January 2010 and 31 December 2010 | <b>273,684</b>   | <b>1,368,421</b>              |

#### Issued ordinary shares

|   | Number of Ordinary<br>shares<br>(thousands) | shares<br>Shs '000 |
|---|---|--------------------|
| Balance as at 1 January 2009  | 273,684                                     | 1,368,421          |
| Balance as at 31 December 2009, 1 January 2010 and 31 December 2010 | 273,684                                     | 1,368,421          |

#### Ordinary share premium

|                       | 2010<br>Shs '000  | 2009<br>Shs '000  |
|-----------------------|-------------------|-------------------|
| At January            | 13,586,847        | 13,586,847        |
| <b>At 31 December</b> | <b>13,586,847</b> | <b>13,586,847</b> |

### 31. Derivative assets and (liabilities)

#### Foreign currency forwards

|                           | 2010<br>Shs '000 | 2009<br>Shs '000 |
|---------------------------|------------------|------------------|
| Net fair value            | 29,508           | (16,228)         |
| Contract/ notional amount | 35,419,929       | (5,318,481)      |

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 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)

### 32. Deposits and current accounts

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

|                            | 2010<br>Shs'000   | Group<br>2009<br>Shs'000 |
|----------------------------|-------------------|--------------------------|
| <b>Deposits from banks</b> | <b>14,269,483</b> | <b>21,059,626</b>        |
| Deposits from customers    | <b>71,425,115</b> | <b>61,474,379</b>        |
| Current accounts           | 34,491,282        | 25,470,229               |
| Call deposits              | 6,903,840         | 5,741,143                |
| Savings accounts           | 1,168,080         | 889,997                  |
| Term deposits              | 28,861,913        | 29,373,010               |
|                            | <b>85,694,598</b> | <b>82,534,005</b>        |

### Maturity analysis of deposits from customers

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

|  | 2010<br>Shs'000   | Group<br>2009<br>Shs'000 |
|--|-------------------|--------------------------|
| Repayable on demand                          | 43,297,521        | 39,609,106               |
| Maturing within 1 month                      | 16,206,518        | 5,621,962                |
| Maturing after 1 month but within 6 months   | 10,599,899        | 8,264,094                |
| Maturing after 6 months but within 12 months | 1,248,483         | 7,972,898                |
| Maturing after 12 months                     | 72,694            | 6,319                    |
|  | <b>71,425,115</b> | <b>61,474,379</b>        |

### 33. Borrowings

|                    | 2010<br>Shs'000  | 2009<br>Shs'000  | Company<br>2010<br>Shs'000 | Group<br>2009<br>Shs'000 |
|--------------------|------------------|------------------|----------------------------|--------------------------|
| Term loans         | -                | 700,000          | -                          | 200,000                  |
| Corporate bond     | 5,451,215        | 3,040,224        | -                          | -                        |
| IFC loan           | 807,072          | 758,566          | -                          | -                        |
| Shareholders' loan | 808,075          | 757,828          | -                          | -                        |
|                    | <b>7,066,362</b> | <b>5,256,618</b> | -                          | <b>200,000</b>           |

The Bank issued the second tranche of the CfC Stanbic bond (Shs 2.5 billion, 4 year term) in December 2010. The corporate bond of Shs 800 million issued by the Bank on 31 October 2005 has a 7 year maturity and pays interest at the rate of the Treasury Bill just before re-pricing plus 1.75%. The bond reprices quarterly. In addition the Bank issued an 8 year corporate bond of Shs 2.5 billion in July 2009. Interest on the fixed bond portfolio is payable at 12.50% while the floating rate is priced at 1.75% above the 182 day Treasury Bill rate. The shareholders' loan was obtained from Stanbic Africa Holdings Limited on 30 June 2008 and has a 10-year term, but is callable at the option of the issuer one day after the fifth anniversary of the issue date or any interest payment date thereafter. Interest is payable quarterly at 3 months, Libor plus 300 basis points.

The subsidiaries of the group paid off the term loan of Shs 200 million from Commercial Bank of Africa Limited (CBA) and rolled over the NIC Bank Limited loan of Shs 500m(13.5%).



## Notes (continued)

### 34. Other liabilities

|  | 2010<br>Shs'000  | 2009<br>Shs'000   | 2010<br>Shs'000 | 2009<br>Shs'000 |
|--|------------------|-------------------|-----------------|-----------------|
| Payable under deposit administration   | -                | 7,609,037         | -               | -               |
| Insurance contract liabilities         | -                | 5,618,795         | -               | -               |
| Sundry Creditors and provisions        | 2,742,737        | 2,906,170         | -               | -               |
| Unearned insurance premiums            | -                | 1,892,028         | -               | -               |
| Payable under reinsurance arrangements | -                | 623,918           | -               | -               |
| Unpresented bank drafts                | 167,070          | 224,030           | -               | -               |
| Other liabilities                      | 208,774          | 619,776           | 18,914          | 33,908          |
|  | <b>3,118,581</b> | <b>19,493,754</b> | <b>18,914</b>   | <b>33,908</b>   |

### 35. Deferred tax

#### a) Deferred tax asset

|  | Group           |                 |
|--|-----------------|-----------------|
|  | 2010<br>Shs'000 | 2009<br>Shs'000 |
| At start of year                                   | 11,424          | 280,722         |
| Credit/(charge) to income statement                | 2,705           | (26,423)        |
| Credit to other comprehensive income(OCI)          | -               | (14,726)        |
| Transfer to assets held for distribution (note 42) | (14,129)        | -               |
| Consolidation adjustment                           | -               | (228,149)       |
| <b>At end of year</b>                              | <b>-</b>        | <b>11,424</b>   |

The company did not have transactions and balances that attract deferred tax as at 31 December 2010.

#### Year ended 31 December 1 2010

|                               | January 2010<br>Shs'000 | Adjustment<br>on<br>consolidation<br>Shs'000 | Credit/<br>(charge) to<br>P/L<br>Shs'000 | Credit/<br>(charge) to<br>OCI<br>Shs'000 | Assets held for<br>distribution<br>(note 42)<br>Shs'000 | 31 Dec<br>2010<br>Shs'000 |
|-------------------------------|-------------------------|--|--|--|---|---------------------------|
| <b>Arising from:</b>          |                         |  |  |  |   |                           |
| Property and<br>equipment     | 7,572                   | (3,573)                                      | 1,884                                    | -  | (5,883)   | -                         |
| Tax losses                    | 42,972                  | (42,972)                                     | -  | -  | -   | -                         |
| Other provisions              | 68,128                  | (60,368)                                     | 486                                      | -  | (8,246)   | -                         |
| Consolidation<br>adjustment   | (106,072)               | 106,072                                      | -  | -  | -   | -                         |
| Currency translation          | (1,176)                 | 841  | 335                                      | -  | -   | -                         |
| <b>Net deferred tax asset</b> | <b>11,424</b>           | <b>-</b>                                     | <b>2,705</b>                             | <b>-</b>                                 | <b>(14,129)</b>   | <b>-</b>                  |



## Notes (continued)

### 35. Deferred tax (Continued)

Year ended 31 December 2009

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

### b) Deferred tax liability

|   | <b>Group</b>     |                 |
|---|------------------|-----------------|
|   | <b>2010</b>      | <b>2009</b>     |
|   | <b>Shs'000</b>   | <b>Shs'000</b>  |
| At start of year  | (48,743)         | (56,721)        |
| Charge to income statement                              | (53,985)         | (7,624)         |
| Charge to other comprehensive income                    | (178,219)        | (88,503)        |
| Consolidation adjustment                                | 399              | 104,105         |
| Transfer to liabilities held for distribution (note 42) | 80,105           | -               |
| <b>At end of year</b>                                   | <b>(200,443)</b> | <b>(48,743)</b> |

| <b>Year ended 31<br/>December 2010</b>         | <b>Consolida-<br/>-tion<br/>adjustment</b> | <b>Credit/<br/>(charge) to<br/>P/L</b> | <b>Credit/<br/>(charge) to<br/>OCI</b> | <b>Related<br/>liabilities held<br/>for distribution<br/>(note 42)</b> | <b>31 Dec</b>    |
|--|--|--|--|--|------------------|
| <b>Shs'000</b>                                 | <b>Shs'000</b>                             | <b>Shs'000</b>                         | <b>Shs'000</b>                         |  | <b>Shs'000</b>   |
| <b>Arising from:</b>                           |  |  |  |  |                  |
| Property and equipment                         | (67,296)                                   | 31,210                                 | (167,598)                              | -  | (236,228)        |
| Unrealised gain on bonds                       | (54,602)                                   | 50,983                                 | (17,576)                               | (178,219)  | (199,414)        |
| Portfolio impairment                           | 25,902                                     | 7,619                                  | 31,756                                 | -  | 65,277           |
| Property and equipment<br>reevaluation surplus | (13,716)                                   | (25,857)                               | (8,788)                                | -  | (36,779)         |
| Investment property fair<br>value gains        | (77,270)                                   | (20,896)                               | (4,333)                                | -  | -                |
| Other provisions                               | 32,167                                     | 63,412                                 | 112,554                                | -  | 206,701          |
| Consolidation<br>adjustment                    | 106,072                                    | (106,072)                              | -                                      | -  | -                |
| <b>Net deferred tax<br/>liability</b>          | <b>(48,743)</b>                            | <b>399</b>                             | <b>(53,985)</b>                        | <b>(178,219)</b>   | <b>(200,443)</b> |



## Notes (continued)

### 35. Deferred tax (Continued)

Year ended 31 December 2009

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

### 36. Notes to the cashflow statement

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

|  | Group            |                  |
|--|------------------|------------------|
|  | 2010<br>Shs'000  | 2009<br>Shs'000  |
| Profit before taxation                                       | 2,630,825        | 709,301          |
| Depreciation (Note 25(a))                                    | 282,934          | 323,876          |
| Amortisation of intangible asset (Note 28)                   | 346,780          | 291,216          |
| Write off and net reclassification of property and equipment | 182              | 22,025           |
| Amortisation of operating lease prepayments (Note 27(a))     | 126              | 2,876            |
| Profit on sale of equipment                                  | (275)            | (3,019)          |
| Profit on sale of investment property                        | -                | (3,000)          |
| Fair value adjustment for investment property                | (60,606)         | (78,000)         |
| Currency translation differences                             | -                | (1,347)          |
| Fair value adjustment for derivative assets                  | (45,736)         | -                |
| Share of results of associates                               | (99,808)         | -                |
| Share based payment reserve                                  | 18,906           | -                |
|  | <b>3,073,328</b> | <b>1,263,928</b> |

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

|   | 2,010<br>Shs'000 | 2,009<br>Shs'000  |
|---|------------------|-------------------|
| Cash, bank balances and balances with Central Bank of Kenya | 4,150,030        | 1,855,374         |
| Treasury bills and bonds                                    | 2,143,300        | 4,210,532         |
| Deposits and balances due from banking institutions         | 16,580,268       | 25,081,964        |
| Deposits and balances due to banking institutions           | (14,269,483)     | (21,059,626)      |
|   | <b>8,604,115</b> | <b>10,088,244</b> |

For the purposes of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.



## Notes (continued)

### 37. Fair value of financial instruments

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

Level 1 quoted prices in active markets for identical assets or liabilities.

Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

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

| 31 December 2010        |      | Level 1            | Level 2            | Level 3            | Group Total       |
|-------------------------|------|--------------------|--------------------|--------------------|-------------------|
|                         | Note | Shs'000            | Shs'000            | Shs'000            | Shs'000           |
| <b>Assets</b>           |      |                    |                    |                    |                   |
| Financial investments   | 21   | 13,157             | 18,965,053         | -                  | 18,978,210        |
| Pledged assets          | 20   | -                  | 2,940,007          | -                  | 2,940,007         |
|                         |      | <b>13,157</b>      | <b>21,905,060</b>  | -                  | <b>21,918,217</b> |
| <b>Comprising</b>       |      |                    |                    |                    |                   |
| Held for Trading        | 21   | 13,157             | 4,536,301          | -                  | 4,549,458         |
| Available-for-sale      | 21   | -                  | 17,368,759         | -                  | 17,368,759        |
|                         |      | <b>13,157</b>      | <b>21,905,060</b>  | -                  | <b>21,918,217</b> |
| <b>Assets</b>           |      |                    |                    |                    |                   |
| Derivative assets       | 31   | -                  | (29,508)           | -                  | (29,508)          |
|                         |      | -                  | <b>(29,508)</b>    | -                  | <b>(29,508)</b>   |
| <b>Comprising</b>       |      |                    |                    |                    |                   |
| Held for trading        | 31   | -                  | (29,508)           | -                  | (29,508)          |
|                         |      | -                  | <b>(29,508)</b>    | -                  | <b>(29,508)</b>   |
| <b>31 December 2009</b> |      |                    |                    |                    |                   |
|                         | Note | Level 1<br>Shs'000 | Level 2<br>Shs'000 | Level 3<br>Shs'000 | Total<br>Shs'000  |
| <b>Assets</b>           |      |                    |                    |                    |                   |
| Financial investments   | 21   | 2,913,826          | 20,616,340         | 100,531            | 23,630,697        |
| Pledged assets          | 20   | -                  | 3,351,812          | -                  | 3,351,812         |
|                         |      | <b>2,913,826</b>   | <b>23,968,152</b>  | <b>100,531</b>     | <b>26,982,509</b> |
| <b>Comprising</b>       |      |                    |                    |                    |                   |
| Held for Trading        | 21   | 60,432             | 7,602,585          | -                  | 7,663,017         |
| Available-for-sale      | 21   | 2,853,394          | 16,365,567         | 100,531            | 19,319,492        |
|                         |      | <b>2,913,826</b>   | <b>23,968,152</b>  | <b>100,531</b>     | <b>26,982,509</b> |
| <b>Liabilities</b>      |      |                    |                    |                    |                   |
| Derivative liabilities  | 31   | -                  | 16,228             | -                  | 16,228            |
|                         |      | -                  | 16,228             | -                  | 16,228            |
| <b>Comprising</b>       |      |                    |                    |                    |                   |
| Held for trading        | 31   | -                  | 16,228             | -                  | 16,228            |
|                         |      | -                  | <b>16,228</b>      | -                  | <b>16,228</b>     |



## Notes (continued)

### 38. Related party transactions

CfC Stanbic Holdings Limited is a subsidiary of Stanbic Africa Holdings Limited (SAHL), incorporated in the United Kingdom. The ultimate parent of SAHL is Standard Bank Group Limited, which is incorporated in South Africa. There are other companies which are related to CfC Stanbic Group through common shareholdings or common directorships. In the normal course of business, nostro and vostro accounts are operated and placing of both foreign and local currencies are made with the parent company and other Group companies at interest rate in line with the market. The relevant balances are as shown below:

| <b>Group</b>                             | <b>2010</b>     | <b>2009</b>     |
|--|-----------------|-----------------|
|  | <b>Shs' 000</b> | <b>Shs' 000</b> |
| Amounts due from the Standard Bank Group | 14,115,973      | 22,416,488      |
| Interest income earned on the above      | 249,988         | 251,011         |
| Amounts due to the Standard Bank Group   | 4,983,639       | 1,040,113       |
| Interest expenses incurred on the above  | 32,801          | 32,588          |

| <b>Company</b>                       | <b>2010</b>     | <b>2009</b>     |
|--------------------------------------|-----------------|-----------------|
|                                      | <b>Shs' 000</b> | <b>Shs' 000</b> |
| Amounts due from the group companies | 243,009         | 275,586         |
| Amounts due to group companies       | 178,496         | 324,432         |

### 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 2010 are as shown below;

| <b>Directors associated companies</b> | <b>2010</b>      | <b>2009</b>      |
|---------------------------------------|------------------|------------------|
|                                       | <b>Shs' 000</b>  | <b>Shs' 000</b>  |
| At 1 January                          | 1,068,922        | 651,237          |
| Net movement for the year             | 852,455          | 417,685          |
| <b>At 31 December</b>                 | <b>1,921,377</b> | <b>1,068,922</b> |

### Employees

|                           | <b>2010</b>      | <b>2009</b>      |
|---------------------------|------------------|------------------|
|                           | <b>Shs' 000</b>  | <b>Shs' 000</b>  |
| At 1 January              | 1,332,213        | 879,678          |
| Net movement for the year | 379,513          | 452,535          |
| <b>At 31 December</b>     | <b>1,711,726</b> | <b>1,332,213</b> |

There were no outstanding advances to directors (2009: Nil). These loans and advances are performing and adequately secured.

| <b>Deposits</b>           | <b>2010</b>      | <b>2009</b>      |
|---------------------------|------------------|------------------|
|                           | <b>Shs' 000</b>  | <b>Shs' 000</b>  |
| At 1 January              | 1,615,004        | 1,530,914        |
| Net movement for the year | 84,090           | 84,090           |
| <b>At 31 December</b>     | <b>1,699,094</b> | <b>1,615,004</b> |



## Notes (continued)

### 38. Related party transactions (continued)

#### Key management compensation

|  | 2010<br>Shs '000 | 2009<br>Shs '000 |
|--|------------------|------------------|
| Salaries and other short-term employment benefits                | 441,205          | 428,552          |
| <b>Directors' remuneration</b>                                   |                  |                  |
| Fees for services as directors                                   | 31,178           | 10,684           |
| Other emoluments (included in key management compensation above) | 155,831          | 28,320           |
|  | <b>187,009</b>   | <b>39,004</b>    |

Contingent liabilities at 31 December 2010 include contingencies on behalf of companies associated to the directors of Shs 561,343,000 (2009 - Shs 1,298,823,000).

The Group incurred the following related party expenses;

|                        | 2010<br>Shs '000 | 2009<br>Shs '000 |
|------------------------|------------------|------------------|
| Management fees        | 331,937          | 225,213          |
| Information technology | 396,398          | 204,963          |
| Other operating costs  | 50,997           | 94,683           |
|                        | <b>779,332</b>   | <b>524,859</b>   |

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

### 39. Retirement benefit liability

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

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

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

The consulting actuaries carried out an actuarial review of the Scheme as at 31 December 2010 and that valuation revealed the following financial position.



## Notes (continued)

### 39. Retirement benefit liability (continued)

|  | 2010<br>Shs'000  | 2009<br>Shs'000  |
|--|------------------|------------------|
| Present value of funded obligations                  | 103,738          | 105,675          |
| Fair value of plan assets                            | <b>(113,271)</b> | <b>(107,211)</b> |
| Present value of unfunded obligations/(over funding) | (9,533)          | (1,536)          |
| Unrecognised actuarial gains/ (losses)               | 9,533            | 1,536            |
| <b>Liability or asset in the balance sheet</b>       | <b>-</b>         | <b>-</b>         |

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

|                       | 2010<br>Shs'000 | 2009<br>Shs'000 |
|-----------------------|-----------------|-----------------|
| At start of year      | 105,675         | 105,633         |
| Current service cost  | 1,761           | 629             |
| Interest cost         | 9,924           | 10,031          |
| Actuarial losses      | 1,000           | 3,019           |
| Benefits paid         | (14,622)        | (13,637)        |
| <b>At end of year</b> | <b>103,738</b>  | <b>105,675</b>  |

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

|                                  | 2010<br>Shs'000 | 2009<br>Shs'000 |
|----------------------------------|-----------------|-----------------|
| At start of year                 | 107,211         | 103,401         |
| Expected return on scheme assets | 9,990           | 9,808           |
| Actuarial gains/ (losses)        | 10,692          | 7,639           |
| Benefits and expenses paid       | (14,622)        | (13,637)        |
| <b>At end of year</b>            | <b>113,271</b>  | <b>107,211</b>  |

#### Plan assets comprise:

|                    | 2010<br>Shs'000 | %           | 2009<br>Shs'000 | %           |
|--------------------|-----------------|-------------|-----------------|-------------|
| Equity instruments | 22,911          | 20%         | 17,348          | 16%         |
| Debt instruments   | 50,989          | 45%         | 53,646          | 50%         |
| Property and other | 39,371          | 35%         | 36,217          | 34%         |
|                    | <b>113,271</b>  | <b>100%</b> | <b>107,211</b>  | <b>100%</b> |

#### The principal actuarial assumptions used in 2010 were as follows:

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

#### Five year summary

|   | 2010<br>Kshs'000 | 2009<br>Kshs'000 | 2008<br>Kshs'000 | 2007<br>Kshs'000 | 2006<br>Kshs'000 |
|---|------------------|------------------|------------------|------------------|------------------|
| Present value of defined benefit obligation | 103,738          | 105,675          | 105,633          | 108,025          | 119,252          |
| Fair value of plan assets                   | (113,271)        | (107,211)        | ( 103,401)       | (114,452)        | ( 127,974)       |
| <b>(Surplus)/(deficit in plan)</b>          | <b>(9,533)</b>   | <b>(1,536)</b>   | <b>2,232</b>     | <b>(6,427)</b>   | <b>(8,722)</b>   |



## Notes (continued)

### 40. Contingent liabilities

|                                     | 2010<br>Shs '000  | Group<br>2009<br>Shs '000 |
|-------------------------------------|-------------------|---------------------------|
| <b>Commitments with respect to:</b> |                   |                           |
| Guarantees and performance bonds    | 4,882,015         | 4,005,942                 |
| Acceptances and letters of credit   | 7,172,119         | 6,641,888                 |
| Others                              | 61,321,409        | 1,036,791                 |
|                                     | <b>73,375,543</b> | <b>11,684,621</b>         |

#### Nature of contingent liabilities

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

Guarantees are generally written by a Group to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event of customers' default.

An acceptance is an undertaking by the Group to pay a bill of exchange drawn on a customer. The Group expects most of the acceptances to be presented, and to be reimbursed by the customer almost immediately.

### 41. Other reserves

|                              | 2010<br>Shs '000 | Group<br>2009<br>Shs '000 |
|------------------------------|------------------|---------------------------|
| Statutory reserve            | 246,329          | 358,706                   |
| Fair value reserve           | 1,534,664        | 393,751                   |
| Currency translation reserve | (32,348)         | (28,911)                  |
| Capital reserves             | 288,173          | 273,371                   |
| Share based payment reserve  | 32,394           | 13,488                    |
| Revaluation reserve          | 132,461          | 301,732                   |
| <b>At end of year</b>        | <b>2,201,673</b> | <b>1,312,137</b>          |

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

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

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

The statutory reserve represents:

- the surpluses from the life fund whose distribution is subject to restrictions imposed by the Kenya Insurance Act ; and
- regulatory reserve which is an appropriation from retained earnings to comply with the Central Bank of Kenya's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognised in accordance with the Company's accounting policy. The reserve is not distributable.



## Notes (continued)

### 41. Other reserves (continued)

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 2010, the total amount included in share based payment reserve for Group Share Incentive Scheme was Shs 31,172,000 (2009 - Shs 12,266,041) and for Equity Growth Scheme was Shs 1,221,659 (2009 - Shs 1,221,659).

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

### 42. Restructuring and Demerger

CfC Stanbic Holdings Limited is in the process of streamlining its group corporate structure. CfC Life Assurance limited, Heritage Insurance Company Limited and their subsidiaries have already been constituted as wholly owned subsidiaries of CfC Insurance Holdings Limited (formerly CfC Holdings Limited).

CfC Insurance Holdings Limited will be separately listed on the Nairobi Stock Exchange in the course of 2011.

The remaining steps in the transaction which will now take place are:

- CfC Stanbic Holdings (CSH) distributing its shareholding in CfC Insurance Holdings Limited (CfCIH) to its shareholders by declaring a dividend in specie at the ratio of one share in CfCIH received for each CSH share held.
- Liberty Holdings Limited acquiring, following the distribution of CSH's shareholding in CfCIH in specie, via a renunciation from Stanbic Africa Holdings Limited (SAHL), the right to receive all the shares that SAHL would be entitled to receive in CfCIH pursuant to the dividend in specie. As a result Liberty Holdings Limited will acquire a controlling stake in CfCIH; and
- CfCIH being listed on the Nairobi Stock Exchange by way of introduction.



## Notes (continued)

### 42. Restructuring and Demerger (Continued)

Assets and related liabilities for entities that will eventually have CfCIH as the holding company have been classified as “Assets classified as held for distribution” and “Liabilities directly associated with assets classified as held for distribution”

A breakdown of these assets and liabilities is shown below;

Assets and related liabilities held for distribution

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



# Shareholding

## Shareholding

The ten largest shareholdings in the company and the respective number of shares held as at 31 December 2010 are as follows:

| <b>Name</b>                                   | <b>Number of shares held</b> | <b>shareholding (%)</b> |
|---|------------------------------|-------------------------|
| 1. Stanbic Africa Holdings Ltd. (UK)          | 113,341,663                  | 41.41%                  |
| 2. Stanbic Nominees (K) Ltd A/C NR 00901      | 50,868,863                   | 18.59%                  |
| 3. African Liason and Consultant Services Ltd | 43,063,683                   | 15.73%                  |
| 4. Sovereign Trust Ltd                        | 18,160,554                   | 6.64%                   |
| 5. Feneast Nominees Ltd                       | 7,000,000                    | 2.56%                   |
| 6. Archer and Wilcock Nominees Ltd            | 6,125,000                    | 2.24%                   |
| 7. Kingsway Nominees Ltd                      | 5,198,498                    | 1.90%                   |
| 8. The Government of Kenya                    | 4,342,548                    | 1.59%                   |
| 9. Beechwood Overseas Ltd                     | 3,749,801                    | 1.37%                   |
| 10. Jani, Uday Prahlad                        | 3,500,000                    | 1.28%                   |

The distribution of shareholders is as follows:

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



# Proxy Form

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

## PROXY FORM

I/We,.....,

of P O Box .....

being a member of CfC STANBIC HOLDINGS LIMITED hereby appoint.....

of .....

or failing him .....

of .....

as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on 25 May 2011 and at any adjournment thereof.

Dated this .....day of ..... 2011

Signed .....

Name .....

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



This image shows a sheet of white lined paper with a blue header and footer. The paper is ruled with horizontal lines, and there are 20 lines in total. The lines are evenly spaced and extend across the width of the page. The blue header and footer are solid and cover the top and bottom edges of the page, respectively. The paper is otherwise blank, with no text or markings.



