



# CfC Stanbic Holdings Limited

Annual report 2013



**CfC Stanbic**

A member of Standard Bank Group

Congratulations Kenya



# CELEBRATING OUR GOLDEN JUBILEE

It's been a fruitful fifty years since independence, and Kenya stands tall and proud. We'd like to congratulate our fellow Kenyans on the progress we've made. Let's all keep moving forward together.



CFC  
Stanbic  
Bank

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Standard Bank Group

Moving Forward™

CFC Stanbic Bank is licensed and regulated by the Central Bank of Kenya.

## Our reports

**AR** This report is the CFC Stanbic Holdings Limited (the Group) full annual report, produced to cater for the needs of our diverse stakeholders.

The financial results and commentary describe the results of CFC Stanbic Holdings Limited (the Group) which is a member of Standard Bank Group and is incorporated in Kenya.

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# THE BEST PARTNERS NEVER LOSE SIGHT OF WHERE YOU'RE GOING

- ★ Best Investment Bank in Africa for 2013
- ★ **Best Local Investment Bank in Kenya**
- ★ Best Investment Bank in Tanzania
- ★ Best Investment Bank in Uganda

Born in a continent of discovery, finding a way has always been pivotal to our business. This is why we constantly adapt and refine our capabilities in line with our clients' evolving needs in East Africa's expanding economies. This adaptability has been recognized in four best bank categories in the EMEA Finance Awards. A humbling honour, but one that is owed to the vision of our clients and the fortitude of our teams who keep moving forward .

They call it Africa. We call it home.

[www.cfcstanbicbank.co.ke](http://www.cfcstanbicbank.co.ke)

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## **Our business**

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# Our vision and values

“Our success and growth over the long term is built on making a difference in the communities in which we operate. We are committed to moving Kenya forward.”

1

## Upholding the highest levels of integrity

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

2

## Serving our customers

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

3

## Delivering to our shareholders

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

4

## Guarding against arrogance

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

5

## Growing our people

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

6

## Respecting each other

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

7

## Being proactive

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

8

## Working in teams

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

# Business structure

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

The Group owns 100% of CFC Stanbic Bank Limited and 100% of SBG Securities Limited (formerly CFC Stanbic Financial Services Limited).

CFC Stanbic Bank Limited owns 100% of CFC Stanbic Nominees Limited.

## Our business structure, products and services

### Personal & Business Banking (PBB)

provides banking and other financial services to individual customers and small- to medium-sized enterprises.

#### Mortgage lending

- Residential accommodation loans to mainly personal markets customers

#### Instalment sale and finance leases

- Finance of vehicles for personal market customers
- Finance of vehicles and equipment in the business market

#### Card products

- Credit card facilities to individuals and businesses (credit card issuing)

#### Lending products

- Lending products offered to both personal and business markets

#### Transactional products

- Comprehensive suit of transactional, savings and investment products, including deposit taking activities, electronic banking and debit card facilities

### Corporate & Investment Banking (CIB)

provides corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties.

#### Global markets

- Fixed income and currencies
- Commodities
- Equities

#### Transactional products and services

- Transactional banking
- Investor services
- Trade finance

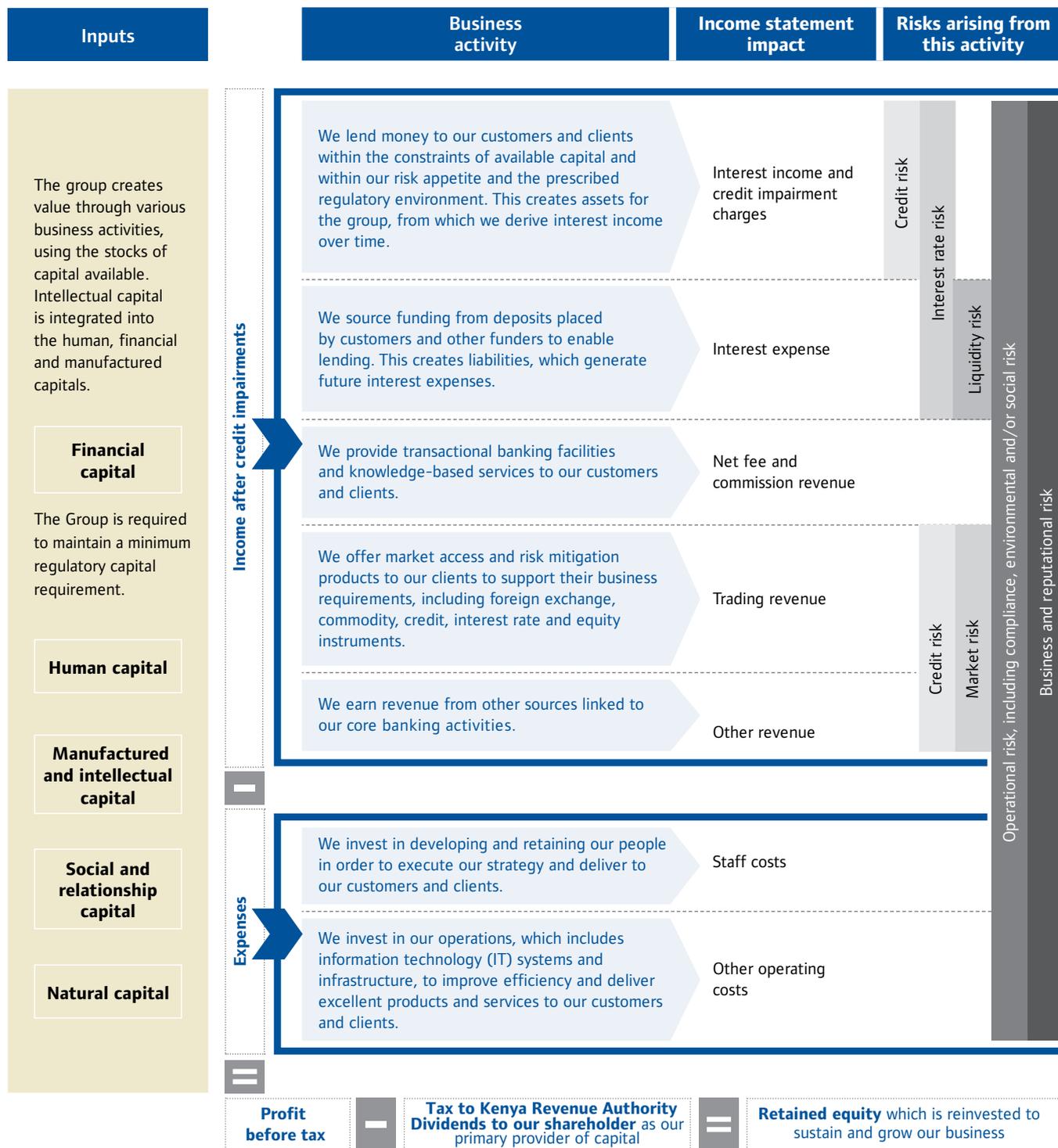
#### Investment banking

- Advisory
- Debt products
- Structured finance
- Structured trade and commodity finance
- Debt capital markets
- Equity capital markets

#### Real estate

- Real estate finance
- Investment in real estate

# How we create value



# Key performance indicators

## ➤ 2013 Financial highlights



Profit after tax

**KShs 5.1 billion** ↑

Up 70%

Net interest income

**KShs 7.5 billion** ↑

Up 15%

Non-interest revenue

**KShs 8.7 billion** ↑

Up 15%

Operating expenses

**KShs 8.2 billion** ↓

Down 7%

Customer loans

**KShs 69.1 billion** ↑

Up 5%

Customer deposits

**KShs 95.0 billion** ↑

Up 27%

Cost to income ratio

**50.7%** ↓

(2012: 62.9%)

Return on average equity

**17.19%** ↑

(2012: 12.73%)

## Five year summary

### Statement of financial position

	2013 KShs '000	2012 KShs '000	2011 KShs '000	2010 KShs '000	2009 KShs '000
<b>Assets</b>					
Cash and balances with Central Bank	9,466,550	23,366,583	7,104,647	5,444,892	4,606,140
Government and other securities	48,545,435	24,089,272	19,085,369	21,968,709	29,727,224
Derivative assets	3,003,522	1,931,831	6,377,410	29,508	-
Loans and advances to banks	34,714,199	12,333,987	30,627,842	16,239,669	25,081,964
Loans and advances to customers	69,133,492	66,149,841	64,256,754	58,984,961	45,840,448
Other assets and prepayments	2,352,592	1,950,825	8,853,175	1,475,623	5,961,542
Current income tax	-	158,846	158,846	158,846	166,882
Deferred income tax	949,013	478,395	616,128	-	11,424
Intangible assets - goodwill	9,349,759	9,349,759	9,349,759	10,434,405	10,434,405
Interest in associated companies	-	-	-	100,111	337,675
Other intangible assets	759,289	1,034,430	1,373,214	1,726,053	2,074,927
Property and equipment	2,175,185	2,302,671	2,299,202	1,911,102	2,962,665
Prepaid operating lease rentals	62,761	65,715	68,669	71,622	73,654
Investment properties	-	-	-	-	412,000
Assets classified as held for distribution	-	-	-	21,534,701	-
<b>Total assets</b>	<b>180,511,797</b>	<b>143,212,155</b>	<b>150,171,015</b>	<b>140,080,202</b>	<b>127,690,950</b>
<b>Equity and liabilities</b>					
<b>Equity</b>	<b>32,425,791</b>	<b>27,240,888</b>	<b>19,329,127</b>	<b>24,768,615</b>	<b>20,341,602</b>
<b>Liabilities</b>					
Deposits from banks	35,258,860	25,556,484	33,674,186	14,269,483	21,059,626
Deposits from customers	95,027,125	74,906,763	74,007,134	71,425,115	61,474,379
Current income tax	231,689	377,033	587,723	246,827	-
Other liabilities and accrued expenses	8,683,721	5,963,608	8,408,629	3,118,581	19,493,754
Derivative liabilities	2,777,183	2,469,648	6,429,260	-	16,228
Trading liabilities	259,676	-	648,671	729,153	-
Borrowings	5,847,752	6,697,731	7,086,285	7,066,362	5,256,618
Deferred income tax	-	-	-	200,443	48,743
Liabilities directly associated with assets classified as held for distribution	-	-	-	18,255,623	-
<b>Total equity and liabilities</b>	<b>180,511,797</b>	<b>143,212,155</b>	<b>150,171,015</b>	<b>140,080,202</b>	<b>127,690,950</b>

## Five year summary

### Statement of profit or loss

	2013 KShs '000	2012 KShs '000	2011 KShs '000	2010 KShs '000	2009 KShs '000
<b>Continuing operations</b>					
Interest income	10,336,492	11,653,458	8,603,450	6,079,464	6,162,060
Interest expense	(2,794,378)	(5,110,671)	(2,561,426)	(1,922,806)	(2,341,192)
Credit impairment charges	(766,601)	(635,429)	(652,853)	(521,441)	(599,149)
Non-interest revenue	8,660,968	7,549,557	4,756,855	4,640,493	2,699,343
Operating expenses	(8,212,476)	(8,868,827)	(7,390,363)	(6,313,759)	(4,837,041)
Profit in associates	-	-	43,238	44,016	21,635
<b>Profit before income tax</b>	<b>7,224,005</b>	<b>4,588,088</b>	<b>2,798,901</b>	<b>2,005,967</b>	<b>1,105,656</b>
Income tax expense	(2,096,849)	(1,578,197)	(1,159,744)	(598,324)	(479,106)
<b>Profit for the year from continuing operations</b>	<b>5,127,156</b>	<b>3,009,891</b>	<b>1,639,157</b>	<b>1,407,643</b>	<b>626,550</b>
<b>Discontinued operations</b>					
Profit/(loss) for the year from discontinued operations	-	-	199,835	379,725	(590,622)
<b>Profit for the year</b>	<b>5,127,156</b>	<b>3,009,891</b>	<b>1,838,992</b>	<b>1,787,368</b>	<b>35,928</b>
<b>Selected metrics</b>					
Return on average equity %	17.19%	12.73%	8.34%	7.92%	0.18%
Earnings per share	12.97	9.90	6.72	6.53	0.13
Dividend per share	0.63	0.73	-	1.06	-
Net asset value per share	82.02	68.91	70.63	90.50	74.33
Closing share price	87.00	42.00	40.00	75.50	45.00

## Awards

### Think Business Banking awards

- Best Bank in Customer Satisfaction - Winner
- Best Bank in Kenya Tier 2 - Runner-up
- Best Bank in Vehicle and Asset Finance - Runner-up
- Best Bank in Product Marketing - Runner-up

### EMEA Finance Magazine Awards

- Best Investment Bank in Kenya

### Africa Banking Industry Customer survey by KPMG

- Most customer-focused bank - Winner
- Best in Transaction Methods and Systems - Winner
- Most Convenient Bank - Runner-up

### Capital Markets Awards

- Stock Broker of the Year – Winner - SBG Securities
- IPO of the Year – Umeme Ltd IPO - Stanbic Bank (Transaction Advisor)
- Bonds Dealer of the Year – 1st Runner-up SBG Securities
- Best Lead Transaction Advisor – 1st Runner-up CFC Stanbic Bank
- Bond Issuer of the Year – 1st Runner-up CFC Stanbic Bank
- Investment Bank of the Year – 2nd Runner-up CFC Stanbic Bank

# OUR PASSION FOR INNOVATION HAS IMPROVED THE AGRICULTURAL SECTOR

We understand the agricultural industry and strive to improve the lives of our farmers. That's why we collaborated with the East Africa Tea Board to create an electronic system which automated Kenya's tea auction. This directly provided payments to farmers, improving efficiency and enabling them to provide for their families. That's what we do best.

**They call it Africa. We call it home.**

[www.cfcstanbicbank.co.ke](http://www.cfcstanbicbank.co.ke)

**Let's partner with you and  
move our economy forward.  
Call (+254) 20 363 81 68**

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## Our performance

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  - The East African Tea Sales Electronic Billboard

## Chairman's statement

"We remain committed to our strategy as we are convinced that we have to put the customer at the centre of everything we do in order to continue to increase shareholder value."

**Fred N Ojiambo, MBS, SC**



The Group's profit after tax increased by 70% as a result of business growth within Kenya and South Sudan, improved margin management and a focus on cost discipline.

I am pleased to present to you the annual report and financial statements of the Group for the year ended 31 December 2013.

2013 marked 50 years since Kenya attained independence and 102 years since the Standard Bank Group first started operations in Kenya. It is also 5 years since the merger between Stanbic Bank and CFC Bank.

The year started with business activities off to a slow pace as investors adopted a 'wait and see attitude' ahead of the general elections. Economic activity however picked up later in the year following peaceful elections. Several infrastructure and power generation projects commenced and promising oil and natural gas discoveries continued to be made.

The Group's profit after tax increased by 70% as a result of business growth within Kenya and South Sudan, improved margin management and a focus on cost discipline.

### Operating environment

The rate of economic growth increased from 3.4% year on year achieved in 2012, to 5.1% year on year in the first quarter, then slowed down to 4.3% and 4.4% year on year in the second and third quarters respectively.

Inflationary pressures remained moderate and the Central Bank of

Kenya (CBK) gradually loosened its Monetary Policy stance which in turn enabled banks to reduce the cost of borrowing.

The currency was largely stable for most of the year with the CBK being quite resolute in mopping up excess liquidity. Liquidity conditions were volatile primarily due to the implementation of devolution which slowed down Government spending.

The current account deficit reduced below double digits. Sufficient financial inflows on the capital account mostly offset the deficit on the current account and aided the strengthening of the Kenya shilling against all the major currencies.

### Regulatory environment

An important regulatory development in the year was the introduction of the Consumer Protection Act. This legislation regulates the manner in which we treat customers and the work necessary for the implementation of the Act within the Group is still on-going, including training of staff.

### Summary of Group performance

This year's improved results were driven by:

- Improved margins which were mainly driven by improved liability mix and more specifically by the proportion of current accounts to total customer deposits.
- Cost discipline

Our business	<b>Our performance</b>	Ensuring our sustainability	Corporate information	Annual financial statements	Shareholder information
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- Strong full year South Sudan performance
- Improved performance within SBG Securities Limited.

A summary of the Group's performance for the year is as below:

- Profit after tax (PAT) rose by 70% to KShs 5,127 million (2012: KShs 3,010 million).
- Net interest income rose by 15% to KShs 7,542 million (2012: KShs 6,543 million) as a result of improvement in margins earned.
- Non-interest revenue rose by 15% to KShs 8,661 million (2012: KShs 7,550 million).
- Total operating expenses declined by 7% to KShs 8,212 million (2012: KShs 8,869 million) as a result of cost management initiatives undertaken in the Group.
- Customer loans and advances grew by 5% to KShs 69 billion (2012: KShs 66 billion) while customer deposits grew by 27% to KShs 95 billion (2012: KShs 75 billion).
- SBG Securities Limited profit after tax had a greater than 100% year on year growth mainly due to an 80% increase in Nairobi Securities Exchange (NSE) turnover and the increase in SBG Securities' market share by 2 percentage points.

## Strategy

We are focused on increasing shareholder value, and the following metrics are monitored closely:

- **Cost efficiency** – Our cost to income ratio is currently at 51% (2012 - 63%) including the results of investing in the South Sudan branch.
- **Return on Equity (ROE)** – The Group's average ROE stood at 25% (excluding goodwill) (2012 - 21%).
- **Non-Interest Revenue (NIR)** as a proportion of total income – The ratio stood at 53% (2012 - 54%).
- **Improved customer liabilities funding mix** - Current accounts have grown by 45% and now form 70% of our total deposits compared to 61% in 2012.
- **Personal and Business Banking (PBB) business' contribution to profit after tax and balance sheet** – PBB revenues account for 26% of total Group's revenues and its share of balance sheet is 20%.

## Operations in South Sudan

The South Sudan branch had a successful year accounting for 15% of this year's profit. Its results vindicate our faith and commitment to Africa's newest country.

That said, it is disappointing to note that the country suffered unrest towards the end of December 2013. We remain optimistic that negotiations to end the crisis which are currently on-going will achieve lasting peace.

During the Annual General Meeting scheduled for 3rd of June 2014, the Board of Directors will seek ratification from the shareholders for

the incorporation of a subsidiary company in South Sudan which will be wholly owned by Cfc Stanbic Bank and further, the Board will seek shareholder approval for the transfer of the assets and business of the South Sudan Branch into the new subsidiary. This transaction is subject to all regulatory approvals being provided in Kenya, South Sudan and South Africa.

## Corporate governance

The Group continues to embrace and implement global best practice in the governance and management of the business.

As a result, we are confident that the business is managed prudently and is in compliance with all its regulatory obligations.

A corporate governance report is included on pages 32 to 33.

## Directorate

In January 2013, V E Williams (an Executive Director) retired and was replaced by M A Blades who was appointed in August 2013.

P N Gethi was appointed as a Non-Executive Director in February 2013.

The changes to the Board of Directors and a list of directors who served during the year are highlighted in the corporate governance report on pages 32 to 33 and the report of directors on page 34.

## Outlook for 2014

It is estimated that the Kenyan economy will grow by 5% in the coming year. The growth will be supported by a relatively stable economy and single digit inflation.

Whilst risks and uncertainty remain, we believe we are well positioned for another good year in 2014.

## Appreciation

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

I thank our customers for their steadfast support and patronage. We shall endeavour to continuously put the customer first in respect to service and value so as to fulfil their financial needs in line with our brand promise.

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



**Fred Ojiambo, MBS, SC**  
28 February 2014

# Economic review

## US fiscal policy a source of flux for global markets

2013 began in a challenging fashion for the global economy. Deadlocked budget negotiations in the United States left the possibility of significant spending cuts, the threat of government shutdown and the possibility of the government defaulting on its debt later in the year.

Most developed economies continued to record tepid economic growth at the beginning of the year, with developing economies providing a much stronger support to global growth. In the past couple of years, central banks have been adopting innovative tools of monetary policy to shore up financial markets such as quantitative easing (QE) used by the US Federal Reserve, buying US government bonds and mortgage-backed securities.

When QE began back in 2008 its aim was to stimulate the US economy. QE would bring long term yields lower and as a result reduce borrowing costs, in the hope that growth would pick up to near the pre-crisis trend and inflation would move towards the Federal Reserve's target of 2%.

Hence when in May 2013 the Federal Open Market Committee (FOMC) announced its plans to reduce these asset purchases, the announcement roiled financial markets. Coming as it did when markets were still concerned about the impact of the deadlocked budget negotiations, particularly the possibility of a government default on its debt, the announcement increased risk aversion. Equity markets, particularly in emerging markets, fell sharply and the 10-year US treasury yield nearly doubled to about 3% in the space of a few weeks.

After that, FOMC members tried to reassure the markets that even after stopping the asset purchases, they would be unlikely to raise the policy rate soon. Indeed, Federal Reserve communication went as far as providing 6.5% as a benchmark below which the unemployment rate would have to fall before they start raising the Fed Funds rate.

After the budget deadlock was broken, following a 16 day partial shutdown of the government, markets began to focus on more upbeat economic data releases from the US. Of particular importance has been the growth of new jobs created in the US economy and the declining unemployment rate. The strong labour market data combined with evidence of somewhat robust growth in economic activity prompted the Fed to reduce the pace of its asset purchases by USD10bn at its meeting in December.

## Kenyan economy shows some resilience

2013 was an election year for Kenya, and there were some concerns around the event given the post-election violence that erupted in the last one held in 2007. In the end the general elections were concluded peacefully, even after the validity of the presidential results was contested at the Supreme Court that upheld the results.

Election anxiety appears not to have been the only cause for depressed economic activity. Security concerns, highlighted by the terrorist attacks at the Westgate Mall in September 2013, continue to depress tourist arrivals, in addition to waning demand from Europe due to continuing economic weakness there.

The change in government, involving the establishment of 47 new county administrations, is also proving to be a restraint on government spending. Capacity constraints at the county level have depressed overall government spending. Furthermore, some uncertainty has cropped up due to a raft of new levies and taxes that some of these county administrations have proposed, which may further decrease business confidence.

With the slow pick-up in economic activity it was inevitable that GDP would disappoint. The economy struggled to top 5.0% year on year in 2013. After a recording a healthy GDP growth of 5.1% year on year in

the first quarter, perhaps largely driven by pre-election spending, growth in the second and third quarters slowed down to 4.3% year on year and 4.4% year on year respectively. A slowdown in contribution from the agriculture sector was the main reason for this subsidence.

## Economic review

Inflation was on an upward trend for most of 2013, predominantly driven by higher food prices, which was exacerbated by the new VAT law that expanded the basket of applicable goods. After recording 3.2% year on year in December 2012 headline inflation rose to 8.3% year on year in September, before subsiding to 7.2% year on year in December.

Probably helped by good short rains towards the end of the year, food production seems to have bounced back up, reducing food inflation. Food inflation fell to 10.4% year on year in December from 12.6% year on year in September, having begun the year at 2.4% year on year in January.

The CBK last changed its benchmark rate in May 2013, a 100 bps cut to 8.5%. Perhaps recognising that food was the primary cause for the rising inflationary trend in 2013, the monetary policy committee (MPC) adjudged that rising inflation did not warrant a tightening of policy in the year as there were no demand-driven inflationary pressures inherent in the economy.

The USD/KES exchange rate continued to trade within a range of 83-88 for most part of the year with the CBK intervening during the year whenever the rate approached either boundary. With the Eurozone's slow recovery exports have been trending sideways. But imports have not picked up either, ensuring that demand for foreign exchange would remain modest, thus underpinning the stability of the exchange rate.

Market interest rates have been volatile over the year. With the unchanged policy stance since May, these fluctuations reflected oscillations in money market liquidity conditions. For the most part, these oscillations in liquidity conditions were driven by fiscal factors, the timing of government spending and tax collections.

## 2014 outlook

The consensus view that is slowly emerging is that the US Fed will progressively slow its asset purchases such that it ends them by year end. Naturally this view is predicated on a continuation of the employment gains that have been made thus far and an expectation that inflation will rise nearer the 2.0% target.

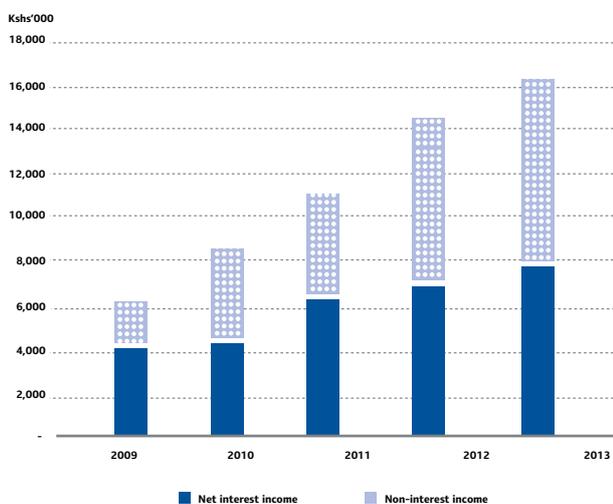
The Eurozone's recovery has been fragile, with inflation remaining low and credit growth subdued, a situation likely to persist in 2014. The European Central Bank (ECB) cut interest rates to a record low of 0.25% from 0.50%, even suggesting that QE remains an option to revive the Eurozone.

2014 will likely be characterised by a continuation of the relative stability of the economy and markets. Inflation will likely remain manageable, perhaps ranging between 6-7.5% for most of the year. Economic growth, while remaining subdued initially, will probably pick up to above a 5.0% year on year pace over the course of the year. As that pick-up occurs, there should be acceleration in import demand, leading to an upward bias for the USD/KES exchange rate.

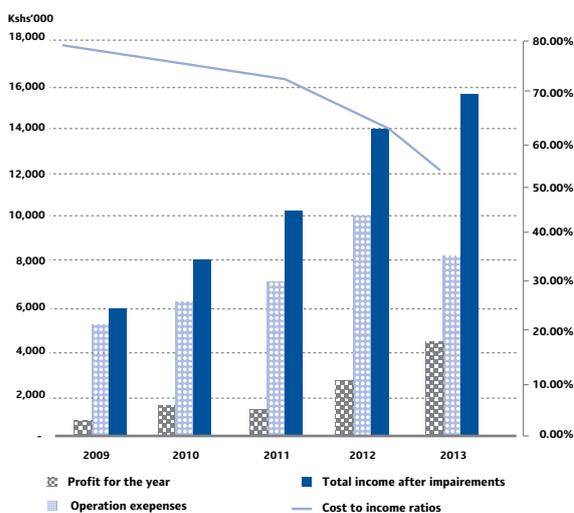
The combination of subdued economic growth and absence of inflationary pressures will likely lead to fairly stable interest rates over the course of the year. Certainly, we don't foresee a need for the CBK to tighten the policy stance.

# Financial review

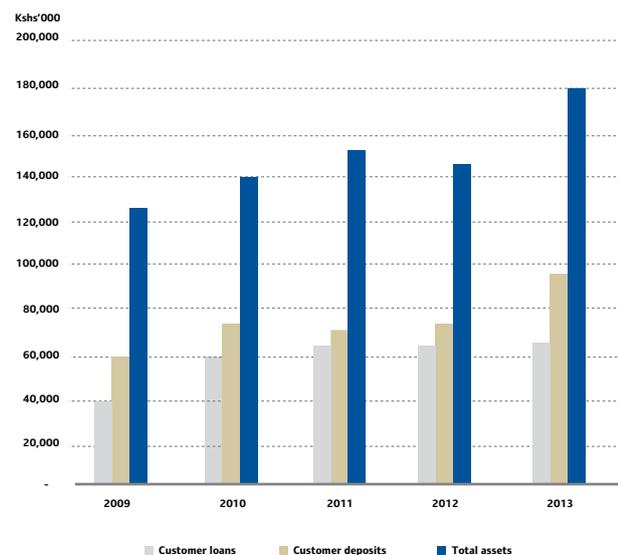
## Income growth trend



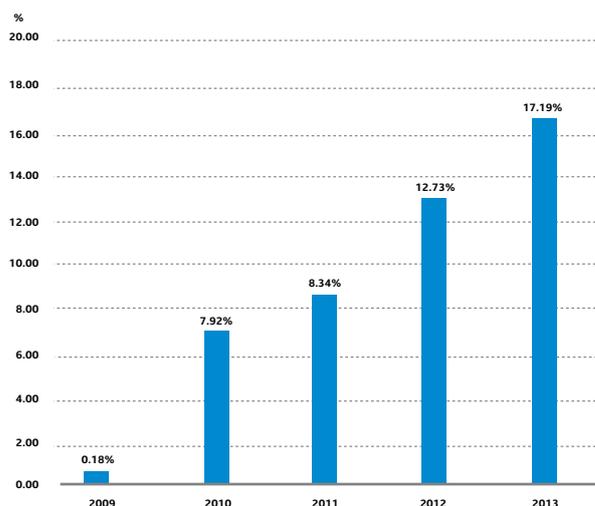
## Profitability trend



## Balance sheet growth



## Return on average equity



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

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

- Margin improvement driven by improved liability mix resulting in lower cost of funding.
- Cost management especially in Kenya which had lower costs in 2013 by 6.5%.
- Strong full year South Sudan results.
- Improved performance from SBG securities Ltd.

### Profitability

Profit after tax grew by 70% to KShs 5,127 million, an increase of KShs 2,117 million from the results of the year ended 31 December 2012. This resulted in an increase in earnings per share to KShs 12.97 from KShs 9.90 in 2012.

### Return on equity

The return on average equity net of goodwill increased to 25% in 2013 from 21% in 2012 and 17% (2012 13%) on an un-adjusted basis.

### Economic factors affecting the results

#### Inflation

The year-end inflation rate stood at 7.2% compared to 3.2% in 2012. The increase in the rate was driven by higher food prices and the amendment of the VAT law in September 2013 that expanded the basket of applicable goods.

#### Central Bank rate

The Central Bank Monetary Policy Committee has progressively decreased the CBR rate to 8.5% compared to 11% at the end of 2012.

### Interest rates

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

### Key financial highlights

Performance indicators	2013	2012
Total income growth	15%	32%
Credit impairment charges growth	(21%)	(3%)
Growth in profit before tax	57%	64%
Customer loans and advances growth	5%	3%
Customer deposits growth	27%	2%
Capital adequacy (tier 1 ratio)	18%	23%
Return on average equity (net of goodwill)	25%	23%
Earnings per share (KShs)	12.97	9.90

Net interest income and non-interest revenue increased by KShs 999 million and KShs 1,111 million respectively. In the current year, non-interest income accounted for 53% of total operating income as compared to 54% in 2012.

Operating costs declined by KShs 656 million, a 7.4% drop from the previous year.

The cost to income ratio reduced to 50.7% from 62.9% in 2012 following successes of cost management initiatives implemented in the last two years.

### Net interest income

	2013 KShs'000	2012 KShs'000	Change
Interest income	10,336,492	11,653,458	(11%)
Interest expense	(2,794,378)	(5,110,671)	45%
<b>Net interest income</b>	<b>7,542,114</b>	<b>6,542,787</b>	<b>15%</b>

The decline in net interest income was mainly driven by revision of the Group's base rate while decline in interest expense was mainly driven by a change in the funding mix.

### Net fees and commission income

Net fees and commission income increased from KShs 2,543 million in 2012 to KShs 2,881 million. This was mainly attributable to revenues earned from higher transactional banking revenues made in South Sudan and growth of the trade business.

### Trading revenue

Income from trading in foreign exchange and debt securities increased from KShs 4,974 million to KShs 5,659 million. This increase was mainly driven by increased trading volumes in South Sudan business and increased equity trading income.

### Impairment losses

	2013 KShs'000	2012 KShs'000
Impairment charge for non-performing loans	1,178,225	1,387,522
Impairment charge for performing loans	145,603	120,106
Recoveries during the period	(557,227)	(872,199)
<b>Net impairment charge on loans and advances</b>	<b>766,601</b>	<b>635,429</b>
Credit loss ratio	1.11%	0.96%
Coverage ratio	53.56%	71.68%

Increase in provisions is reflective of the growth of high risk retail book.

### Operating expenses

	2013 KShs'000	2012 KShs'000
Staff costs	4,030,095	3,543,387
Other operating expenses	4,182,381	5,325,440
<b>Total expenses</b>	<b>8,212,476</b>	<b>8,868,827</b>

Operating expenses for 2013 were lower than 2012 costs by KShs 1.1 billion mainly due to costs associated with implementation of strategic projects that did not recur as well as a number of cost saving initiatives which have paid off.

Employee compensation and related costs increased by KShs 487 million mainly due to full year South Sudan costs; in 2012 the branch was only in operation for eight months.

### Statement of financial position

During the year under review, the Group's total assets grew by 26% to KShs 181 billion as at close of 2013. The balance sheet growth has been driven by growth in customer deposits.

Customer loans grew by KShs 2,984 million to close the year at KShs 69,133 million, mainly within the PBB space. The Group revised its Kenya shilling base rate to 13.5%, the lowest in the market; reduction of the base rate increased lending especially in PBB.

Customer deposits increased by KShs 20,120 million to close the year at KShs 95,027 million. The Group has made deliberate efforts within the year to reduce reliance on wholesale funds in light of the capital injection made in 2012.

### Capital adequacy

At 31 December 2013, total capital ratio was 18.8% (2012: 25.5%) of risk-weighted assets, with core capital at 18.1% (2012: 20.5%). The capital adequacy ratios remain above the stipulated regulatory minimum of 14.5% and 10.5% respectively.

Part of the earnings for the year will be reinvested in the business to enable it to meet its growth ambitions.

# Business unit reviews

## CfC Stanbic Holdings Limited

### Corporate & Investment Banking (CIB)

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

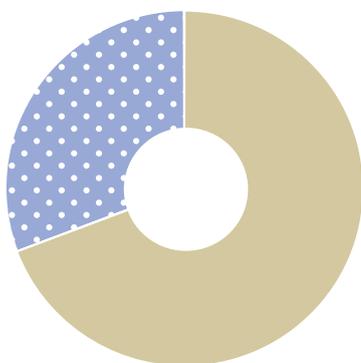
**Gross revenue**  
Kshs. 12,041m  
Up 18% from 2012

### Personal & Business Banking (PBB)

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

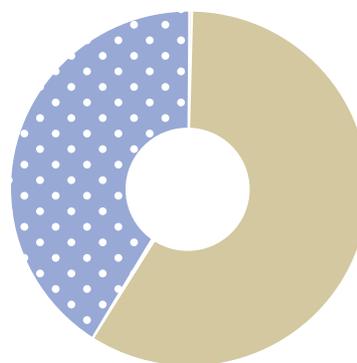
**Gross revenue**  
Kshs. 4,161m  
Up 7% from 2012

Customer Loans & Advances



PBB 35% CIB 65%

Customer Deposits



PBB 47% CIB 53%

## Case study

### PBB case study

Pan Africa Logistics Limited

Headquartered on the 7th Floor of TSS Towers in the Central Business District of the coastal city of Mombasa, Kenya, Pan Africa Logistics Ltd began its operations in 2004 and started off by offering overland long haulage transportation of containerised transit cargo from the port of Mombasa to various destinations in East Africa.

### Personal & Business Banking

PBB provides banking and other financial services to individual customers and small-to medium-sized enterprises in Kenya.

By 2009, Pan Africa Logistics Ltd had become a licensed Customs Agent evolving into an independent provider of fully integrated freight forwarding and logistics services. It currently clears and hauls 30,000 tons of mainly containerised processed cargo with annual revenues of KShs 400 million in 2013.

The company started off with a single self-financed truck and has ever since partnered with CfC Stanbic Bank to finance its multiple fleets of heavy commercial articulated trucks and service vehicles. Since the company's revenue streams are all in foreign exchange, the negotiated forward rates the bank offers have also managed to hedge these earnings from adverse foreign exchange fluctuations.

## CIB case studies

Kinangop Wind Power Park

The East African Tea Sales Electronic Billboard

### Kinangop Wind Power Park

Kenya, East Africa's largest economy, relies heavily on hydro-electric dams for power which can be a challenge in times of drought. The need for a clean and dependable source of power is therefore critical for continued economic growth.

We have signed a ground-breaking deal to build the USD 150 million Kinangop Wind Park power plant in Kenya. This will be the largest wind power generation farm in sub-Saharan Africa to date outside South Africa. The plant will be built on Kinangop Plateau in Central Kenya.

The transaction is a collaboration of players in various sectors combining their skills in order to meet Kenya's growing demand for electricity. We at CFC Stanbic Bank and the Standard Bank of South Africa are providing backing and expertise. We are the lead arrangers and have underwritten the full USD 90 million of debt, with the balance of the funding coming from international equity investors. CFC Stanbic Bank is also acting as transactional banker and interest rate hedging provider to the company.

Kinangop Wind Power Park will add a further 60 MW to Kenya's national grid, enough to provide electricity to 150,000 Kenyan households, and will not only contribute to the social and economic development in Kenya, but will also significantly help ease the energy supply deficit in the country.

## Corporate & Investment Banking

Corporate and investment banking services to clients, including governments, parastatals, larger corporates, financial institutions and international counterparties.

### The East African Tea Sales Electronic Billboard



The East African Tea Trade Association is a voluntary organisation bringing together tea producers, buyers (exporters), brokers, tea packers and warehouses, all working to promote the best interests of tea trade in Africa. Currently, membership comprises one hundred and eighty member companies extending across the East and Central African borders.

Tea is sold by brokers at a weekly auction in Mombasa, Kenya. Historically, all buyers would pay into the various brokers' accounts for the tea sold. The broker would then pay the respective producers 10 days after the auction in accordance with the East African Tea Trade Association (EATTA) rules.

However, EATTA sought to address some of the challenges the producers were facing with the current system, such as:

- Security of producer sales proceeds,
- Authentication of tea release instructions to warehouses,
- Query resolution capability, et cetera.

It is from these challenges that CFC Stanbic Bank built the Electronic Billboard and revolutionised the money inflow in the East African tea trading industry. Now, for all the tea bought, the buyers remit the money into a guaranteed central account held by CFC Stanbic Bank, which is then disbursed to the producers in two instalments at each auction. This has created efficiency and improved settlement time and control for producers therefore generating more economic value to all stakeholders in the tea industry.



## Ensuring our sustainability

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20 Risk management report

# Sustainability report

## Introduction

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

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

## Shareholders

Enhanced shareholder value is a key component of building a sustainable business. The business model for the Group is to drive higher sustainable revenue whilst embracing a strong risk management framework. We seek to achieve appropriate balance between risk and reward in our business, and continue to build and enhance the risk management capabilities that assist in delivering our growth plans in a controlled environment.

## Customers

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

## Employees

The Group recognises that human capital is critical towards achieving both short and long term objectives. The Group is committed to creating a compelling employee value proposition for long-term sustainability. This is dependent on meeting employees' expectations through fair employment policies, career development as well as wellness and lifestyle support. Staff development plans, training, leadership development programmes and employee wellness programmes are ingredients geared towards this objective. We see our opportunities in the following areas;

- Employing and developing graduates enables us to build a strong succession pipeline of future leaders;
- Rewarding employees fairly helps us attract and retain individuals who deliver results that enable us to achieve our strategy; and
- Building an inclusive and engaging culture leads to empowered, motivated and customer-focused employees

## Regulators

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

- Bank of South Sudan
- Nairobi Securities Exchange;
- Capital Markets Authority;
- The South African Reserve Bank; and
- Kenya Revenue Authority

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

## Procurement

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

## Community

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

Our sustainability is influenced by global pressures and the challenges and opportunities faced in operating in the Kenyan market. It makes sense for us as a provider of financial services in Kenya, to look for ways of doing business that result in a lighter footprint as we help build economic growth.

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

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

By improving our knowledge of our direct and indirect footprints, we are forming the basis for determining future action to mitigate risk and seek new opportunities. We are proud of the progress we have made thus far, while acknowledging the hard work which lies ahead.

## Corporate Social Investments (CSI) Highlights

As a financial institution that believes in sustainability, we always take into account ethical, social and environmental criteria when making our decisions, and value long term stakeholder relationships within communities in which we operate.

This is reflected in our financial stability and the way we use the resources around us and practices to deliver to our customers. This is a continuous journey that we are constantly working to improve and build on the considerable progress that we have made so far.

With sustainability comes responsibility and for us as a responsible group is one that serves its customers and communities well, putting them at the heart of everything they do.

One of our ambitions is to be the bank of choice in Kenya and to achieve this; we need strong relationships with our customers and communities around us.

We build these relationships through two key pillars namely Community Health and Wellness and Education.



CFC Stanbic Bank Communications Manager, Willis Angira presents food donation to SOS Buru Buru Village Nairobi.

## Education

Education is one of the most powerful ways to improve lives and enhance opportunities for millions of people throughout Kenya and that is why it remained our main philanthropic priority even in 2013. Specifically, we invested a lot more in providing access to education and life skills through sponsorships that catered for school fees and mentoring sessions respectively.

### United States International University Scholarship Fund (USIU)

The CFC Stanbic Holdings Scholarship Fund at USIU enables qualified students from needy backgrounds to pursue their university education. In 2013 the fund entered its third year adding another two students to the list of students that it supports at university level bringing the total number to six. The students are all pursuing degrees in the area of finance and/or accounting and are given opportunities to visit the group's head office to get first-hand information and experience of the operations of a financial institution.

### Palmhouse Foundation Sponsorship and Mentorship Programme

For the fifth year now, the Group continued its sponsorship of students through their four years of secondary school education. Currently, 12 students are enrolled in various secondary schools across the country with four having successfully completed their secondary education in 2012 and 2013. Two of these obtained grade A and have been admitted to university to study Engineering while another two await their results. Four other students will be sitting for the Kenya Certificate of Secondary Education at the end of this year. The Group's staff were also involved in the mentoring of students on the programme during the school holidays.



CFC Stanbic Bank is recognized for its Palmhouse Foundation Sponsorship and Mentorship Programme by the First Lady Mrs Margaret Kenyatta.

### Starehe Girls Centre

Starehe Girls' Centre is a National boarding school that offers secondary education to purely financially disadvantaged girls from all provinces of Kenya. In 2013, the Group was one of the corporate sponsors of their fundraising dinner to raise school fees for the 2014 academic year that realised KShs 8.9 million.

### Financial Literacy

Financial literacy is the key to healthy finances.

Away from formal education, the Group sees financial literacy as one of the unique ways of engaging the Kenyan market through relevant financial literacy engagement programmes. These have been done through our own in house programs such as the You and Your Money publication that focusses on personal and business finance matters.

In addition to the publication, we have taken Financial Literacy further by offering value add services to the organisations we bank, and by engaging with their employees through a series of scheduled personal finance training programs. We have also engaged with various segments of our customers and created forums where they have received training and information on how to grow their businesses.

## Health and Wellbeing

### Mater Heart Run 2013

The Annual Mater Heart Run is one of the most recognised and noble annual events in the Kenyan calendar bringing together Kenyans from all walks of life to enjoy some exercise in the form of running, all in the spirit of helping children with heart ailments get necessary surgery.

The Group continued its support towards this cause by sponsoring a team of staff members to participate in the 2013 run.

### Kenyatta National Hospital Children's Ward

Kenya turned 50 in December 2013. It was time for the Kenyan people to reflect on the past fifty years and the Group's staff marked the milestone by giving back to the community when they visited the Paediatric ward at Kenyatta National Hospital and spent time with new-borns at the hospital. This generosity from the Group was extended further by a donation of three TV sets to be used in the wards to keep the children entertained when they are admitted to the hospital.



CFC Stanbic Bank presents TVs to Kenyatta National Hospital Children's Ward as part of Kenya@50 celebrations.

### SOS Villages' sponsorship

The Group renewed its sponsorship of two houses at the SOS Buruburu Village in Nairobi for another year. The sponsorship caters for the education and upkeep of 20 children (10 in each house) of different ages throughout the year.

In 2013, the Group also gave the children an early Christmas gift by paying them a visit and hosting a fun day plus luncheon for the entire village just before they went away for the Christmas break. The Group staff who spent the day with the children also presented them with a Christmas gift in the form of household items and foodstuff.

Other CSI initiatives undertaken in 2013 supported the following institutions/organisations:

- ▶ Joyful Women's Organisation - Eldoret
- ▶ Kanyuru Secondary School - Meru
- ▶ Wema Girls Centre - Mombasa
- ▶ Boystown Primary School - Ruai
- ▶ Maji Mazuri Children's Home - Kasarani
- ▶ Tumaini Bethany Children's Home - Nakuru
- ▶ Family Guardian Support Group - Thika
- ▶ El-Shaddai Children's Centre



CFC Stanbic Bank Chief Financial Officer, Edwin Mucai presents food donation to Maji Mazuri Children's Home.

# Risk management report

## Introduction

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

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

The Group's two business lines are:

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

## Risk management framework

The Group's risk management framework comprises the following components:

- risk governance committees at a board and management level
- management organisation structure to support the three lines of defence model
- risk governance standards
- policies to support the risk governance standards.

## Risk governance process

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

The governance committees are a key component of the risk management framework. They have clearly defined mandates and delegated authorities, which are reviewed regularly.

The two board sub-committees responsible for Risk are the Board Risk Committee and the Board Credit Committee which report to the main Board through the committee chairmen. The Risk Management Committee and Credit Risk Management are management committees responsible for risk management within the Group.

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

## Three lines of defence model

The Group adopts the three lines of defence model which reinforces segregation of duties between and independence of various control functions. The three lines of defence are described below.

### First line of defence

Consists of management of business lines and legal entities and has responsibility for measuring, assessing and controlling risks through the day-to-day activities of the business within the governance framework.

### Second line of defence

Consists of finance function, risk management function, legal function and governance and assurance functions excluding internal audit. These units support the governance framework; provide independent oversight of the first line of defence; and report to management and board governance committees.

### Third line of defence

Consists of internal audit which supports the governance framework; provides independent assessment of first and second lines of defence; and reports to Board Audit Committee.

## Risk governance standards

The Group has in place governance standards for all major risk types to which the Group is exposed. The risk governance standards set out minimum control requirements and ensure alignment and consistency in the manner in which the major risk types across the Group are dealt with. All the standards are applied consistently across the Group and are approved by the Board.

## Risk policies

Policies and procedures to support risk standards are implemented by management team and consistently monitored.

## The Group's approach to risk appetite

The following terms have specific meanings within the Group.

### Risk appetite

Risk appetite is an expression of the amount or type of risk that the Group is generally willing to take in pursuit of its financial and strategic objectives, reflecting its capacity to sustain losses and continue to meet its obligations as they fall due, under both normal and a range of stress conditions. Risk appetite could be exceeded either as a result of an adverse economic event more severe than that envisaged under the range of stress conditions (passive), or as a result of a decision to increase the risk profile to accommodate market, client or portfolio requirements (active).

### Risk tolerance

Risk tolerance is the maximum amount or type of risk the Group is prepared to tolerate above risk appetite for short periods of time on the understanding that management action is taken to get back within risk appetite.

### Risk capacity

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

### Risk profile

Risk profile is the amount or type of risk the Group holds at a specified point in time.

### Risk tendency

Risk tendency is the forward-looking view of how the Group's risk profile may change as a result of portfolio effects and/or changes in economic conditions. The changes in economic conditions may either be in the form of formally approved macroeconomic stress scenarios as part of the budgeting process or ad-hoc stress scenarios.

The Board approved a Risk Appetite policy in 2013

The Group's Board of Directors has ultimate responsibility for risk management, which includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented. The Board has delegated its risk-related responsibilities primarily to five committees: the Board Risk and Board Credit Committees, the Risk Management Committee, the Audit Committee, and the Credit Risk Management Committee, with each committee focusing on different aspects of risk management.

## Regulatory developments

A requirement to hold capital for operational and market risk was introduced through new prudential guidelines in 2013.

The Prudential Guidelines require Groups to use the Basic Indicator Approach (BIA) when calculating the capital charge for operational risk. The approach calls for a fixed percentage (15%) of average positive annual gross income over the past three years be maintained as capital to support the exposure to operational risk.

The capital charges for market risk apply to risks arising from interest rate related instruments and foreign exchange.

The Group has been submitting to CBK data on capital charges in respect of operational and market risk.

Although banks were granted a 12 months observation period after which compliance with capital requirements will be expected, the Group in line with new prudential guidelines has been submitting to CBK data on capital charge in respect of operational risk and market risk and as at 31 December, 2013 the Group was in compliance with the capital adequacy requirement on account of both risk types in addition to the capital requirements for credit risk.

Our business	Our Performance	Ensuring our sustainability	Corporate information	Annual financial statements	Shareholder information
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## Risk management in banking activities

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

### Credit risk

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

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

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

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

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

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

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

Credit risk management objectives are to:

- maintain a strong culture of responsible lending and a robust risk policy and control framework
- identify, assess and measure credit risk clearly and accurately across the Group, from the level of individual facilities up to the total portfolio
- define, implement and continually re-evaluate our risk appetite under actual and scenario conditions
- monitor credit risk and adherence to agreed controls
- ensure that there is independent, expert scrutiny of credit risks, and their mitigation.

### Approach to managing credit risk

Primary responsibility for credit risk management for banking operations resides within the Group's business lines, supported by an independent credit risk function operationally embedded in business units.

The key committees responsible for the oversight of credit risk are Credit Risk Management Committee which reports into Board Credit Committee. The committees have clearly defined mandates and delegated authorities.

### Corporate & Investment Banking (CIB)

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

### Personal & Business Banking (PBB)

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

## Liquidity risk

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

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

There is independent risk oversight of all liquidity limits and guidelines by Market Risk, Finance and Central Asset Liability Management units.

Banking liquidity risk can be distinguished by two risk categories:

- **Market liquidity risk:** The risk that the Group cannot easily offset or eliminate a position without significantly affecting market prices because of inadequate market depth or market disruption.
- **Funding liquidity risk:** The risk that the Group will not be able to effectively meet both expected and unexpected current and future cashflow and collateral requirements without negatively affecting the Group's daily operations or financial condition.

### Approach to managing liquidity risk

There is a sound and robust liquidity management process to measure, monitor and manage liquidity exposures. The Group has an Asset and Liability Committee (ALCO) responsible for ensuring compliance with liquidity risk policies.

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

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

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

- b) Foreign currency liquidity management; A number of indicators are observed to monitor changes in either market liquidity or exchange rates. Foreign currency loans and advances are restricted to the availability of foreign currency deposits.
- c) Ensuring the availability of sufficient contingency liquidity; Funding markets are evaluated on an on-going basis to ensure appropriate Group funding strategies are executed depending on the market, competitive and regulatory environment. The Group employs a diversified funding strategy.
- d) Preserving a diversified funding base; Concentration risk limits are used within the Group to ensure that funding diversification is maintained across products, sectors, and counterparties.

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

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

- f) Maintaining adequate liquidity contingency plans; Portfolios of highly marketable securities over and above regulatory and stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO defined limits on the basis of diversification and liquidity.
- g) Short-term and long-term cash flow management; Active liquidity and funding management is an integrated effort across a number of functional areas. Short-term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and internal requirements.

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

Liquidity contingency plans are designed to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The plans incorporate an extensive early warning indicator methodology supported by a clear and decisive crisis response strategy. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

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

To ensure integrity of the process there is use of application of purpose built technology, documented processes and procedures, independent oversight by risk management and regular independent reviews and evaluations of the effectiveness of the system.

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

## Market risk

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

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

## Identification of market risks in the trading and banking books

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

## Measurement of market risk

Measurement of market risks deals specifically and separately with normal market conditions and stress market conditions. Measurement of trading exposures under stress market conditions is effected by subjecting the portfolios to stress testing, e.g. historical scenarios, hypothetical scenarios

on individual asset classes and across different asset classes. In order to highlight 'points of weakness' and identify particular sources of trading book exposure vulnerability, these stress tests capture the effects of Abnormal movements in market variables (yield curves including basis curves, volatility surfaces, spot and/or rate moves, credit spread curves, recovery rate sensitivities etc.).

## Management of market risk

The Group manages market risk through a specification of risk appetite in form of market risk limits. It uses a suite of risk measurement methodologies and tools to establish limits, including Value at Risk (VaR), Expected Tail Loss (ETL), Securities revaluation models (Present Value One Basis Point - PV01), stress testing, scenario analysis, stop loss triggers, back testing, model validation, price verification, business units sign off of positions and P&L's on a regular intervals and other basic risk management measures.

## Reporting of market risk

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

## Market risk exposure on banking operations

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

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

## Operational risk

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

The Group recognises that Operational risk is inherent in all areas of its business and has developed, implemented and maintained an enterprise-wide Operational Risk management framework that is fully integrated into the Group's overall risk management processes.

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

The Operational Risk framework is based on the following core Operational Risk components:

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## Risk identification and control methodology

This methodology facilitates the identification of risks and the management thereof across each business and operational function. It comprises of the following key elements:

- **Risk and control self-assessments:**  
Each business unit and enabling function is required to analyse their business activities and critical processes to identify the key operational risks to which they are exposed and assess the adequacy and effectiveness of their controls. For any area where management conclude that the level of residual risk is beyond an acceptable level, they are required to define action plans to reduce the level of risk. The assessments are facilitated, monitored and challenged by the operational risk function.
- **Key Risk Indicators:**  
Quantitative measures based on the key risks and controls. Relevant indicators are used to monitor key business environment and internal control factors that may influence the Group's operational risk profile. Each indicator has trigger thresholds to provide early-warning signals of potential risk exposures and/or a potential breakdown of controls. When a breach is observed action is promptly taken to control the potential risk.

## Operational risk incidents

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

## External data

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

## Reporting

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

## Approach to managing operational risk

The Group's approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist business line management in understanding their inherent risks and reducing their risk profile in line with the Group's risk tolerance while maximising operational performance and efficiency. This approach is aligned to the Group's enterprise risk management framework and adopts the sound practices recommended by various sources, including the Basel II Accord's "Sound Practices for the Management and Supervision of Operational Risk."

An independent operational risk function performs a control and oversight role, including the setting of appropriate policies, governance standards and tools.

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

## Business continuity management

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

Business continuity management (BCM) is a risk management discipline within operational risk aimed at ensuring timely availability of all key

resources and processes, required to support essential activities and customer services in the event of a disruption of business.

The Group has implemented business resiliency and continuity plans to ensure its ability to operate on an on-going basis and limit losses in the event of severe business disruptions and has in place a holistic management process that identifies potential impacts that threaten an organisation, provides a framework for building resilience and the effective response that safeguards the interests of its key stakeholders, reputation, brand and value creating activities.

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

## Compliance risk

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

## Approach to compliance risk management

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

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

In 2013, notable developments in the regulatory universe were the issuance of the revised Central Bank of Kenya Prudential Guidelines and Risk Management Guidelines which came into effect on 1st January 2013 and the Consumer Protection Act, which was gazetted in March 2013.

## Financial crime control

Financial crime control is defined as the prevention, detection and response to all financial crime in order to mitigate economic loss, reputational risk and regulatory sanction.

Financial crime includes fraud, money laundering, violent crime and misconduct by employees, customers, suppliers, business partners, stakeholders and third parties.

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

The Financial Crime Control team deploys a number of measures to achieve its strategic objectives; these measures include staff awareness campaigns, fraud risk assessments, fraud investigation and use of a whistle blowing hotline.

## Money laundering and terrorist financial control

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

In March 2013, the Proceeds of Crime and Anti-Money Laundering Regulations, 2013 were gazetted by the Minister of Finance. The regulations have introduced standards for due diligence and introduced a risk based approach to the prevention of money laundering. The Prevention of Terrorism Act was also amended through the Finance Act, 2013 leading to the criminalisation of terrorism financing.

## Occupational health and safety

The health and safety of all employees, clients and other stakeholders continues to be a priority. The Group aims to effectively identify, reduce or control accidents or injuries to employees, contractors and clients. The framework ensures compliance with current legislation and that occupational health and safety procedures are closely linked to the operational needs of the business. Training of health and safety officers and employee awareness is an on-going endeavour.

## Legal risk

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

Legal risk arises where:

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

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

## Taxation risk

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

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

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

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

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

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

The Foreign Account Tax Compliance Act provisions which were included in the Hiring Incentives to Restore Employment ("HIRE") Act were passed in March 2010 in the United States (generally referred to as "FATCA") provide the Internal Revenue Service ("IRS") with increased ability to detect U.S. tax evaders hiding their money in foreign accounts and investments.

The provisions of FATCA impacts Foreign Financial Institutions ("FFI") and Non-Financial Foreign Entities ("NFFE"), including CfC Stanbic Holdings Limited by requiring FFIs to identify, classify and submit reports to IRS on US accounts as per the regulations.

The objective of FATCA is primarily to deter and discourage offshore tax evasion by US citizens or residents who avoid tax by investing through non-US financial institutions and offshore investment vehicles and concealing their assets from IRS. FATCA will also create greater transparency by strengthening information reporting and compliance with respect to US accounts.

Standard Bank Group mandated Steering Committee (Sterco) made an executive decision to be FATCA compliant in July 2014 and become a participating FFI. The decision impacts all legal entities that fall within the Standard Bank Group.

Project structures have been confirmed and put in place by CfC Stanbic Holdings Limited in order to customise the current processes to be FATCA compliant and meet the various deadlines under FATCA.

## Reputational risk

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

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

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

Each business unit or support function executive is responsible for identifying, assessing and determining all reputational risks that may arise within their respective areas of business. The impact of such risks is considered alongside financial or other impacts.

Should a risk event occur, the Group's crisis management processes are designed to minimise the reputational impact of the event.

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

## Business risk

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

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

Business risk is governed by the Group's executive committee, which is ultimately responsible for managing the costs and revenues of the Group.

The Group mitigates business risk in a number of ways including:

- due diligence during the investment appraisal process;
- the business lines have a new product process through which the risks and mitigating controls for new/amended products and services are tabled and discussed;
- Stakeholder management ensures favourable outcomes from external factors beyond the Group's control.
- consistently monitoring the profitability of product lines and customer segments;
- maintaining tight control over the cost base of the Group, including the management of cost-to-income ratio. This allows for early intervention and management action to reduce costs where necessary;
- being alert and responsive to changes in market forces, exploiting potentially favourable changes and managing the downside risk due to unfavourable changes;
- as part of the Group's budget process. The Group continually aims to increase the ratio of variable costs to fixed costs, allowing for more flexibility to proactively manage cost. In addition, contingency plans are built into the budget that allow for costs to be significantly reduced in the event that expected revenue generation does not materialise.

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## Strategic risk

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

The Group's business plans and strategies are discussed and debated by members of management and the board.

## Internal audit assurance

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

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

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

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

## Capital adequacy

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

## Minimum requirements

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

CFC Stanbic Holdings Limited is required to meet the Central Bank of Kenya's capital requirements, set at a minimum capital adequacy ratio of 10.5% (based on core capital).

## Qualifying capital

Qualifying capital is divided into two tiers: primary and secondary.

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

**Secondary capital (Tier II)** comprises cumulative preference shares, certain subordinated loan funding and regulatory credit risk reserve.

## Risk-weighted assets

Risk-weighted assets are determined by applying credit risk conversion factors to the principal amounts of both on and off-balance sheet financial instruments. The credit risk conversion factor is determined in accordance with the relative credit risk of the counter-party.

Included in the overall risk-weighted assets is a notional risk-weighting for trading assets, based on the market, counter-party and large exposure risks.

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

# WE SUPPORT THE DEVELOPMENT OF ENERGY THAT POWERS OUR NATION

Natural resources lubricate the opportunities available in a thriving, modern society. We play a vital role in sourcing and managing the funds that will make our pipe dreams a reality, thus making us less dependent on imports while contributing to future growth and prosperity. That's what we do best.

**They call it Africa. We call it home.**

[www.cfcstanbicbank.co.ke](http://www.cfcstanbicbank.co.ke)



**Let's partner with you and  
move our economy forward.  
Call (+254) 20 363 81 68**

CfC Stanbic Bank is licensed and regulated by the Central Bank of Kenya.



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**Moving Forward™**



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# Corporate information

<b>Chairman:</b>	Fred N Ojiambo, MBS, SC
<b>Chief Executive:</b>	Kitili Mbathi
<b>Chief Executive of CfC Stanbic Bank Limited:</b>	Greg R Brackenridge*
<b>Regional Head Corporate &amp; Investment Banking:</b>	Michael Blades*** (Appointed 22 August 2013)
<b>Regional Head Corporate &amp; Investment Banking:</b>	VE Williams**** (Retired 31 January 2013)
<b>Non-Executive Directors:</b>	J Babsa-Nzibo EW Njoroge RW Kimotho GR May** CK Muchene RT Ngobi PN Gethi (Appointed 11 February 2013)
	* South African ** British *** South African & British **** American
<b>Company secretary:</b>	LN Mbindyo P.O. Box 72833 00200 Nairobi
<b>Auditor:</b>	<b>PricewaterhouseCoopers</b> PwC Tower Waiyaki Way/Chiromo Road P O Box 43963 00100 Nairobi
<b>Registered office:</b>	<b>CfC Stanbic Centre</b> Chiromo Road P O Box 72833 00200 Nairobi
<b>Principal bankers:</b>	<b>CfC Stanbic Bank Limited</b> Chiromo Road P O Box 30550 00100 Nairobi GPO

# Board of Directors



**FN. Ojiambo, MBS, SC (64)**  
Chairman

**K Mbathi (55)**  
Chief Executive

**GR Brackenridge (56)**  
Chief Executive  
CfC Stanbic Bank Ltd

**MA. Blades (47)**

## Appointed 2010

Mr Fred N Ojiambo was appointed the Chairman of the Board on 21 May 2010 having previously served on the CfC Bank Limited Board as a non-executive director.

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

## Appointed 2008

Mr Kitili Mbathi is the Chief Executive of CfC Stanbic Holdings Limited, a director of CfC Stanbic Bank Limited, the chairman of SBG Securities Limited, the Chairman of Kenya Tourist Board and a member of the University of Nairobi Council. He holds a Bachelor of Arts degree (Economics and Political Science) from University of Michigan, Ann Arbor, Michigan, USA and a Masters of Banking and Finance for Development from Instituto Finafrica - Milan, Italy. He has vast experience in banking which was acquired when serving in various banking institutions. He has also served as Investment Secretary in the Ministry of Finance and Planning – Government of Kenya.

## Appointed 2010

Mr Greg Brackenridge is the Chief Executive of CfC Stanbic Bank Limited. He first joined SBG in 1992 as General Manager, Corporate and Investment Banking with Stanbic Bank Zimbabwe Limited. He became Managing Director of Stanbic Bank Zimbabwe Limited in 1997 before transferring to the Head Office in Johannesburg in 2002. In 2004, he took over as Chief Executive, Stanbic Africa. In 2005, he was appointed Regional Managing Director, West Africa and Managing Director of Stanbic Bank Nigeria Limited. Whilst in Nigeria he successfully completed his mandate to see the Group through the Nigerian re-capitalisation process, build a new in-country leadership team, establish a fully-fledged and universal bank and successfully consummated the merger with IBTC Chartered Bank Plc.

## Appointed 2013

Mr Michael Blades is the Regional Head of Corporate and Investment Banking (CIB), East Africa for Standard Bank Group. Based in Nairobi, Kenya, he heads all of Standard Bank's CIB activities in Kenya, Uganda, Tanzania, Ethiopia and South Sudan. He was appointed as a director on the Board of CfC Stanbic Holdings Limited on 22<sup>nd</sup> August 2013, to fill a casual vacancy. He is also a director on the Boards of CfC Stanbic Bank Ltd and SBG Securities Limited. A qualified Economist, Mr Blades has worked in various positions in the Corporate and Investment Banking Business Unit of Standard Bank Group for over 20 years, most recently as the Head of International Business Development and Corporate Banking Coverage in China.



GR May (71)

Chairman Board Audit Committee

EW Njoroge, CBS (61)

J Babsa-Nzibo (55)

R Kimotho (58)

**Appointed 2008**

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

**Appointed 2010**

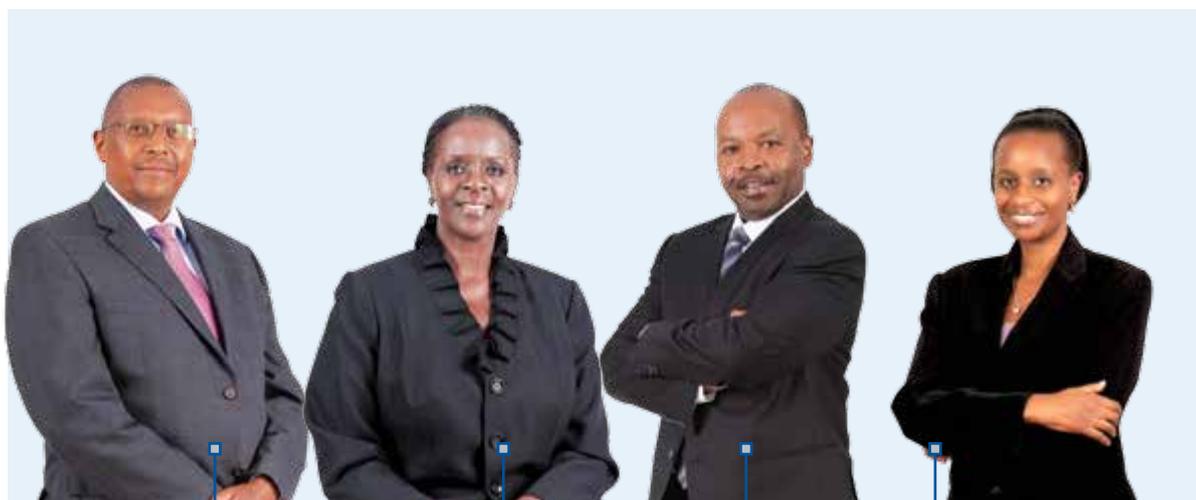
Mr Edward W Njoroge graduated with a Bachelor of Science degree from Makerere University. He was appointed on 26 March 2003 as Director (Executive) and the Managing Director of Kenya Electricity Generating Company Limited (now retired). He started his career with Twiga Chemical Industries in 1975. He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

**Appointed 2010**

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

**Appointed 2008**

Ms Rose W Kimotho is the Managing Director of Three Stones Limited. She is a media owner and has a marketing and communications background. Ms Kimotho holds a Diploma in Journalism, University of Nairobi, and a Management Diploma from Columbia University Graduate School. She also holds a Marketing Certificate from the Marketing Society of Kenya. Ms Kimotho also sits as a non-executive director of CfC Stanbic Bank Limited.



CK Muchene (56)

RT Ngobi (53)

PN Gethi (48)

LN Mbindyo  
Company secretary**Appointed 2011**

Mr Charles K Muchene was appointed to the Board as a non-executive director of Cfc Stanbic Holdings Limited and Cfc Stanbic Bank Limited in February 2011. Prior to this appointment, he was the Country Senior Partner of PricewaterhouseCoopers. He holds a Bachelor of Commerce degree from the University of Nairobi, is a Fellow of the Institute of Certified Public Accountants of Kenya, a Member of the Institute of Certified Public Secretaries of Kenya and a member of the Institute of Directors. Mr Muchene also serves on the Board of East African Breweries Limited as a non-executive director in addition to a number of other private companies.

**Appointed 2011**

Mrs Ruth T Ngobi is a lawyer of over twenty-eight years standing, having been admitted as an Advocate of the High Court of Kenya in 1985. She holds a bachelors degree in law from University of Kent in Canterbury and a Master of Laws degree from University of Cambridge, both in the United Kingdom. Ms Ngobi worked with Unilever Kenya Limited for 15 years as Legal Counsel and Company Secretary, before joining British American Tobacco Kenya Ltd in 2002 as Area Legal Counsel. She is the founder of Cosec Solutions Limited, a company that provides company secretarial services and corporate governance solutions. Ms Ngobi is also a non-executive director on the Board of Cfc Stanbic Bank Limited, as well as a board member of the Public Procurement Oversight Authority.

**Appointed 2013**

Mr Peter Gethi was appointed as a non-executive Director of Cfc Stanbic Holdings Ltd in February 2013. Mr Gethi is a qualified Consultant Agronomist and brings to the Group a wealth of agribusiness and management experience, expected to help the Group achieve its strategic goals. Mr Gethi has already gained familiarity with Standard Bank Group's operations and structure, having served as a Board member of Cfc Life Assurance Limited and Heritage Insurance (K) Limited since 2009, and currently serving as the Chairman of both companies (since 2011). Mr Gethi is also a non-executive director of Cfc Stanbic Bank Limited.

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

# Corporate governance report

## Standard Bank Group Limited: an overview

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

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

### CfC Stanbic Holdings Group: an overview

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

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

### Codes and regulations

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

### Shareholders' responsibilities

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

### Board of Directors

The Group is led by independent members of the Board who, by their skills and diversity, contribute to the efficient running of the Group. The Board is responsible for the overall corporate governance of the Group, ensuring that appropriate controls, systems and practices are in place.

### Board composition and evaluation

There are eleven directors on the Board, three of whom are executive and eight are non-executive.

The Group's Board of Directors remains steadfast in implementing

governance practices where substance prevails over form. This provides direction for subsidiary entities, which structure their respective governance frameworks according to Group standards.

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

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

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

### Strategy

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

### Directors' appointment, induction and training

Since the last Annual General Meeting, the Board, appointed one executive Director, Mr Michael Blades to the Company's Board of Directors, on 20 August, 2013, to fill a casual vacancy created when Mr Victor E. Williams retired as a member of the Board in January of the same year.

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

Save for the Director who retired early in the year as mentioned above, no Directors have retired or resigned from the Board.

Directors are advised of new laws and regulations and changing risks to the organisation on an on-going 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 taking into account the skills, knowledge, and experience required in the Board.

The amounts paid to directors are included in Note 37 which represents the total remuneration paid to executive and non-executive directors for the year under review.

## Social responsibility

The Group concentrates its social investment expenditure in defined focus areas in order to make the greatest impact.

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

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

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

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

#### CFC Stanbic Holdings Limited – Directors' Attendance, 2013

NAME	MAR 01	MAY 20	AUG 21	NOV 27
FN Ojiambo, MBS, SC	AP	P	P	P
GR Brackenridge	P	P	P	P
K Mbathi	P	P	P	P
MA Blades	N/A	N/A	P	P
EW Njoroge	P	P	AP	P
J Babsa-Nzibo	P	P	P	P
GR May	P	P	P	P
RN Kimotho	P	P	P	P
RT Ngobi	P	P	AP	P
CK Muchene	P	P	P	P
PN Gethi	N/A	P	P	P

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

### Board Committees

The Board Audit Committee (BAC) meets at least twice a year in accordance with the half-yearly financial reporting period adopted by the Group.

During the year, the Committee deliberated on the reports on the internal audits carried out on the Group's subsidiary companies as well as the Post-Audit report prepared by the Company's external auditor, PwC. It went on to discuss with Management the measures necessary to be taken to address the various audit findings. The Committee also reviewed the Company's Audited Financial Statements for 2013 and the half-year unaudited Interim Financial Statements for 2013, to ensure integrity in financial reporting and adherence to international financial reporting standards.

The members attended the meetings as shown here below;

#### Directors' BAC attendance, 2013

NAME	FEB 20	AUG 08
GR May (Chairman)	P	P
J Babsa-Nzibo	P	P
CK Muchene	P	P

**P** = Present

### Shareholder relations

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

# Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December, 2013, in accordance to Section 157 of the Kenyan Companies Act, which disclose the state of affairs of the Group and the Company.

## Principal activities

The Group is engaged in the business of banking and stock broking and is licensed under the Banking Act and Capital Markets Act. The company is a member of the Nairobi Securities Exchange.

## Results and dividends

Profit for the year of KShs 5,127,156,000 (2012: KShs 3,009,891,000) has been added to retained earnings.

During the year, an interim dividend of KShs 0.63 (2012: KShs 0.73) per ordinary share amounting to KShs 249 million (2012: KShs 200 million) was paid.

Subject to the approval of the shareholders at the Annual General Meeting, the Directors recommend payment of a final dividend of KShs 1.52 (2012: Nil) per ordinary share equivalent to a total sum of KShs. 600 million (2012: Nil). The total dividend for the year, therefore, will be KShs 2.15 (2012: KShs 0.73) for every one ordinary share amounting to KShs 849 million (2012: KShs 200 million).

## Share capital

The total number of authorised shares as at 31 December 2013 was 473,684,211 (2012: 473,684,211), ordinary shares of KShs 5 each, with 395,321,638 shares being issued.

## Directors

The directors who held office during the year and to the date of this report are set out on page 28.

## Events subsequent to the end of the reporting period

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

## Auditor

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

## Approval of financial statements

The financial statements were approved by the Board of Directors on 28 February 2014.

BY ORDER OF THE BOARD



**Lillian Mbindyo**  
COMPANY SECRETARY  
28 February 2014

# Statement of Directors' responsibilities

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

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

- (i) Designing, implementing and maintaining internal controls as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- (ii) Selecting and applying appropriate accounting policies and
- (iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Group at 31 December 2013 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

The financial statements were approved by the board of directors on 28 February 2014 and signed on its behalf by:



.....  
**Fred N Ojiambo, MBS, SC**

Chairman



.....  
**K. Mbathi**

Chief Executive



# Report of the Independent Auditor to the members of CFC Stanbic Holdings Limited

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of CFC Stanbic Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), as set out on pages 39 to 98. These financial statements comprise the consolidated statement of financial position at 31 December 2013, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, together with the statement of financial position of the Company standing alone as at 31 December 2013 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and the statement of cashflows of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

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

## Auditor's responsibility

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

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

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

## Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company at 31 December 2013 and of the profit and cash flows of the Group and company for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

## Report on other legal requirements

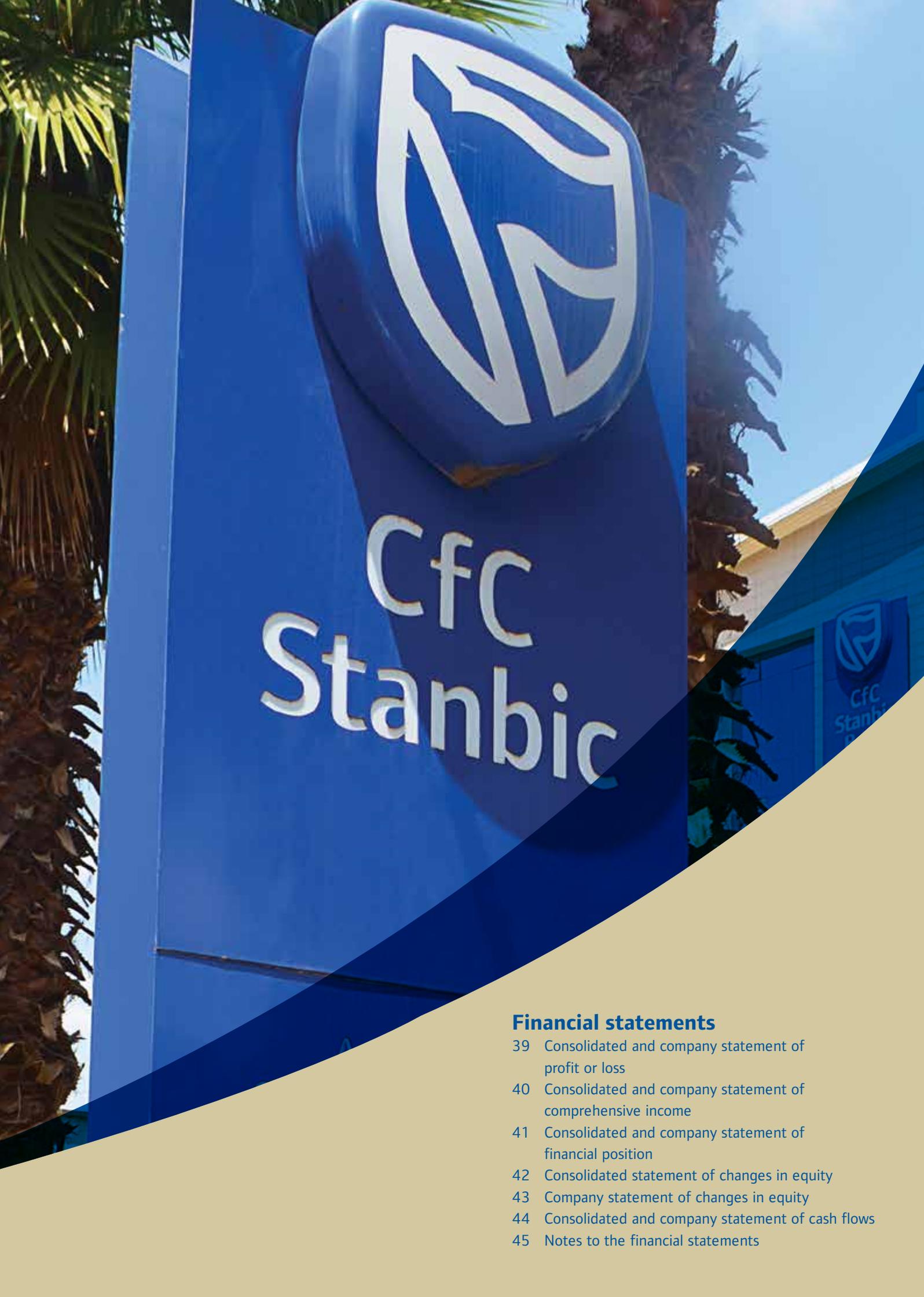
As required by the Kenyan Companies Act we report to report to you, based on our audit, that:

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

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

**Certified Public Accountants**  
Nairobi

28 Feb 2014

A large blue sign with a white logo at the top and the text "CFC Stanbic" in white below it. The logo is a stylized shield with a white outline and a white interior design. The sign is set against a background of palm trees and a clear blue sky. A diagonal split in the image shows a smaller version of the sign on a building facade to the right.

# CFC Stanbic

## **Financial statements**

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Our business	Our Performance	Ensuring our sustainability	Corporate information	Annual financial statements	Shareholder information
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# Consolidated and company statement of profit or loss

For the year ended 31 December 2013

	Note	Group		Company	
		2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Interest income	6	10,336,492	11,653,458	1,092	21,535
Interest expense	7	(2,794,378)	(5,110,671)	-	-
<b>Net interest income</b>		<b>7,542,114</b>	<b>6,542,787</b>	<b>1,092</b>	<b>21,535</b>
Credit impairment charges on loans and advances	22(d)	(766,601)	(635,429)	-	-
<b>Net interest income after credit impairment charges</b>		<b>6,775,513</b>	<b>5,907,358</b>	<b>1,092</b>	<b>21,535</b>
Fee and commission revenue	8	3,189,124	2,718,045	-	-
Fee and commission expense	9	(308,398)	(174,846)	-	-
<b>Net fee and commission revenue</b>		<b>2,880,726</b>	<b>2,543,199</b>	<b>-</b>	<b>-</b>
Trading revenue	10	5,659,242	4,973,862	-	-
Other income	11	121,000	32,496	250,000	200,000
<b>Non-interest income</b>		<b>8,660,968</b>	<b>7,549,557</b>	<b>250,000</b>	<b>200,000</b>
<b>Total income</b>		<b>15,436,481</b>	<b>13,456,915</b>	<b>251,092</b>	<b>221,535</b>
Employee benefits	12	(4,030,095)	(3,543,387)	-	-
Depreciation of property, plant and equipment and amortisation expense of intangible assets	14	(623,358)	(639,344)	(60)	(106)
Other expenses	13	(3,559,023)	(4,686,096)	46,445	(80,709)
<b>Total administration and general expenses</b>		<b>(8,212,476)</b>	<b>(8,868,827)</b>	<b>46,385</b>	<b>(80,815)</b>
<b>Profit before income tax</b>		<b>7,224,005</b>	<b>4,588,088</b>	<b>297,477</b>	<b>140,720</b>
Income tax expense	15	(2,096,849)	(1,578,197)	-	-
<b>Profit for the year</b>		<b>5,127,156</b>	<b>3,009,891</b>	<b>297,477</b>	<b>140,720</b>
<b>Profit attributable to:</b>					
Equity holders		5,127,156	3,009,891	297,477	140,720
Non-controlling interest		-	-	-	-
<b>Profit for the year</b>		<b>5,127,156</b>	<b>3,009,891</b>	<b>297,477</b>	<b>140,720</b>
<b>Earnings per share basic and diluted (KShs)</b>	16	<b>12.97</b>	<b>9.90</b>	<b>0.75</b>	<b>0.46</b>
<b>Dividends:</b>					
Interim paid	17	249,053	200,000	249,053	200,000
Proposed final	17	600,889	-	600,889	-
<b>Dividends for the year</b>		<b>849,942</b>	<b>200,000</b>	<b>849,942</b>	<b>200,000</b>

The notes set out on pages 45 to 98 form an integral part of these financial statements.

# Consolidated and company statement of comprehensive income

For the year ended 31 December 2013

	Note	Group		Company	
		2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
<b>Profit for the year</b>		<b>5,127,156</b>	<b>3,009,891</b>	<b>297,477</b>	<b>140,720</b>
<b>Other comprehensive income for the year, net of tax</b>					
<b>Items that will not be reclassified to profit or loss:</b>					
De-recognition of deferred income tax liability on revaluation of buildings	34(c)	36,779	-	-	-
<b>Items that may be subsequently reclassified to profit or loss</b>					
Foreign currency translation differences for foreign operations	35(c)	30,224	(35,105)	-	-
Net fair value movements on available-for-sale instruments	20(b)	179,361	1,696,706	-	-
Deferred income tax charge on fair valuation of available - for - sale financial assets	34(c)	(36,376)	(509,012)	-	-
De-recognition of deferred income tax liability available-for-sale reserve on infrastructure bonds	34(c)	76,731	-	-	-
<b>Other comprehensive income for the year, net of tax</b>		<b>286,719</b>	<b>1,152,589</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>5,413,875</b>	<b>4,162,480</b>	<b>297,477</b>	<b>140,720</b>
<b>Attributable to:</b>					
Equity holders		5,413,875	4,162,480	297,477	140,720
Non-controlling interest		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>5,413,875</b>	<b>4,162,480</b>	<b>297,477</b>	<b>140,720</b>

The notes set out on pages 45 to 98 form an integral part of these financial statements.

Our business	Our Performance	Ensuring our sustainability	Corporate information	Annual financial statements	Shareholder information
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# Consolidated and company statement of financial position

As at 31 December 2013

	Note	Group		Company	
		2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
<b>Assets</b>					
Cash, banks and balances with Central Bank	18	9,466,550	23,366,583	92,907	177,680
Financial assets	20	45,153,463	20,966,076	-	-
Available-for-sale pledged assets debt	19	3,391,972	3,123,196	-	-
Derivative assets	30	3,003,522	1,931,831	-	-
Loans and advances to banks	22 (a)	34,714,199	12,333,987	-	-
Loans and advances to customers	22 (b)	69,133,492	66,149,841	-	-
Other assets and prepayments	23	2,352,592	1,950,825	3,393	3,230
Investment in subsidiaries	24	-	-	18,175,338	18,175,338
Property and equipment	25	2,175,185	2,302,671	-	60
Prepaid operating lease	26	62,761	65,715	-	-
Other intangible assets	27	759,289	1,034,430	-	-
Intangible assets - goodwill	28	9,349,759	9,349,759	-	-
Current income tax	34 (a)	-	158,846	-	140,031
Deferred income tax	34 (c)	949,013	478,395	-	-
<b>Total assets</b>		<b>180,511,797</b>	<b>143,212,155</b>	<b>18,271,638</b>	<b>18,496,339</b>
<b>Liabilities</b>					
Derivative liabilities	30	2,777,183	2,469,648	-	-
Financial liabilities - fair value through profit or loss	21	259,676	-	-	-
Deposits from banks	31	35,558,146	25,556,484	-	-
Deposits from customers	31	94,727,839	74,906,763	-	-
Borrowings	32	5,847,752	6,697,731	-	-
Other liabilities and accrued expenses	33	8,683,721	5,963,608	24,691	101,619
Balances due to group companies	37	-	-	158,877	355,074
Current income tax	34 (b)	231,689	377,033	-	-
<b>Total liabilities</b>		<b>148,086,006</b>	<b>115,971,267</b>	<b>183,568</b>	<b>456,693</b>
<b>Equity</b>					
Ordinary share capital	29	1,976,608	1,976,608	1,976,608	1,976,608
Ordinary share premium	29	16,897,389	16,897,389	16,897,389	16,897,389
Other reserves	40	444,709	143,425	-	-
Retained earnings		12,506,196	8,223,466	(1,386,816)	(834,351)
Proposed dividend	17	600,889	-	600,889	-
<b>Total equity attributable to equity holders</b>		<b>32,425,791</b>	<b>27,240,888</b>	<b>18,088,070</b>	<b>18,039,646</b>
<b>Non-controlling interest</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total equity and liabilities</b>		<b>180,511,797</b>	<b>143,212,155</b>	<b>18,271,638</b>	<b>18,496,339</b>

The notes set out on page 45 to 98 form an integral part of these financial statements.

The financial statements on pages 39 to 98 were approved for issue by the Board of Directors on 28th February 2014 and signed on its behalf by:

  
Fred N. Ojiambo, MBS SC  
Chairman

  
G. R. May  
Director

  
K. Mbatia  
Chief Executive

  
Lillian Mbindyo  
Company Secretary

# Consolidated statement of changes in equity

For the year ended 31 December 2013

Attributable to equity holders

Note	Share Capital KShs'000	Share Premium KShs'000	Other Reserves KShs'000	Retained Earnings KShs'000	Proposed Dividends KShs'000	Total Equity KShs'000
<b>At 1 January 2013</b>	<b>1,976,608</b>	<b>16,897,389</b>	<b>143,425</b>	<b>8,223,466</b>	<b>-</b>	<b>27,240,888</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>286,719</b>	<b>5,127,156</b>	<b>-</b>	<b>5,413,875</b>
<b>Transactions with, contributions by and distributions to owners of the Group</b>						
Dividends to equity holders - interim dividend paid	17	-	-	(249,053)	-	(249,053)
Dividends to equity holders - proposed dividend	17	-	-	(600,889)	600,889	-
Transfer of vested share option from share based reserve	41	-	(5,516)	5,516	-	-
Share based payment reserve	41	-	20,081	-	-	20,081
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>14,565</b>	<b>(844,426)</b>	<b>600,889</b>	<b>(228,972)</b>
<b>At 31 December 2013</b>	<b>1,976,608</b>	<b>16,897,389</b>	<b>444,709</b>	<b>12,506,196</b>	<b>600,889</b>	<b>32,425,791</b>

For the year ended 31 December 2012

<b>At 1 January 2012</b>	<b>1,368,421</b>	<b>13,586,847</b>	<b>(915,484)</b>	<b>5,289,343</b>	<b>-</b>	<b>19,329,127</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>1,028,357</b>	<b>3,134,123</b>	<b>-</b>	<b>4,162,480</b>
<b>Transactions with, contributions by and distributions to owners of the Group</b>						
Dividends to equity holders - interim dividend paid	17	-	-	(200,000)	-	(200,000)
Share based payment reserve	41	-	30,552	-	-	30,552
Proceeds from rights issue during the year	29	608,187	3,310,542	-	-	3,918,729
<b>Total transactions with owners</b>	<b>608,187</b>	<b>3,310,542</b>	<b>30,552</b>	<b>(200,000)</b>	<b>-</b>	<b>3,749,281</b>
<b>At 31 December 2012</b>	<b>1,976,608</b>	<b>16,897,389</b>	<b>143,425</b>	<b>8,223,466</b>	<b>-</b>	<b>27,240,888</b>

The notes set out on pages 45 to 98 form an integral part of these financial statements.

Our business	Our Performance	Ensuring our sustainability	Corporate information	Annual financial statements	Shareholder information
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# Company statement of changes in equity

For the year ended 31 December 2013

Attributable to equity holders

	Note	Share Capital KShs'000	Share Premium KShs'000	Retained Earnings KShs'000	Proposed Dividends KShs'000	Total Equity KShs'000
<b>At 1 January 2013</b>		<b>1,976,608</b>	<b>16,897,389</b>	<b>(834,351)</b>	-	<b>18,039,646</b>
<b>Total comprehensive income for the year</b>		-	-	<b>297,477</b>	-	<b>297,477</b>
<b>Transactions with, contributions by and distributions to owners</b>						
Interim dividend paid	17	-	-	(249,053)	-	(249,053)
Proposed dividend	17	-	-	(600,889)	600,889	-
<b>Total contributions by and distributions to owners</b>		-	-	<b>(849,942)</b>	<b>600,889</b>	<b>(249,053)</b>
<b>At 31 December 2013</b>		<b>1,976,608</b>	<b>16,897,389</b>	<b>(1,386,816)</b>	<b>600,889</b>	<b>18,088,070</b>

For the year ended 31 December 2012

<b>At 1 January 2012</b>		<b>1,368,421</b>	<b>13,586,847</b>	<b>(775,071)</b>	-	<b>14,180,197</b>
<b>Total Comprehensive income for the year</b>		-	-	<b>140,720</b>	-	<b>140,720</b>
<b>Transactions with, contributions by and distributions to owners</b>						
Interim dividend paid	17	-	-	(200,000)	-	(200,000)
Rights issue during the year	29	608,187	3,310,542	-	-	3,918,729
<b>Total contributions by and distributions to owners</b>		<b>608,187</b>	<b>3,310,542</b>	<b>(200,000)</b>	-	<b>3,718,729</b>
<b>At 31 December 2012</b>		<b>1,976,608</b>	<b>16,897,389</b>	<b>(834,351)</b>	-	<b>18,039,646</b>

The notes set out on pages 45 to 98 form an integral part of these financial statements.

# Consolidated and company statement of cash flows

For the year ended 31 December 2013

	Note	Group		Company	
		2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
<b>Cash flows generated from operating activities</b>	<b>35 (a)</b>	<b>7,252,194</b>	<b>5,740,280</b>	<b>287,823</b>	<b>140,826</b>
Income tax paid	34 (b)	(2,619,134)	(2,152,696)	-	-
Tax refund	34 (a)	149,745	-	149,745	-
<b>Net cash generated from operating activities before changes in operating assets</b>		<b>4,782,805</b>	<b>3,587,584</b>	<b>437,568</b>	<b>140,826</b>
Loans and advances to customers		(2,983,651)	(1,893,087)	-	-
Loans and advances to banks		1,339,081	(1,449,081)	-	-
Financial assets-fair value through profit or loss		1,036,253	(224,219)	-	-
Financial assets-available-for-sale		(7,948,837)	2,232,202	-	-
Cash ratio requirement		(615,702)	165,889	-	-
Other assets and prepayments		(401,769)	524,939	(163)	18,586
Deposits from customer		19,821,076	899,629	-	-
Deposits from banks		19,540,588	947,831	-	-
Other liabilities and accrued expenses		2,720,113	(2,445,022)	(273,125)	132,780
<b>Changes in operating assets and liabilities</b>		<b>32,507,152</b>	<b>(1,240,919)</b>	<b>(273,288)</b>	<b>151,366</b>
<b>Net cash generated from operating activities</b>		<b>37,289,957</b>	<b>2,346,665</b>	<b>164,280</b>	<b>292,192</b>
Purchase of property and equipment	25	(301,747)	(283,160)	-	-
Purchase of intangible assets	27	(49,249)	(16,151)	-	-
Proceeds from the sale of equipment		2,783	4,159	-	-
Investment in subsidiary		-	-	-	(3,880,694)
<b>Cash used in investing activities</b>		<b>(348,213)</b>	<b>(295,152)</b>	<b>-</b>	<b>(3,880,694)</b>
Proceeds from rights issue		-	3,918,729	-	3,918,729
Dividends paid to equity holders of parent	17	(249,053)	(200,000)	(249,053)	(200,000)
Payment of borrowings and shareholder loan		(849,979)	(388,554)	-	-
<b>Cash (used in) / generated from financing activities</b>		<b>(1,099,032)</b>	<b>3,330,175</b>	<b>(249,053)</b>	<b>(3,718,729)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>35,842,712</b>	<b>5,381,688</b>	<b>(84,773)</b>	<b>130,227</b>
Unrealised foreign currency translation differences	35 (c)	4,312	(44,826)	-	-
Cash and cash equivalents at 1 January	35 (b)	5,809,769	472,907	177,680	47,453
<b>Cash and cash equivalents at 31 December</b>	<b>35 (b)</b>	<b>41,656,793</b>	<b>5,809,769</b>	<b>92,907</b>	<b>177,680</b>

The notes set out on pages 45 to 98 form an integral part of these financial statements.

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# Notes

## 1 General information

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

CFC Stanbic Centre  
Chiromo Road  
P O Box 72833  
00200 Nairobi

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

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

## 2 Summary of significant accounting policies

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

### a) Basis of preparation

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

#### Basis of measurement

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

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Group using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Fair values are categorised into three levels of fair value hierarchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

**Level 1** – fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2** – fair value measurements are derived from inputs other than quoted prices used in level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3** – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Group at the end of the reporting period during which the change occurred.

#### Use of estimates

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

## Changes in accounting policies and disclosures

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

### (i) New and amended standards adopted by the Company and the Group

All new and revised standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2013 have been adopted by the Group. Of those, the following have had an effect on the Group and company's financial statements:

- IAS 1 (Amendment), *Presentation of financial statements*: the amendment requires entities to group items of other comprehensive income according to whether or not they will be subsequently re-classified to profit or loss.

- IAS 19 (Amendment), *Employee benefits*: the key amendments include the elimination of the "corridor approach", modification of accounting for termination payments, and changes to the disclosure requirements for defined benefit plans. The revised accounting policy is set out in note (o) and has been applied retrospectively in accordance with IAS 8 (except for changes to the carrying value of assets that include employee benefit cost in the carrying amount).

- IFRS 7 (Amendment), *Financial instruments*: disclosures: The amendment provides new guidance on offsetting financial assets and financial liabilities. It allows investors to bridge differences in the offsetting reporting requirements of IFRS and US GAAP and introduces new disclosures that provide better information on how entities mitigate credit risk, including related collateral pledged.

- IFRS 10 *Consolidated financial statements*: The new standard replaces all the guidance on control and consolidation in IAS 27, *Consolidated and separate financial statements* and SIC-12, *Special purpose entities*. IFRS 10 introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure / rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns.

- IFRS 11, *Joint arrangements* focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

- IFRS 12, *Disclosures of interests in other entities* includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The impact of adopting of IFRS 12 has been increased disclosures in the financial statements.

- IFRS 13, *Fair value measurement*: the new standard defines fair value, set out a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 applies when other standard require or permit fair value measurements; it does not introduce any new requirements to measure an asset or liability at fair value.

There are no other new or revised standards or interpretations issued and effective that would be expected to have a material impact on the Group.

## 2 Summary of significant accounting policies (continued)

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

The Group has not applied the following revised standards and interpretations that have been published but are not yet effective for the year beginning 1 January 2013.

- Amendments to IAS 32 titled Offsetting Financial Assets and Financial Liabilities (issued in December 2011) – The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32, mainly by clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement. They are effective for annual periods beginning on or after 1 January 2014, with retrospective application.

- Amendments to IAS 36 titled Recoverable Amount Disclosures for Non-Financial Assets (issued in May 2013) – The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. They are effective for annual periods beginning on or after 1 January 2014. Amendments to IAS 39 titled Novation of Derivatives and Continuation of Hedge Accounting (issued in June 2013) – The amendments permit the continuation of hedge accounting in a situation where the counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as ‘novation of derivatives’), as a consequence of laws or regulations, if specific conditions are met. They are effective for annual periods beginning on or after 1 January 2014.

- Amendments to IFRS 10, IFRS 12 and IAS 27 titled Investment Entities (issued in October 2012) – The amendments define “investment entities” and provide them an exemption from the consolidation of subsidiaries; instead, an investment entity is required to measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 / IAS 39 (the exception does not apply to subsidiaries that provide services relating to the investment entity’s investment activities). An investment entity is required to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements, and additional disclosures are introduced. The amendments are effective for annual periods beginning on or after 1 January 2014, retrospectively with some transitional provisions. The Directors do not anticipate any effect on the company’s consolidated financial statements as the parent company is not an investment entity.

- IFRIC 21 Levies (issued in May 2013) – The interpretation provides guidance on when to recognise a liability for a levy imposed by a government. The obligating event for the recognition of a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. It also provides guidance on recognition of a liability to pay levies: the liability is recognised either progressively if the obligating event occurs over a period of time, or when the minimum threshold is reached if an obligation is triggered on reaching that minimum threshold. The interpretation is effective for annual periods beginning on or after 1 January 2014.

- IFRS 9 – Financial Instruments it replaces parts of IAS 39 – Financial Instruments, Recognition and Measurement that relate classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified, at initial recognition as either measured at fair value or at amortised cost. The classification depends on the entity’s business model for managing its financial instruments and the characteristics of the contractual cash flows of the

instrument. For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in cases where the fair value option is applied for financial liabilities, the part of a fair value change arising from a change in an entity’s own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

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

### b) Consolidation

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

### (i) Subsidiaries

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

Intragroup transactions, balances and unrealised gains and losses 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.

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

The accounting policies of subsidiaries that are consolidated by the group conform to these policies.

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

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

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

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

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

**(iii) Disposal of subsidiaries**

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

**(iv) Associates**

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

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

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

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

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

**(i) Functional and presentation currency**

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

**(ii) Transactions and balances**

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

in foreign currencies are recognised in profit or loss.

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

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

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

**(iii) Group companies**

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

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

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

**d) Segment reporting**

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

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

**e) Revenue and expenditure**

**Banking activities**

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

**Net interest income**

Interest income and expense (with the exception of those borrowing costs that are capitalised), are recognised in the statement of profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss. 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.

## 2 Summary of significant accounting policies (continued)

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

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

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

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

### Non-interest revenue

#### *Net fee and commission revenue*

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

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

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

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

#### *Trading revenue*

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

#### *Other revenue*

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

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

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

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

#### *Dividend income*

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

### f) Cash and cash equivalents

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

The assets in this category had a total carrying value of KShs 9,466,550,000 at the financial reporting date of December 2013 (2012: KShs 23,366,583,000).

### g) Financial instruments

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

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

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

#### (i) Classification

##### *Held-to-maturity*

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

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

Certain equity investments of the Group and certain corporate bonds are classified in this category. The assets in this category had a total carrying value of KShs 21,504,000 at the financial reporting date of December 2013 (2012: KShs 25,948,000).

##### *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.

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.

Loans and advances to banks and customers are classified in this category. The assets in this category had a total carrying value of KShs 103,847,691,000 at the financial reporting date of December 2013 (2012: KShs 78,483,828,000).

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

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

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A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

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

Certain, government securities are classified in this category. The assets in this category had a total carrying value of KShs 23,205,351,000 at the financial reporting date of December 2013 (2012: KShs 15,226,024,000).

#### 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 fair value 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).

Certain, government securities and certain corporate bonds are classified in this category. The assets in this category had a total carrying value of KShs 21,926,608,000 at the financial reporting date of December 2013 (2012: KShs 5,714,104,000).

#### (ii) Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from banks and customers and other liabilities. Such financial liabilities are initially recognized at fair value and subsequently measured at amortised cost.

#### (iii) Reclassification of financial assets

The group may choose to reclassify non-derivative trading assets out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets that would not otherwise have met the definition of loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances.

In addition, the group may choose to reclassify financial assets that would meet the definition of loans and receivable out of the held-for-trading or available-for-sale categories if the group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

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

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

#### (iv) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments is generally measured on the basis of the individual financial instrument.

The group has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the group of financial assets and financial liabilities to be measured at fair value on a net basis. This election is applied where the group:

- manages the group of financial assets and financial liabilities on the basis of the group's net exposure to a particular market risk (or risks) or to the credit of a particular counterparty in accordance with the group's documented risk management or investment strategy;
- provides information on that basis about the group of financial assets and financial liabilities to the group's key management personnel; and
- is required to or has elected to measure those financial assets and financial liabilities at fair value at the end of each reporting period.

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, that is, the fair value of the consideration paid or received, unless the fair value is evidenced either by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models and option pricing models whose variables include only data from observable markets.

When such valuation models, with only observable market data as inputs or the comparison with other observable current market transaction in the same instrument indicate that the fair value differs from the transaction price, this initial difference, commonly referred to as day one profit or loss, is recognized in profit or loss immediately. If non-observable market data is used as part of the input to the valuation models or where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transaction in the same instrument the resulting difference between the transaction price and the model value is deferred. The timing of the recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement, depending on the nature of the instrument and availability or market observable inputs.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets and where those quoted prices represent fair value at the measurement date. If the market for a financial asset is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's-length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

## 2 Summary of significant accounting policies (continued)

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market related discount rate at the reporting date for a financial asset or liability with similar terms and conditions. Where the fair value of investments in unquoted equity instruments and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are unable to be reliably determined, those instruments are measured at cost less impairment losses. Impairment losses on these financial assets are not reserved.

### (v) Recognition and measurement

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

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

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

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

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

### (vi) 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.

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

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

Corporate loans are analysed on a case-by-case basis taking into account breaches of key loan conditions.

The impairment of non-performing loans takes account of past loss experience adjusted for changes in economic conditions

and the nature and level of risk exposure since the recording of the historic losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

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

In order to provide for latent losses in a portfolio of loans that have not yet been individually identified as impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods. Loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows.

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

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

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

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

#### 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 on-going review to determine whether they are considered impaired or past due.

#### Available-for-sale financial assets

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

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

If, in a subsequent period, the amount relating to impairment loss decreases and the decrease can be linked objectively to an

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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.

**(vii) 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.

**(viii) Determination of fair value**

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the reporting dates.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market observable.

For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs level 3 valuations) is disclosed in Note 3.

The Group uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the Group's credit spreads widen, the Group recognises a gain on these liabilities because the value of the liabilities has decreased. When the Group's credit spreads narrow, the Group recognises a loss on these liabilities because the value of the liabilities has increased.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk.

Based on the established fair value model governance policies, related controls and procedures applied, the directors believe that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair

value. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

**(ix) Derecognition of financial instruments**

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

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

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

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

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

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

**(x) Derivative financial instruments**

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

**h) Financial guarantee contracts**

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

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

**i) Sale and repurchase agreements and lending of securities**

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

## 2 Summary of significant accounting policies (continued)

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.

### j) Intangible assets

#### Goodwill

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

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

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

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

#### Computer software

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

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

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

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs

previously recognised as an expense are not recognised as an asset in a subsequent period.

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

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

#### Other intangible assets

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

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

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

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

### k) Property and equipment

#### Equipment and owner-occupied properties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### m) Leases

##### Group as lessee

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

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

##### Group as lessor

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

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the

investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return.

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

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

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

#### n) Provisions and contingent liabilities

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

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

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

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

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

#### o) Employee benefits

##### (i) Defined contribution plan

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

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

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

##### (ii) Defined benefit plan

The group also has a defined benefit plan, with membership generally limited to employees who were in the employment of the various companies at specified dates. Employer companies contribute to the cost of benefits taking account of the recommendations of the actuaries. Statutory actuarial valuations are required every three years using the projected

## 2 Summary of significant accounting policies (continued)

unit credit method. Interim valuations are also performed annually at the financial yearend. Within the defined benefit plans, the group operates a number of funded and unfunded post-employment medical aid schemes, with membership limited to employees who were retired or in the employment of the various companies at specified dates and complying with specific criteria.

The assets or liabilities recognised in the statement of financial position in respect of defined benefit plans are measured at the present value of the estimated future cash outflows, using interest rates of government bonds with maturity dates that approximate the expected maturity of the obligations, less the fair value of plan assets. A defined benefit asset is only recognised to the extent that economic benefits are available to the group from reductions in future contributions or future refunds from the plan.

Net interest income/(expense) is determined on the defined benefit asset/(liability) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset/(liability). The net interest income/(expense) is recognised in profit or loss.

Remeasurements of the net defined benefit obligation, including actuarial gains and losses, the return on plan assets (excluding interest calculated) and the effect of any asset ceiling are recognised within OCI.

### (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.

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.

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

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

### p) Income tax

#### (i) Income tax

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

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

#### (ii) Deferred income tax

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

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

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

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

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

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

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

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies.

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

### r) Share capital

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

### s) Dividends on ordinary shares

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

### t) Fiduciary activities

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

### u) Capitalisation of borrowing costs

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

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#### v) Borrowings

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

#### w) Comparative figures

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

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

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

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

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Where the net present value of estimated cash flows to differ by +/-1%, the impairment loss is to be estimated at KShs 5,245,964 higher or KShs 5,245,964 lower.

#### b) Fair value of financial instruments

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

#### c) Impairment of goodwill

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

#### d) Income taxes

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

#### e) Retirement benefits

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

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

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

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

## 4 Segmental reporting

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

The Group is required to produce segmented financial statements i.e. statement of profit or loss 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 PBB, CIB. This is in line with Group reporting and decision making reports.

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

#### Personal and Business Banking (PBB)

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

- Mortgage lending – provides residential accommodation loans to individual customers.
- Instalment sales and finance leases – comprises two areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.

#### 4 Segmental reporting (continued)

- Card products – provides card facilities to individuals and businesses.
- Transactional and lending products – transactions in products associated with the various points of contact channels such as ATMs, Internet, and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.

##### Corporate and Investment Banking (CIB)

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

- Global markets – includes foreign exchange and debt

securities and equities trading.

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

##### Major Customers

The Group does not have any one major customer that contributes more than 10% of its revenues. However the Group has one major customer whose deposits contribute 8% of total deposits as at December 2013. The interest expense paid to this customer is reported under the Corporate and Investment Banking segment.

#### Results by business units

Statement of profit or loss	Total Bank		CIB		PBB	
	Kshs'000 2013	Kshs'000 2012	Kshs'000 2013	Kshs'000 2012	Kshs'000 2013	Kshs'000 2012
Interest income	10,336,492	11,653,458	5,991,264	6,551,007	4,345,228	5,102,451
Interest expense	(2,794,378)	(5,110,671)	(1,688,475)	(3,006,590)	(1,105,903)	(2,104,081)
<b>Net interest income</b>	<b>7,542,114</b>	<b>6,542,787</b>	<b>4,302,789</b>	<b>3,544,417</b>	<b>3,239,325</b>	<b>2,998,370</b>
Impairment losses on loans and advances	(766,601)	(635,429)	7,274	(70,529)	(773,875)	(564,900)
<b>Net interest income after loan impairment charges</b>	<b>6,775,513</b>	<b>5,907,358</b>	<b>4,310,063</b>	<b>3,473,888</b>	<b>2,465,450</b>	<b>2,433,470</b>
Fees and commission income	3,189,124	2,718,045	2,036,795	1,671,998	1,152,329	1,046,047
Fees and commission expense	(308,398)	(174,846)	(51,824)	(3,028)	(256,574)	(171,818)
<b>Net fees and commission income</b>	<b>2,880,726</b>	<b>2,543,199</b>	<b>1,984,971</b>	<b>1,668,970</b>	<b>895,755</b>	<b>874,229</b>
Trading income	5,659,242	4,973,862	5,659,242	4,973,862	-	-
Net other operating income	121,000	32,496	94,435	31,935	26,565	561
<b>Net trading and other income</b>	<b>5,780,242</b>	<b>5,006,358</b>	<b>5,753,677</b>	<b>5,005,797</b>	<b>26,565</b>	<b>561</b>
Employee benefits	(4,030,095)	(3,543,387)	(2,041,993)	(1,627,741)	(1,988,102)	(1,915,646)
Depreciation and amortisation expense	(623,358)	(639,343)	(265,740)	(284,580)	(357,618)	(354,763)
Administrative expenses	(3,559,023)	(4,686,097)	(2,287,370)	(2,685,995)	(1,271,653)	(2,000,102)
<b>Profit before tax</b>	<b>7,224,005</b>	<b>4,588,088</b>	<b>7,453,608</b>	<b>5,550,339</b>	<b>(229,603)</b>	<b>(962,251)</b>
Income tax expense	(2,096,849)	(1,578,197)	(2,190,329)	(1,742,255)	93,480	164,058
<b>Profit for the year</b>	<b>5,127,156</b>	<b>3,009,891</b>	<b>5,263,279</b>	<b>3,808,084</b>	<b>(136,123)</b>	<b>(798,193)</b>

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The Group is domiciled in Kenya and the revenue and non-current assets by country of domicile are included in the sections below:

#### Statement of financial position

	Total Bank		CIB		PBB	
	Kshs'000 2013	Kshs'000 2012	Kshs'000 2013	Kshs'000 2012	Kshs'000 2013	Kshs'000 2012
<b>Assets</b>						
Cash and balances with						
Central Bank of Kenya	9,466,550	23,366,583	8,665,082	21,654,045	801,468	1,712,538
Financial assets	48,545,435	24,089,272	48,545,435	24,089,272	-	-
Derivative assets	3,003,522	1,931,831	3,003,522	1,931,831	-	-
Loans and advances	103,847,691	78,483,828	70,702,712	52,157,527	33,144,979	26,326,301
Property, equipment and intangibles	2,997,235	3,402,817	1,721,570	1,593,351	1,275,665	1,809,466
Goodwill	9,349,759	9,349,759	9,349,759	9,349,759	-	-
Deferred income tax	949,013	478,394	336,724	255,100	612,289	223,294
Current assets	-	158,846	-	88,830	-	70,016
Other receivables and prepayments	2,352,592	1,950,825	1,274,061	964,814	1,078,531	986,011
<b>Total assets</b>	<b>180,511,797</b>	<b>143,212,155</b>	<b>143,598,865</b>	<b>112,084,529</b>	<b>36,912,932</b>	<b>31,127,626</b>
<b>Liabilities</b>						
Deposits	130,285,985	100,463,248	97,602,307	73,052,421	32,683,678	27,410,827
Current income tax	231,689	377,033	209,559	279,301	22,130	97,732
Trading liabilities	259,676	-	259,676	-	-	-
Derivative liabilities	2,777,183	2,469,648	2,777,183	2,469,648	-	-
Borrowings	5,847,752	6,697,731	3,945,116	4,549,403	1,902,636	2,148,328
Other liabilities and accrued expenses	8,683,721	5,963,605	6,213,407	3,632,205	2,470,314	2,331,400
<b>Total liabilities</b>	<b>148,086,006</b>	<b>115,971,265</b>	<b>111,007,248</b>	<b>83,982,978</b>	<b>37,078,758</b>	<b>31,988,287</b>
<b>Shareholders' equity</b>						
Funding	-	-	6,956,230	6,519,996	(6,956,230)	(6,519,996)
<b>Total equity and liabilities</b>	<b>180,511,797</b>	<b>143,212,155</b>	<b>143,598,865</b>	<b>112,084,529</b>	<b>36,912,932</b>	<b>31,127,626</b>
<b>Other information</b>						
Additions to property and equipment	301,747	283,160	134,748	141,066	166,999	142,094
Additions to intangible assets	49,249	16,151	17,975	7,895	31,274	8,256

## 4 Segmental reporting (continued)

### Results by geographical area

Statement of profit or loss	Total		Sudan		Kenya	
	Kshs'000 2013	Kshs'000 2012	Kshs'000 2013	Kshs'000 2012	Kshs'000 2013	Kshs'000 2012
Interest income	10,336,492	11,653,458	27,891	4,916	10,308,601	11,648,542
Interest expense	(2,794,378)	(5,110,671)	-	-	(2,794,378)	(5,110,671)
<b>Net interest income</b>	<b>7,542,114</b>	<b>6,542,787</b>	<b>27,891</b>	<b>4,916</b>	<b>7,514,223</b>	<b>6,537,871</b>
Impairment losses on loans and advances	(766,601)	(635,429)	-	-	(766,601)	(635,429)
<b>Net interest income after loan impairment charges</b>	<b>6,775,513</b>	<b>5,907,358</b>	<b>27,891</b>	<b>4,916</b>	<b>6,747,622</b>	<b>5,902,442</b>
Fees and commission income	3,189,124	2,718,045	621,734	168,602	2,567,390	2,549,443
Fees and commission expense	(308,398)	(174,846)	(26,228)	(1,473)	(282,170)	(173,373)
<b>Net fees and commission income</b>	<b>2,880,726</b>	<b>2,543,199</b>	<b>595,506</b>	<b>167,129</b>	<b>2,285,220</b>	<b>2,376,070</b>
Trading income	5,659,242	4,973,862	1,231,480	618,609	4,427,762	4,355,253
Net other operating income	121,000	32,496	-	-	121,000	32,496
<b>Net trading and other income</b>	<b>5,780,242</b>	<b>5,006,358</b>	<b>1,231,480</b>	<b>618,609</b>	<b>4,548,762</b>	<b>4,387,749</b>
Employee benefits	(4,030,095)	(3,543,387)	(278,394)	(195,080)	(3,751,701)	(3,348,307)
Depreciation and amortisation expense	(623,358)	(639,344)	(31,663)	(9,656)	(591,695)	(629,688)
Administrative expenses	(3,559,023)	(4,686,096)	(620,677)	(396,489)	(2,938,346)	(4,289,607)
<b>Profit before tax</b>	<b>7,224,005</b>	<b>4,588,088</b>	<b>924,143</b>	<b>189,429</b>	<b>6,299,862</b>	<b>4,398,659</b>
Income tax expense	(2,096,849)	(1,578,197)	(176,836)	(38,839)	(1,920,013)	(1,539,358)
<b>Profit for the year</b>	<b>5,127,156</b>	<b>3,009,891</b>	<b>747,307</b>	<b>150,590</b>	<b>4,379,849</b>	<b>2,859,301</b>

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### Statement of financial position

	Total		Sudan		Kenya	
	Kshs'000 2013	Kshs'000 2012	Kshs'000 2013	Kshs'000 2012	Kshs'000 2013	Kshs'000 2012
<b>Assets</b>						
Cash and balances with						
Central Bank of Kenya	9,466,550	23,366,583	691,237	435,292	8,775,313	22,931,291
Financial assets	48,545,435	24,089,272	248,488	199,524	48,296,947	23,889,748
Derivative assets	3,003,522	1,931,831	-	2	3,003,522	1,931,829
Loans and advances	107,578,129	78,483,828	16,168,167	5,410,168	91,409,962	73,073,660
Property, equipment and intangibles	2,997,235	3,402,816	159,588	114,907	2,837,647	3,287,909
Goodwill	9,349,759	9,349,759	-	-	9,349,759	9,349,759
Deferred income tax	949,013	478,395	18,194	(5,211)	930,819	483,606
Current assets	-	158,846	-	-	-	158,846
Other receivables and prepayments	2,352,592	1,950,825	396,893	67,638	1,955,699	1,883,187
<b>Total assets</b>	<b>184,242,235</b>	<b>143,212,155</b>	<b>17,682,567</b>	<b>6,222,320</b>	<b>166,559,668</b>	<b>136,989,835</b>
<b>Liabilities</b>						
Deposits	134,016,423	100,463,247	13,234,880	5,214,341	120,781,543	95,248,906
Current income tax	231,689	377,033	111,789	7,978	119,900	369,055
Trading liabilities	259,676	-	-	-	259,676	-
Derivative liabilities	2,777,183	2,469,648	-	-	2,777,183	2,469,648
Borrowings	5,847,752	6,697,731	-	-	5,847,752	6,697,731
Other liabilities and accrued expenses	8,683,721	5,963,608	4,152,795	884,518	4,530,926	5,079,090
<b>Total liabilities</b>	<b>151,816,444</b>	<b>115,971,267</b>	<b>17,499,464</b>	<b>6,106,837</b>	<b>134,316,980</b>	<b>109,864,430</b>
<b>Shareholders' equity</b>	<b>32,425,791</b>	<b>27,240,888</b>	<b>183,103</b>	<b>115,483</b>	<b>32,242,688</b>	<b>27,125,405</b>
<b>Total equity and liabilities</b>	<b>184,242,235</b>	<b>143,212,155</b>	<b>17,682,567</b>	<b>6,222,320</b>	<b>166,559,668</b>	<b>136,989,835</b>
<b>Other information</b>						
Additions to property and equipment	301,747	283,160	48,160	19,350	253,587	263,810
Additions to intangible assets	49,249	16,151	-	-	49,249	16,151

## 4 Segmental reporting (continued)

### Results by geographical area (continued)

#### Reconciliation of reportable assets and liabilities

	2013 KShs'000	2012 KShs'000
<b>Assets</b>		
<b>Total assets for reportable segments</b>	<b>184,242,235</b>	<b>143,212,155</b>
Elimination of inter-company balances with Cfc Stanbic Limited	(3,730,438)	-
<b>Entity's assets</b>	<b>180,511,797</b>	<b>143,212,155</b>
<b>Liabilities</b>		
<b>Total liabilities for reportable segments</b>	<b>184,242,235</b>	<b>143,212,155</b>
Elimination of inter-company balances with Cfc Stanbic Limited	(3,730,438)	-
<b>Entity's liabilities</b>	<b>180,511,797</b>	<b>143,212,155</b>

## 5 Financial risk management

### Group risk management framework and governance structures

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

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

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

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

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

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

### a) Capital management

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

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

### Capital management – Company

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

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.

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**Total capital is calculated as equity plus net debt.**

	2013 KShs'000	2012 KShs'000
Total borrowings	-	-
Total equity	18,088,070	18,039,646
<b>Gearing Ratio</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, Bank of South Sudan and the Nairobi Securities Exchange. This section presents information about the Group's management of capital in the main operating divisions.

#### Capital management - Group

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

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

The Group 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 Group's eligible capital with its statement of financial position assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

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

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

The Group is required at all times to maintain:

- A regulatory capital of KShs 1 billion as at 31 December 2013;
- A core capital (tier 1) of not less than 8% of total risk weighted assets plus risk weighted off statement of financial position items;

- A core capital (tier 1) of not less than 8% of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 12% of its total risk adjusted assets plus risk adjusted off statement of financial position items.
- Capital Markets Authority (CMA) core capital of KShs 250 m for the brokerage business in SBG Securities Limited.

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

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

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

## 5 Financial risk management (continued)

### Capital management - Group (continued)

#### Regulatory capital

	2013 KShs'000	2012 KShs'000
<b>Tier 1 capital (Core capital)</b>		
Share capital	3,411,549	3,411,549
Share premium	3,444,639	3,444,639
Foreign currency translation reserve	(5,565)	(35,105)
Retained earnings	14,358,958	10,212,665
<b>Total Tier 1 capital (Core capital)</b>	<b>21,209,581</b>	<b>17,033,748</b>
<b>Tier 2 capital</b>		
Regulatory credit risk reserve	-	-
Borrowings	3,347,255	4,197,234
<b>Total Tier 2 capital</b>	<b>3,347,255</b>	<b>4,197,234</b>
<b>Total capital (Tier 1 + Tier 2)</b>	<b>24,556,836</b>	<b>21,230,982</b>
<b>Risk - weighted assets</b>		
Operational risk	20,755,828	-
Market risk	11,443,369	-
On-statement of financial position balance	75,812,804	77,475,404
Off-statement of financial position balance	11,629,082	5,651,901
<b>Total risk - weighted assets</b>	<b>119,641,083</b>	<b>83,127,305</b>
<b>Capital adequacy ratios</b>		
Core capital / total risk - weighted assets	17.73%	20.50%
Minimum regulatory requirement	10.50%	8.00%
Total capital / total risk - weighted assets	20.53%	25.50%
Minimum regulatory requirement	14.50%	12.00%

#### b) Credit risk

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

Exposure to credit risk is managed through regular analysis of the ability of borrower and potential borrowers to meet all payment obligations and by aligning credit limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a

significant portion is personal lending where no such facilities can be obtained.

The Group takes on exposure to credit risk, which is the risk that a 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 reporting date.

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

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

### Credit exposures classified in terms of maturity

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Neither past due nor impaired	198,984,779	162,823,325	96,300	180,910
Past due but not impaired	9,934,345	6,927,215	-	-
Impaired	1,784,847	1,048,363	-	-
	<b>210,703,971</b>	<b>170,798,903</b>	<b>96,300</b>	<b>180,910</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.

#### Credit risk management

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

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

#### (i) Management reporting

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

- ▶ Monthly 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 Group 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 Group 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 Group's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date (the 'incurred loss model') rather than expected losses.

The Group 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 Group are segmented into five rating classes. The Group'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 Group regularly validates the performance of the ratings and their predictive power with regard to default events.

##### Collateral

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

- ▶ Mortgages over residential properties;
- ▶ Charges over business assets such as premises, inventory and accounts receivable and
- ▶ 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 Group 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 Group 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

## 5 Financial risk management (continued)

credit risk is limited to the current fair value of instruments that are favourable to the Group (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 Group 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 Group'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 Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

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

### (iii) Impairment and provisioning policy

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

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

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

The Group's policy requires the review of individual financial

assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at 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.

The Group has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Group considers three components:

- (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations;
- (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'exposure at default' (EAD); and
- (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

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

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical historical analysis of loan loss roll rates. They are validated, where appropriate, by comparison with externally available data. The rating methods are subject to and periodic validation and recalibration so that they reflect the latest projection in the light of all actually observed defaults.

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

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

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

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

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

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

### (i) CIB

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

To this end CIB uses software developed by third party vendors, which is widely used by the banking industry globally, in its credit management process. Expected default frequencies are an important tool in the formal credit assessment process of both new and existing business, and also form the basis for monitoring changes in

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counterparty credit quality on a day to day basis. Expected default frequencies will continue to be a vital component of credit risk management as the Group continues to improve credit processes and increases focus on portfolio credit management.

#### (ii) PBB

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

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

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

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

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

- ▶ Corporate and Investment 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.

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

Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 36.

The directors are confident in the ability to continue to control and

sustain minimal exposure of credit risk to the Bank resulting from both the loan and advances portfolio and debt securities based on the following:

49% of the total maximum exposure is derived from loans and advances to banks and customers (2012: 62%); 46% represents investments in debt securities (2012: 18%).

- ▶ 84% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2012: 88%);
- ▶ 84% of the loans and advances portfolio are considered to be neither past due nor impaired (2012: 88%); and
- ▶ 98% of all the debt securities, which the Bank has invested in, are issued by the Central Bank of Kenya (2012: 98%).

#### (v) Valuation of collateral

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

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

#### PBB

Mortgage lending First ranking legal charge over the property financed.

Instalment sales Joint registration of vehicles.

Other loans and advances Debentures over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees.

#### CIB

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

#### (vi) 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 summarises the credit quality:

	2013 KShs '000	2012 KShs '000
Neither past due nor impaired	59,314,339	59,724,177
Past due but not impaired	9,934,345	6,927,215
Impaired	1,784,847	1,048,363
<b>Gross</b>	<b>71,033,531</b>	<b>67,699,755</b>

## 5 Financial risk management (continued)

### Credit risk management (continued)

(vii) Credit quality (continued)

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

\*NPL – Non performing loans

\*\*IIS – Interest in suspense

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

## 5 Financial risk management (continued)

### Credit risk management (continued)

(vii) Credit quality (continued)

		Performing loans			Non-performing loans	
		Neither past due nor specifically impaired		Not specifically impaired		
		Normal monitoring	Close monitoring	Early arrears	Non-performing	Sub-standard
Year ended 31 December 2012	Total loans and advances to customers KShs'000 2012	KShs'000 2012	KShs'000 2012	KShs'000 2012	KShs'000 2012	KShs'000 2012
	N=A+B+C+L	A	B	C	D	E
<b>Personal and Business Banking</b>	<b>27,361,887</b>	<b>20,019,500</b>	<b>2,517,148</b>	<b>3,817,376</b>	-	<b>437,686</b>
- Mortgage lending	9,314,906	7,506,413	520,674	1,121,257	-	166,562
- Instalment sales and finance leases	7,114,895	4,687,104	649,246	1,574,106	-	101,010
- Card debtors	405,217	335,109	28,904	-	-	-
- Other loans and advances	10,526,869	7,490,874	1,318,324	1,122,013	-	170,114
<b>Corporate and Investment Banking</b>	<b>40,337,868</b>	<b>34,741,484</b>	<b>2,446,045</b>	<b>3,109,839</b>	-	-
- Corporate lending	40,337,868	34,741,484	2,446,045	3,109,839	-	-
<b>Total recognised loans and advances to customers</b>	<b>67,699,755</b>	<b>54,760,984</b>	<b>4,963,193</b>	<b>6,927,215</b>	-	<b>437,686</b>
<b>Percentage of total loans and advances (%)</b>		80.89%	7.33%	10.23%	0%	0.65%
<b>Less;</b>						
Balance sheet impairment for performing loans	(798,441))					
Balance sheet impairments for non-performing specifically impaired loans	(751,473)					
<b>Net loans and advances to customers</b>	<b>66,149,841</b>					

\*NPL – Non performing loans

\*\*IIS – Interest in suspense

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Non-performing loans									
Specifically impaired loans							Total non-performing loans KShs'000 2012	Non-performing loans a %	Interest in Suspense KShs'000 2012
NPL* NET OF IIS**		Total KShs'000 2012	Securities and expected recoveries on specifically impaired loans KShs'000 2012	Net after securities and expected reco- veries on specifically impaired loans KShs'000 2012	Balance sheet impairments non-performing specifically impaired loans KShs'000 2012	Gross specific impairment coverage %			
Doubtful KShs'000 2012	Loss KShs'000 2012						H=E+F+G	I	J=H-I
-	570,177	1,007,863	301,808	706,055	706,055	70%	1,007,863	4%	175,532
-	-	166,562	139,861	26,701	26,701	16%	166,562	2%	23,569
-	103,429	204,439	81,827	122,612	122,612	60%	204,439	3%	33,047
-	41,204	41,204	9,891	31,313	31,313	76%	41,204	10%	-
-	425,544	595,658	70,229	525,429	525,429	88%	595,658	6%	118,916
<b>27,840</b>	<b>12,660</b>	<b>40,500</b>	<b>(4,918)</b>	<b>45,418</b>	<b>45,418</b>	<b>112%</b>	<b>40,500</b>	<b>0%</b>	<b>14,647</b>
27,840	12,660	40,500	(4,918)	45,418	45,418	112%	40,500	0%	14,647
<b>27,840</b>	<b>582,837</b>	<b>1,048,363</b>	<b>296,890</b>	<b>751,473</b>	<b>751,473</b>	<b>72%</b>	<b>1,048,363</b>	<b>2%</b>	<b>190,179</b>
0.04%	0.86%	1.55%	0.44%	1.11%	1.11%		1.55%		0.28%

## 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

##### Market risk measurement techniques

As part of the management of market risk, the Group's major measurement technique is value at risk. The Group 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 Group, 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 Group 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 Group'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 Group-wide VAR, is reviewed daily by the Group's Treasury.

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

The table below indicates the extent to which the Group 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 Group has significant exposure and the effect of the change in exchange rate on the statement of profit or loss.

Currency	Increase in currency rate in % 2013	Effect on profit before tax 2013 KShs'000	Effect on profit after tax 2013 KShs'000	Increase in currency rate in % 2012	Effect on profit before tax 2012 KShs'000	Effect on profit after tax 2012 KShs'000
USD	1.05	(5,290)	(3,703)	2.8	15,526	10,868
GBP	1.58	(1,297)	(908)	2.5	266	186
EUR	4.22	(3,323)	(2,326)	4.3	1,163	814

Currency	Decrease in currency rate in % 2013	Effect on profit before tax 2013 KShs'000	Effect on profit after tax 2013 KShs'000	Decrease in currency rate in % 2012	Effect on profit before tax 2012 KShs'000	Effect on profit after tax 2012 KShs'000
USD	0.99	4,988	3,492	3.1	(16,979)	(11,885)
GBP	1.74	1,428	1,000	2.7	(287)	(201)
EUR	7.56	5,954	4,168	4.0	(1,079)	(755)

### e) Interest rate risk

The Group 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.

Currency	Increase in basis points 2013 KShs'000	Sensitivity of net interest income 2013 KShs'000	Sensitivity of other comprehensive income 2013 KShs'000	Decrease in basis points 2013 KShs'000	Sensitivity of net interest income 2013 KShs'000	Sensitivity of other comprehensive income 2013 KShs'000
KShs	550	488,246	(886,626)	300	(338,167)	483,614
Others	75	49,579	-	75	(197,019)	-

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Currency	Increase in basis points 2012 KShs'000	Sensitivity of net interest income 2012 KShs'000	Sensitivity of other comprehensive income 2012 KShs'000	Decrease in basis points 2012 KShs'000	Sensitivity of net interest income 2012 KShs'000	Sensitivity of other comprehensive income 2012 KShs'000
KShs	400	460,949	(905,124)	400	(606,369)	905,124
Others	75	17,575	-	75	(105,619)	-

#### f) Liquidity risk

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

(subsidiaries) are responsible for the management of liquidity risk within the business units in compliance with the Group risk framework.

#### Liquidity risk – Company

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

#### 31 December 2013

	Up to 1 month KShs'000	1 – 6 months KShs'000	6 – 12 months KShs'000	Total KShs'000
Cash and bank balances	92,907	-	-	92,907
Other receivables and prepayments	-	-	3,393	3,393
Balances due from Group companies				
<b>Total assets</b>	<b>92,907</b>	<b>-</b>	<b>3,393</b>	<b>96,300</b>
Other liabilities and accrued expenses	-	-	(24,691)	(24,691)
Balances due to group companies	-	-	(158,877)	(158,877)
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>(183,568)</b>	<b>(183,568)</b>
<b>Net liquidity gap</b>	<b>92,907</b>	<b>-</b>	<b>(180,175)</b>	<b>(87,268)</b>

#### 31 December 2012

	Up to 1 month KShs'000	1 – 6 months KShs'000	6 – 12 months KShs'000	Total KShs'000
Cash and bank balances	177,680	-	-	177,680
Other receivables and prepayments	-	-	3,230	3,230
Balances due from Group companies	-	-	-	-
<b>Total assets</b>	<b>177,680</b>	<b>-</b>	<b>3,230</b>	<b>180,910</b>
Other liabilities and accrued expenses	-	-	(101,619)	(101,619)
Balances due to Group companies	-	-	(355,074)	(355,074)
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>(456,693)</b>	<b>(456,693)</b>
<b>Net liquidity gap</b>	<b>177,680</b>	<b>-</b>	<b>(453,463)</b>	<b>(275,783)</b>

## 5 Financial risk management (continued)

### Liquidity risk management - Group

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

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

The Group's liquidity management process, as carried out within the Group 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 statement of financial position liquidity ratios against internal and regulatory requirements; and managing the concentration and profile of debt maturities;

- Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets; and
- 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 Group under financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group 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 Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

### Year ended 31 December 2013

	Redeemable Undated 2013 Kshs'000	on demand 2013 Kshs'000	Maturing within 1 month 2013 Kshs'000	Maturing after 1 month but within 6 months 2013 Kshs'000	Maturing after 6 months but within 12 months 2013 Kshs'000	Maturing after 12 months but within 5 years 2013 Kshs'000	Maturing after 5 years 2013 Kshs'000	Total 2013 Kshs'000
<b>Financial assets</b>								
Cash and balances to banks	-	9,466,550	-	-	-	-	-	9,466,550
Financial assets-fair value through profit or loss Available-for-sale pledged assets debt	128,312	-	-	9,426,825	3,653,957	6,191,572	3,804,685	23,205,351
Financial assets-available-for-sale debt	-	-	-	-	1,053,388	268,059	2,070,525	3,391,972
Loans and advances to banks	-	21,219,664	13,384,535	110,000	-	-	-	34,714,199
Loans and advances to customers	-	15,135,738	578,829	6,359,108	1,711,293	18,127,177	27,221,347	69,133,492
Derivative assets	-	-	95,115	752,816	224,854	133,057	1,797,680	3,003,522
	<b>128,312</b>	<b>45,821,952</b>	<b>14,058,479</b>	<b>27,384,580</b>	<b>12,992,161</b>	<b>28,975,426</b>	<b>35,480,784</b>	<b>164,841,694</b>
<b>Financial liabilities</b>								
Deposits from banks	-	(22,507,140)	-	(86,369)	-	(12,964,637)	-	(35,558,146)
Deposits from customers	-	(79,768,952)	-	-	(12,555,871)	(2,403,016)	-	(94,727,839)
Trading liabilities	-	-	-	(259,676)	-	-	-	(259,676)
Borrowings	-	-	-	-	-	(4,993,826)	(853,926)	(5,847,752)
Other liabilities and accrued expenses	-	(8,683,721)	-	-	-	-	-	(8,683,721)
Derivative liabilities	-	-	(327,216)	(372,033)	(149,654)	(130,600)	(1,797,680)	(2,777,183)
	<b>-</b>	<b>(110,959,813)</b>	<b>(327,216)</b>	<b>(718,078)</b>	<b>(12,705,525)</b>	<b>(20,492,079)</b>	<b>(2,651,606)</b>	<b>(147,854,317)</b>
<b>Net liquidity gap (cumulative)</b>	<b>128,312</b>	<b>(65,137,861)</b>	<b>13,731,263</b>	<b>26,666,502</b>	<b>286,636</b>	<b>8,483,347</b>	<b>32,829,178</b>	<b>16,987,377</b>

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## Year ended 31 December 2012

	Undated 2012 Kshs'000	Redeemable on demand 2012 Kshs'000	Maturing after Maturing within 1 month 2012 Kshs'000	Maturing after 1 month but within 6 months 2012 Kshs'000	Maturing after 6 months but within 12 months 2012 Kshs'000	12 months but within 5 years 2012 Kshs'000	Maturing after 5 years 2012 Kshs'000	Total 2012 Kshs'000
<b>Financial assets</b>								
Cash and balances to banks	-	23,366,583	-	-	-	-	-	23,366,583
Financial assets- fair value through profit or loss	127,068	-	767,894	10,433,238	2,608,549	1,289,275	-	15,226,024
Available-for-sale pledged assets debt	-	-	-	348,204	-	1,276,754	1,498,238	3,123,196
Financial assets- available-for-sale debt	-	-	-	288	1,309,118	4,404,698	-	5,714,104
Loans and advances to banks	-	6,074,877	6,149,505	-	109,605	-	-	12,333,987
Loans and advances to customers	-	15,847,793	204,949	4,595,332	2,420,431	19,316,106	23,765,230	66,149,841
Derivative assets	-	202,476	958,113	340,075	190,862	240,305	-	1,931,831
	<b>127,068</b>	<b>45,491,729</b>	<b>8,080,461</b>	<b>15,717,137</b>	<b>6,638,565</b>	<b>26,527,138</b>	<b>25,263,468</b>	<b>127,845,566</b>
<b>Financial liabilities</b>								
Deposits from banks	-	(24,608,653)	-	(947,831)	-	-	-	(25,556,484)
Deposits from customers	-	(45,733,131)	(9,222,257)	(9,645,398)	(2,112,448)	(8,193,529)	-	(74,906,763)
Trading liabilities	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	(4,980,304)	(1,717,427)	(6,697,731)
Other liabilities and accrued expenses	-	(5,963,608)	-	-	-	-	-	(5,963,608)
Derivative liabilities	-	(233,363)	(725,258)	(820,708)	(418,936)	(271,383)	-	(2,469,648)
	<b>-</b>	<b>(76,538,755)</b>	<b>(9,947,515)</b>	<b>(11,413,937)</b>	<b>(2,531,384)</b>	<b>(13,445,216)</b>	<b>(1,717,427)</b>	<b>(115,594,234)</b>
<b>Net liquidity gap (cumulative)</b>	<b>127,068</b>	<b>(31,047,026)</b>	<b>(1,867,054)</b>	<b>4,303,200</b>	<b>4,107,181</b>	<b>13,081,922</b>	<b>23,546,041</b>	<b>12,251,332</b>

**6 Interest income**

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Interest on loans, advances and short-term funds	7,539,178	10,038,761	1,092	21,535
Interest on government securities available-for-sale	2,262,189	1,463,848	-	-
Placements and other bank balances	533,020	150,567	-	-
Other	2,105	282	-	-
	<b>10,336,492</b>	<b>11,653,458</b>	<b>1,092</b>	<b>21,535</b>

Interest income excludes interest on impaired loans and advances which has been recognised as interest in suspense on the statement of financial position (see Note 22(e)).

**7 Interest expense**

	Group		Company	
	2013 KShs' 000	2012 KShs' 000	2013 KShs' 000	2012 KShs' 000
Current accounts	55,126	79,317	-	-
Savings and term deposit accounts	2,105,089	4,196,500	-	-
Deposits and placements from other banks	87,357	278,100	-	-
Interest on borrowed funds	546,806	556,754	-	-
	<b>2,794,378</b>	<b>5,110,671</b>	<b>-</b>	<b>-</b>

**8 Fee and commission revenue**

Account transaction fees	945,191	915,132	-	-
Knowledge based fees and commission	474,263	697,716	-	-
Electronic banking fees	539,162	346,644	-	-
Foreign service fees	293,236	188,184	-	-
Documentation and administration fees	405,961	239,625	-	-
Other	531,311	330,744	-	-
	<b>3,189,124</b>	<b>2,718,045</b>	<b>-</b>	<b>-</b>

**9 Fee and commission expense**

Card based commission	67,429	43,399	-	-
Knowledge based fees and commission	62,147	56,284	-	-
Other bank - related fees and commission	178,822	75,163	-	-
	<b>308,398</b>	<b>174,846</b>	<b>-</b>	<b>-</b>

Other bank related fees and commission includes direct sales agent commissions and card courier fees.

**10 Trading revenue**

	Group		Company	
	2013 KShs' 000	2012 KShs' 000	2013 KShs' 000	2012 KShs' 000
Foreign exchange	4,978,873	3,389,123	-	-
Debt securities	680,369	1,584,739	-	-
	<b>5,659,242</b>	<b>4,973,862</b>	<b>-</b>	<b>-</b>

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## 11 Other income

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Gain on disposal of property and equipment	2,783	1,123	-	-
Dividend income	12,169	6,950	250,000	200,000
Rebates and other income	106,048	24,423	-	-
	<b>121,000</b>	<b>32,496</b>	<b>250,000</b>	<b>200,000</b>

## 12 Employee benefit expense

Salaries and allowances	3,697,142	3,299,092	-	-
Retirement benefit costs	250,065	196,688	-	-
Other staff costs	82,888	47,607	-	-
	<b>4,030,095</b>	<b>3,543,387</b>	<b>-</b>	<b>-</b>

### Included in retirement benefit costs are;

Defined contribution scheme	247,840	194,851	-	-
National Social Security Fund	2,225	1,837	-	-
	<b>250,065</b>	<b>196,688</b>	<b>-</b>	<b>-</b>

## 13 Other expenses

Audit fees	14,142	12,755	2,248	1,910
Write off of property and equipment	-	(2,549)	-	-
Directors' fees	8,997	11,662	8,997	11,662
Premises costs	484,492	455,837	-	-
Information technology and communication	762,657	661,593	-	-
Professional fees	557,360	622,226	2,017	3,336
Marketing and advertising costs	259,133	266,860	4,583	-
Security expenses	125,394	170,664	-	-
Travel and entertainment costs	288,947	305,258	-	-
Processing costs	-	9,001	-	-
Stationery and printing costs	76,834	81,217	724	-
Insurance costs	84,777	69,173	-	-
Administration and membership fees	26,948	39,811	1,794	-
Training expenses	116,252	82,822	-	-
Bank charges	135,099	112,435	1,032	-
Deposit Protection Scheme contribution	150,305	129,872	-	-
Other operating costs	467,686	1,657,459	(67,840)	63,801
	<b>3,559,023</b>	<b>4,686,096</b>	<b>(46,445)</b>	<b>80,709</b>

## 14 Depreciation and amortisation expense

Amortisation – intangible assets (Note 27)	324,389	377,004	-	-
Depreciation (Note 25)	296,015	259,386	60	106
Amortisation of prepaid operating lease (Note 26)	2,954	2,954	-	-
	<b>623,358</b>	<b>639,344</b>	<b>60</b>	<b>106</b>

## 15 Income tax expense

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Current income tax(Note 34(b))	2,471,518	1,949,476	-	-
Tax asset utilised during the year	18,815	-	-	-
Deferred income tax credit (Note 34(c))	(393,484)	(371,279)	-	-
	<b>2,096,849</b>	<b>1,578,197</b>	-	-

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

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
<b>Profit before income tax</b>	<b>7,224,005</b>	<b>4,588,088</b>	<b>297,477</b>	<b>140,720</b>
Tax at statutory tax rate of 30% (2012: 30%)	2,167,202	1,376,426	89,243	42,216
Tax effect of:				
Income not subjected to tax	(221,298)	(181,929)	-	-
Expenses not deductible for tax purposes	311,241	343,475	(89,243)	(42,216)
Previous year current tax (under)/over provision	(160,296)	5,512	-	-
Previous year deferred income tax under provision	-	34,713	-	-
<b>Income tax expense</b>	<b>2,096,849</b>	<b>1,578,197</b>	-	-

## 16 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	
	2013	2012	2013	2012
Earnings for the purposes of basic earnings per share (KShs'000)	5,127,156	3,009,891	297,477	140,720
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	395,322	304,001	395,322	304,001
<b>Earnings per share (KShs) basic and diluted</b>	<b>12.97</b>	<b>9.90</b>	<b>0.75</b>	<b>0.46</b>

There were no potentially dilutive shares as at 31 December 2013 or 31 December 2012. Therefore, diluted earnings per share are the same as basic earnings per share.

## 17 Dividend per share

	Group		Company	
	2013	2012	2013	2012
The calculation of dividends per share is based on:				
Dividends for the year attributable to ordinary shareholders				
Interim dividend paid (KShs'000)	249,053	200,000	249,053	200,000
Final dividend proposed (KShs'000)	600,889	-	600,889	-
	<b>849,942</b>	<b>200,000</b>	<b>849,942</b>	<b>200,000</b>
Number of ordinary shares at issue date (thousands)	395,322	273,684	395,322	273,684
<b>Dividends per share – KShs</b>	<b>2.15</b>	<b>0.73</b>	<b>2.15</b>	<b>0.73</b>

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting.

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At the Annual General Meeting to be held on 3 June 2014, a final dividend per share in respect of the year ended 31 December 2013 of KShs 1.52 (2012: Nil) will be proposed. An interim dividend per share of KShs 0.63 (2012: KShs 0.73) was paid during the year.

This will bring the total dividend per share for the year to KShs 2.15 (2012: KShs 0.73).

Payment of dividends is subject to withholding tax at the rate of either 5% or 10%, depending on the residence of the individual shareholders.

## 18 Cash, bank balances and balances with Central Bank

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Cash and bank balances	2,261,432	2,164,066	92,907	177,680
Balances with Central Bank	7,205,118	21,202,517	-	-
	<b>9,466,550</b>	<b>23,366,583</b>	<b>92,907</b>	<b>177,680</b>

Banks are required to maintain a prescribed minimum cash reserve including cash in hand and balances with Central Bank of Kenya. The minimum cash reserve is non-interest earning and is based on the value of deposits as adjusted for by Central Bank of Kenya requirements. At 31 December 2013, the cash reserve requirement was 5.25% of the eligible deposits (2012: 5.25%). The cash reserve requirement balance for the year ended 31 December 2013 is KShs 4,448,769,150 (2012: KShs 3,833,066,580).

## 19 Financial assets - available-for-sale pledged assets

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Debt securities - pledged as collateral	3,391,972	3,123,196	-	-

Dated pledged assets had a redemption value at 31 December 2013 of KShs 3,282,500,000 (2012: KShs 3,220,500,000).

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

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

## 20 Financial assets

	Group	
	2013 KShs'000	2012 KShs'000
Financial assets - fair value through profit or loss (Note 20(a))	23,205,351	15,226,024
Financial assets - available-for-sale (Note 20(b))	21,926,608	5,714,104
Financial assets - held-to-maturity (Note 20(c))	21,504	25,948
	<b>45,153,463</b>	<b>20,966,076</b>

### (a) Financial assets - fair value through profit or loss

	Group	
	2013 KShs'000	2012 KShs'000
Listed securities-trading	<b>23,205,351</b>	<b>15,226,024</b>
<b>Maturities</b>		
Maturing within 12 months	13,080,782	13,809,681
Maturing after 12 months	9,996,257	1,289,275
Undated securities	128,312	127,068
	<b>23,205,351</b>	<b>15,226,024</b>

The maturities represent periods to contractual redemption of trading assets recorded. Dated trading assets had a redemption value at 31 December 2013 of KShs 23,605,000,000 (2012: KShs 15,434,650,000). Trading assets are debt securities issued by the Central Bank of Kenya on behalf of the Government of Kenya. The weighted average effective interest yield on debt securities held for trading at 31 December 2013 was 11.36% (2012: 13.15%).

**20 Financial assets (continued)****(b) Financial assets - available-for-sale**

	Group	
	2013 KShs'000	2012 KShs'000
<b>Classification</b>		
Listed	21,678,120	5,514,580
Unlisted	248,488	199,524
	<b>21,926,608</b>	<b>5,714,104</b>
<b>Comprising:</b>		
Government bonds	5,027,364	4,551,775
Corporate bonds	495,483	479,337
Treasury bills	16,403,761	682,992
	<b>21,926,608</b>	<b>5,714,104</b>
<b>Maturity analysis</b>		
Maturing within 12 months	14,745,916	1,309,406
Maturing after 12 months	7,180,692	4,404,698
	<b>21,926,608</b>	<b>5,714,104</b>

The weighted average effective interest yield on available-for-sale investment securities at 31 December 2013 was 14.26% (2012: 12.19%). A fair value gain of KShs 179,361,000 on has been recognised in the statement of other comprehensive income on page 40 (2012: KShs 1,696,706,000).

**(c) Financial assets - held-to-maturity**

	Group	
	2013 KShs'000	2012 KShs'000
Listed	-	-
Unlisted	21,504	25,948
<b>Comprising:</b>		
Corporate bonds	13,334	17,778
Long term Investment in Nairobi Securities Exchange (NSE) and Central Depository and Settlement Corporation (CDSC)	8,170	8,170
	<b>21,504</b>	<b>25,948</b>
<b>Maturity analysis</b>		
Maturing after 12 months	<b>21,504</b>	<b>25,948</b>

**21 Financial liabilities**

	2013 KShs'000	2012 KShs'000
Financial liabilities – designated at fair value through profit or loss	259,676	-
	<b>259,676</b>	-
<b>Maturity analysis</b>		
Redeemable on demand	-	-
Maturing within 1 month	-	-
Maturing after 1 month but within 6 months	259,676	-
	<b>259,676</b>	-

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## 22 Loans and advances

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

### (a) Loans and advances to banks

	Group	
	2013 KShs'000	2012 KShs'000
Balances with banks	20,106,357	7,075,007
Balances with Bank of South Sudan	14,607,842	5,258,980
	<b>34,714,199</b>	<b>12,333,987</b>

### (b) Loans and advances to customers

#### Net loans and advances

Mortgage lending	11,138,654	9,314,680
Instalment sale (Note 22(h))	9,747,435	8,985,347
Overdraft and other demand lending	18,780,499	16,093,033
Term lending	31,042,336	32,901,478
Card lending	324,607	405,217

#### Gross loans and advances to customers

**71,033,531**      **67,699,755**

#### Allowances for impairments

Impairment for non-performing loans	(955,995)	(751,473)
Impairment for performing loans	(944,044)	(798,441)

#### Credit impairment allowances

**(1,900,039)**      **(1,549,914)**

#### Net loans and advances

**69,133,492**      **66,149,841**

#### Maturity analysis:

Redeemable on demand	15,135,738	15,847,793
Maturing within 1 month	578,829	204,949
Maturing after 1 month but within 6 months	6,359,108	4,595,332
Maturing after 6 months but within 12 months	1,711,293	2,420,431
Maturing after 12 months but within 5 years	18,127,177	19,316,106
Maturing after 5 years	27,221,347	23,765,230

#### Net loans and advances

**69,133,492**      **66,149,841**

The weighted average effective interest rate on loans and advances to customers as at 31 December 2013 was 11.31% (2012: 15.42%). The Group extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment sales and overdrafts.

**22 Loans and advances (continued)****(c) Impairment reserve****Year ended 31 December 2013**

	<b>Non-performing loans KShs'000</b>	<b>Portfolio impairment KShs'000</b>	<b>Group Total KShs'000</b>
<b>At 1 January 2013</b>	<b>751,473</b>	<b>798,441</b>	<b>1,549,914</b>
Amounts written off during the year as uncollectable	(504,248)	-	(504,248)
Amounts recovered during the year	(469,455)	-	(469,455)
Provision for loans impairment	1,178,225	145,603	1,323,828
<b>At 31 December 2013</b>	<b>955,995</b>	<b>944,044</b>	<b>1,900,039</b>

**Year ended 31 December 2012**

	<b>Non-performing loans KShs'000</b>	<b>Portfolio impairment KShs'000</b>	<b>Group Total KShs'000</b>
<b>At 1 January 2012</b>	<b>592,583</b>	<b>678,335</b>	<b>1,270,918</b>
Amounts written off during the year as uncollectable	(459,816)	-	(459,816)
Amounts recovered during the year	(768,816)	-	(768,816)
Provision for loans impairment	1,387,522	120,106	1,507,628
<b>At 31 December 2012</b>	<b>751,473</b>	<b>798,441</b>	<b>1,549,914</b>

**(d) Loan impairment charge**

	<b>Group</b>	
	<b>2013 KShs'000</b>	<b>2012 KShs'000</b>
Loans impairment for non-performing loans	1,178,225	1,387,522
Loans impairment for performing loans	145,603	120,106
Amounts recovered during the period	(469,455)	(768,816)
Recoveries of amounts previously written off	(87,772)	(103,383)
<b>Net loans impairment charge on loans and advances</b>	<b>766,601</b>	<b>635,429</b>

**(e) Impaired loans and advances**

	<b>2013 KShs'000</b>	<b>2012 KShs'000</b>
Impaired loans and advances	1,784,847	1,048,363
Provision for impairment losses (Note 22 (c))	(955,995)	(751,473)
Recoverable amount of impaired loans and advances	828,852	296,890
<b>Interest in suspense</b>	<b>268,700</b>	<b>190,179</b>

The directors are of the opinion that the net amount of impaired loans and advances is recoverable in full.

**(f) Industry analysis**

	<b>Group</b>			
	<b>2013</b>		<b>2012</b>	
	<b>KShs'000</b>	<b>%</b>	<b>KShs'000</b>	<b>%</b>
Agriculture	8,994,916	13%	8,698,228	13%
Electricity and water	171,045	0%	322,160	1%
Manufacturing	10,761,364	16%	8,649,696	13%
Building and construction	783,051	1%	987,641	1%
Wholesale, retail trade and restaurants	13,398,182	19%	16,477,446	25%
Transport and communication	3,924,220	6%	9,406,622	14%
Finance and insurance	1,790,680	3%	1,753,819	3%
Real estate and business service	2,000,881	3%	2,810,202	4%
Other activities and social service	27,309,153	40%	17,044,027	26%
	<b>69,133,492</b>	<b>100%</b>	<b>66,149,841</b>	<b>100%</b>

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(g) Segmental analysis of non-performing loans and advances – industry

	Group			
	2013		2012	
	KShs'000	%	KShs'000	%
Agriculture	470,904	26%	6,717	1%
Manufacturing	25,897	1%	6,946	1%
Building and construction	107,790	6%	12,150	1%
Wholesale, retail trade and restaurants	402,992	23%	419,909	40%
Transport and communication	57,276	3%	101,837	10%
Finance and insurance	4	0%	10,901	1%
Real estate and business service	-	0%	33,527	3%
Other activities and social service	719,984	41%	456,376	43%
	<b>1,784,847</b>	<b>100%</b>	<b>1,048,363</b>	<b>100%</b>

(h) Instalment sales

The Group holds instalment sales contracts with customers where the Group finances the purchase of assets under a series of contracts which transfer title to the Group as security for the loan. The Group receives the lease payments and sets off the payments against the principal loan and interest repayments. While in principal the Group only finances the purchase of the assets, the agreements that are necessary to execute the arrangement confer a lessor status on the Group.

Loans and advances to customers include finance lease receivables, which are analysed below:

	Group	
	2013 KShs'000	2012 KShs'000
Gross investment in finance leases:		
Not later than 1 year	438,184	1,710
Later than 1 year and not later than 5 years	7,567,630	7,580,801
Later than 5 years	1,780,186	1,531,720
	9,786,000	9,114,231
Unearned finance charge	(38,565)	(128,884)
Net investment in finance leases	<b>9,747,435</b>	<b>8,985,347</b>

Impairment provisions of KShs 228,948,000 (2012: KShs 226,805,000) for finance lease receivables are included in the impairment for non-performing loans.

(i) Employees

	Group	
	2013 KShs'000	2012 KShs'000
At start of year	2,600,993	2,444,132
New loans issued	1,513,585	1,173,429
Accrued interest	195,586	179,378
Loan repayments	(1,091,541)	(1,195,946)
<b>At end of year</b>	<b>3,218,623</b>	<b>2,600,993</b>

Interest earned on the loans to employees was KShs 332,953,362 (2012: KShs 258,490,263).

## 23 Other assets and prepayments

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Uncleared effects	1,544,737	1,462,056	-	-
Trade receivables and prepayments	425,277	357,849	-	-
Others	382,578	130,920	3,393	3,230
<b>2,352,592</b>	<b>1,950,825</b>	<b>3,393</b>	<b>3,230</b>	

## 24 Investment in subsidiaries

Beneficial Company	Company			
	Country of ownership	2013 Incorporation	2012 KShs'000	KShs'000
CfC Stanbic Bank Limited	100%	Kenya	18,009,808	18,009,808
SBG Securities Limited (formerly CfC Stanbic Financial Services Limited)	100%	Kenya	165,530	165,530
		<b>18,175,338</b>	<b>18,175,338</b>	

## 25 Property and equipment

### (a) Group

Cost	Land and premises KShs'000	Equipment furniture & fittings KShs'000	Motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
At 1 January 2013	405,886	3,428,616	183,582	16,491	4,034,575
Additions	-	125,166	-	176,581	301,747
Disposals	-	(637)	(11,537)	-	(12,174)
Work in progress	-	13,702	-	(13,702)	-
Foreign currency translation difference	-	26,815	3,238	-	30,053
<b>At 31 December 2013</b>	<b>405,886</b>	<b>3,593,662</b>	<b>175,283</b>	<b>179,370</b>	<b>4,354,201</b>
<b>Depreciation</b>					
At 1 January 2013	(50,024)	(1,574,252)	(107,628)	-	(1,731,904)
Charge for the year	(13,160)	(257,496)	(25,359)	-	(296,015)
Disposals	-	637	11,537	-	12,174
Foreign exchange revaluation	-	(1,743)	(126)	-	(1,869)
<b>At 31 December 2013</b>	<b>(63,184)</b>	<b>(1,832,854)</b>	<b>(121,576)</b>	<b>-</b>	<b>(2,017,614)</b>
Provision for impairment in 2013	(12,273)	(148,187)	-	(942)	(161,402)
<b>Net book value at 31 December 2013</b>	<b>330,429</b>	<b>1,612,621</b>	<b>53,707</b>	<b>178,428</b>	<b>2,175,185</b>

As at 31 December 2013, there were no items of property and equipment pledged by the Group to secure liabilities.

Work in progress is composed of refurbishments and equipment for branches and projects that had not been completed as at year end.

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Cost	Land and premises KShs'000	Equipment furniture & fittings KShs'000	Motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
At 1 January 2012	405,886	3,127,456	169,151	73,191	3,775,684
Additions	-	291,342	18,624	(26,806)	283,160
Disposals	-	(32)	(4,418)	-	(4,450)
Work in progress	-	7,824	-	(29,894)	(22,070)
Foreign currency translation difference	-	2,026	225	-	2,251
<b>At 31 December 2012</b>	<b>405,886</b>	<b>3,428,616</b>	<b>183,582</b>	<b>16,491</b>	<b>4,034,575</b>
<b>Depreciation</b>					
At 1 January 2012	(36,863)	(1,354,087)	(85,531)	-	(1,476,481)
Charge for the year	(13,161)	(220,165)	(26,060)	-	(259,386)
Disposals	-	-	3,963	-	3,963
<b>At 31 December 2012</b>	<b>(50,024)</b>	<b>(1,574,252)</b>	<b>(107,628)</b>	<b>-</b>	<b>(1,731,904)</b>
<b>Net book value at 31 December 2012</b>	<b>355,862</b>	<b>1,854,364</b>	<b>75,954</b>	<b>16,491</b>	<b>2,302,671</b>

As at 31 December 2012, there were no items of property and equipment pledged by the Group to secure liabilities

#### (b) Company

Cost	2013 Computer Equipment KShs '000	2012 Computer Equipment KShs '000
At 1 January	1,659	1,659
<b>At 31 December</b>	<b>1,659</b>	<b>1,659</b>
Depreciation		
At 1 January	(1,599)	(1,493)
Charge for the year	(60)	(106)
<b>At 31 December</b>	<b>(1,659)</b>	<b>(1,599)</b>
<b>Net book value at 31 December</b>	<b>-</b>	<b>60</b>

As at 31 December 2013 and 31 December 2012, there were no items of property and equipment pledged by the Company to secure liabilities.

The total amount disclosed as property and equipment in the Group and the Company is non-current.

## 26 Prepaid operating lease

Cost	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
At 1 January	85,499	85,499	-	-
<b>At 31 December</b>	<b>85,499</b>	<b>85,499</b>	<b>-</b>	<b>-</b>
<b>Amortisation</b>				
At 1 January	(19,784)	(16,830)	-	-
Charge for the year	(2,954)	(2,954)	-	-
<b>At 31 December</b>	<b>(22,738)</b>	<b>(19,784)</b>	<b>-</b>	<b>-</b>
<b>Net book value at 31 December</b>	<b>62,761</b>	<b>65,715</b>	<b>-</b>	<b>-</b>

The total amount disclosed as prepaid operating lease in the Group is non-current.

## 27 Other intangible assets

### Group Year ended 31 December 2013

	Software KShs'000	Other intangible assets KShs'000	Total KShs'000
<b>Cost</b>			
At 1 January 2013	1,524,413	1,099,059	2,623,472
Additions	49,249	-	49,249
<b>At 31 December</b>	<b>1,573,662</b>	<b>1,099,059</b>	<b>2,672,721</b>
<b>Amortisation</b>			
At 1 January 2013	(1,013,303)	(575,739)	(1,589,042)
Charge for the year	(227,331)	(97,059)	(324,390)
<b>At 31 December 2013</b>	<b>(1,240,634)</b>	<b>(672,798)</b>	<b>(1,913,432)</b>
<b>Net book value at 31 December 2013</b>	<b>333,028</b>	<b>426,261</b>	<b>759,289</b>

### Group Year ended 31 December 2012

	Software KShs'000	Other intangible assets KShs'000	Total KShs'000
<b>Cost</b>			
At 1 January 2012	1,486,193	1,099,059	2,585,252
Additions	16,151	-	16,151
Reclassifications from work in progress	22,069	-	22,069
<b>At 31 December</b>	<b>1,524,413</b>	<b>1,099,059</b>	<b>2,623,472</b>
<b>Amortisation</b>			
At 1 January 2012	( 766,893)	(445,145)	(1,212,038)
Charge for the year	(246,410)	(130,594)	(377,004)
<b>At 31 December 2012</b>	<b>(1,013,303)</b>	<b>(575,739)</b>	<b>(1,589,042)</b>
<b>Net book value at 31 December 2012</b>	<b>511,110</b>	<b>523,320</b>	<b>1,034,430</b>

The total amount disclosed as intangible assets in the Group and the Company is non-current.

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

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

## 28 Intangible assets - goodwill

	Group		Company	
	2013 KShs '000	2012 KShs '000	2013 KShs '000	2012 KShs '000
<b>Cost</b>				
<b>At 1 January and 31 December</b>	<b>9,349,759</b>	<b>9,349,759</b>	<b>-</b>	<b>-</b>

Goodwill relating to CfC Stanbic Holdings Limited was tested for impairment on 31 December 2013. The recoverable amount was determined to be the value in use. Unless indicated otherwise, the value in use in 2013 was determined in a manner consistent with that used in 2012. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use. An eight-year forecast was used as a basis for future cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a nominal growth rate of 12.00% (2012: 12.00%). The pre-tax discount rate used was based on an assessment of the risks applicable to the specific entity and country in which it operates. The cost of equity discount rate calculated for the forecast years was 17.7% per annum (2012: 18.20%). The cost of equity assigned to the cash-generating unit and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is derived from an equity pricing model deemed appropriate based on the entity under review. The risk-free rate used to determine the cost of equity has been derived from the 10-year local Kenyan government bond. These variables are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash-generating units. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows thereafter. Based on the testing performed, no impairment was identified.

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. All the goodwill has been allocated to CIB CGU.

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## 29 Ordinary share capital and share premium

### Authorised share capital

	2013		2012	
	Number of Shares (thousands)	Share Capital KShs '000	Number of Shares (thousands)	Share Capital KShs '000
Balance as at 1 January and 31 December	473,684	2,368,421	473,684	2,368,421

### Issued share capital

	2013		2012	
	Number of Shares (thousands)	Share Capital KShs '000	Number of Shares (thousands)	Share Capital KShs '000
Balance as at 1 January	395,322	1,976,608	273,684	1,368,421
Issued during the year	-	-	121,638	608,187
<b>Balance as at 31 December</b>	<b>395,322</b>	<b>1,976,608</b>	<b>395,322</b>	<b>1,976,608</b>
<b>Unissued shares</b>	<b>78,362</b>	<b>391,813</b>	<b>78,362</b>	<b>391,813</b>

### Ordinary share premium

	2013 KShs'000	2012 KShs'000
At 1 January	16,897,389	13,586,847
Issued during the year	-	3,310,542
<b>At 31 December</b>	<b>16,897,389</b>	<b>16,897,389</b>

## 30 Derivative assets and liabilities

	2013 Fair values			2012 Fair values		
	Notional contract amount KShs'000	Assets KShs'000	Liabilities KShs'000	Notional contract amount KShs'000	Assets KShs'000	Liabilities KShs'000
<b>Foreign exchange derivatives</b>						
Currency forwards	20,861,932	463,063	288,600	36,122,637	334,386	1,254,775
Currency swaps	30,522,449	937,776	885,102	35,173,788	994,634	612,062
Currency options	3,648,349	57,501	57,501	531,277,862	136,835	136,835
<b>Total over-the-counter derivatives</b>	<b>55,032,730</b>	<b>1,458,340</b>	<b>1,231,203</b>	<b>602,574,287</b>	<b>1,465,855</b>	<b>2,003,672</b>
<b>Interest rate derivatives</b>						
Cross currency interest rate swaps	45,843,386	1,545,182	1,545,980	6,787,218	465,976	465,976
<b>Total derivative assets held for trading</b>	<b>100,876,116</b>	<b>3,003,522</b>	<b>2,777,183</b>	<b>609,361,505</b>	<b>1,931,831</b>	<b>2,469,648</b>
Current	55,143,261	1,073,457	849,004	607,473,738	1,926,351	2,442,315
Non-current	45,732,855	1,930,065	1,928,179	1,887,767	5,480	27,333

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 and for hedging foreign exchange exposures. Derivative instruments used by the Group in both trading and hedging activities include forwards and other similar types of instruments based on foreign exchange rates and interest rates.

## 31 Deposits and current accounts

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

	Group	
	2013 KShs'000	2012 KShs'000
<b>Deposits from banks</b>		
<b>Deposits from customers</b>		
Current accounts	65,975,634	45,733,131
Call deposits	6,353,385	9,222,257
Savings accounts	7,630,559	8,166,396
Term deposits	14,768,261	11,784,979
<b>Total Deposits</b>	<b>130,285,985</b>	<b>100,463,247</b>

### Maturity analysis of deposits from customers

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

	Group	
	2013 KShs'000	2012 KShs'000
Repayable on demand	79,768,952	45,733,131
Maturing within 1 month	-	9,222,257
Maturing after 1 month but within 6 months	-	9,645,398
Maturing after 6 months but within 12 months	12,555,871	2,112,448
Maturing after 12 months	2,403,016	8,193,529
	<b>94,727,839</b>	<b>74,906,763</b>

Deposit products include cheque accounts, savings accounts, call deposits, and fixed deposits. The weighted average effective interest rate on customer deposits as at 31 December 2013 was 2.74% (2012: 3.41%)

	2013		2012	
	KShs'000	%	KShs'000	%
Central government	1,450,695	2%	8,728,240	12%
Non-financial public enterprises	1,790,366	2%	2,854,721	4%
Non-bank financial institutions	471,149	0%	124,436	0%
Insurance companies	1,228,887	1%	771,148	1%
Hire purchase companies	77	0%	9,512	0%
Private enterprises	59,876,326	63%	39,218,146	52%
Non-profit institutions and individuals	30,910,339	32%	23,200,560	31%
	<b>94,727,839</b>	<b>100%</b>	<b>74,906,763</b>	<b>100%</b>

## 32 Borrowings

At 31 December 2013

	Notional value Kshs'000	Carrying value Kshs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	2,402,093	2,395,390	12.50%	07 July 2009	07 July 2016
CfC Stanbic Bond	97,907	97,939	182 day T-bill+175 bps	07 July 2009	07 July 2016
CfC Stanbic Bond	2,500,000	2,500,497	7.25%	27 December 2010	22 December 2014
IFC Loan*	850,000	853,926	6 Month LIBOR+400 bps	15 June 2009	30 June 2019
<b>Total</b>	<b>5,850,000</b>	<b>5,847,752</b>			

\* IFC - International Finance Corporation

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### At 31 December 2012

	Notional value Kshs'000	Carrying value Kshs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	2,402,093	2,391,451	12.50%	07 July 2009	07 July 2016
CfC Stanbic Bond	97,907	96,896	182 day T-bill+175 bps	07 July 2009	07 July 2016
CfC Stanbic Bond	2,500,000	2,500,497	7.25%	27 December 2010	22 December 2014
IFC Loan*	850,000	850,149	6 Month LIBOR+400 bps	15 June 2009	30 June 2019
Shareholders' loan	850,000	858,738	3 Month LIBOR+300 bps	30 June 2008	30 June 2018
<b>Total</b>	<b>6,700,000</b>	<b>6,697,731</b>			

\* IFC - International Finance Corporation

The shareholder loan was obtained from Stanbic Africa Holdings Limited on 30 June 2008 with a 10-year term and callable at the option of the issuer one day after the fifth anniversary of the issue date or on any interest payment date thereafter. The loan was repaid in June 2013.

There were no charges placed on any of the Group's assets in relation to these borrowings.

Interest expense incurred on the above borrowings was KShs 12,085,385 (2012: KShs 29,850,060). The weighted average effective interest rate on borrowings as at 31 December 2013 was 9.78% (2012: 10.23%).

The borrowings are unsecured subordinated debt instruments.

## 33 Other liabilities and accrued expenses

### (a) Other liabilities and accrued expenses

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Accruals	3,319,002	2,185,154	24,175	101,619
Deferred bonus scheme (Note 33(b))	127,470	45,932	-	-
Un-presented bank drafts	332,827	1,074,790	-	-
Margin on guarantees and letters of credit	2,541,198	141,748	-	-
Items in transit	822,579	50,412	-	-
Sundry creditors	1,540,645	2,465,572	516	-
	<b>8,683,721</b>	<b>5,963,608</b>	<b>24,691</b>	<b>101,619</b>

### (b) Deferred bonus scheme (DBS)

It is essential for the Group to retain key skills over the longer term. This is done particularly through share-based incentive plans. The purpose of these plans is to align the interests of the Group, its subsidiaries and employees, as well as to attract and retain skilled, competent people.

The Group has implemented a scheme to defer a portion of incentive bonuses over a minimum threshold for key management and executives. This improves the alignment of shareholder and management interests by creating a closer linkage between risk and reward, and also facilitates retention of key employees.

All employees, who are awarded short-term incentives over a certain threshold, are subject to a mandatory deferral of a percentage of their cash incentive into the DBS. Vesting of the deferred bonus occurs after three years, conditional on continued employment at that time. The final payment of the deferred bonus is calculated with reference to the Standard Bank Group share price at payment date. To enhance the retention component of the scheme, additional increments on the deferred bonus become payable at vesting and one year thereafter. Variables on thresholds and additional increments in the DBS are subject to annual review by the remuneration committee, and may differ from one performance year to the next.

In 2012, changes were made to the existing DBS to provide for a single global incentive deferral scheme across the regions. The purpose of the Deferred Bonus Scheme 2012 is to encourage a longer-term outlook in business decision-making and closer alignment of performance with long-term value creation.

The provision in respect of liabilities under the scheme amounts to KShs 127,470,497 at 31 December 2013 (2012: KShs 45,931,681) and the amount charged for the year was KShs 101,696,398 (2012: KShs 45,480,898).

### 33 Other liabilities and accrued expenses (continued)

#### (b) Deferred bonus scheme (DBS) (continued)

	Units	
	2013	2012
<b>Reconciliation</b>		
Units outstanding at beginning of the year	134,436	20,771
Granted	126,091	113,665
Exercised	(34,012)	-
Lapsed	(24,987)	-
<b>Units outstanding at end of the year</b>	<b>201,528</b>	<b>134,436</b>
Weighted average fair value at grant date (ZAR)	115.51	108.90
Expected life (years)	2.51	2.51
Risk-free interest rate (%)	5.54	4.84

### 34 Income tax

#### (a) Current income tax recoverable

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
At 1 January	158,846	158,846	140,031	140,031
Tax asset utilised during the year	(18,815)	-	-	-
Tax liability write-back	9,714	-	9,714	-
Tax refund	(149,745)	-	(149,745)	-
<b>Current income tax recoverable</b>	<b>-</b>	<b>158,846</b>	<b>-</b>	<b>140,031</b>

The total amount disclosed as current income tax recoverable is current.

#### (b) Current income tax payable

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
At 1 January	377,033	587,723	-	-
Exchange difference on translation	2,272	(7,470)	-	-
Current income tax charge (Note 15)	2,471,518	1,949,476	-	-
Income tax paid	(2,619,134)	(2,152,696)	-	-
<b>Current income tax payable</b>	<b>231,689</b>	<b>377,033</b>	<b>-</b>	<b>-</b>

The total amount disclosed as current income tax payable is current.

#### (c) Deferred income tax asset

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
At start of year	478,395	616,128	-	-
Credit to statement of profit or loss (Note 15)	393,484	371,279	-	-
Credit/(charge) to other comprehensive income	77,134	(509,012)	-	-
<b>At end of year</b>	<b>949,013</b>	<b>478,395</b>	<b>-</b>	<b>-</b>

Deferred income tax assets and liabilities and deferred income tax (credit)/charge in the statement of profit or loss and other comprehensive income (OCI) are attributable to the following items:

	1.1.2013	Credited to statement of profit or loss	Credited to OCI	31.12.2013
	KShs'000	KShs'000	KShs'000	KShs'000
<b>Year ended 31 December 2013</b>				
<b>Arising from:</b>				
Property and equipment	(163,490)	85,345	-	(78,145)
Deferred income tax charge on fair valuation of available - for - sale financial assets	197,679	(208,521)	(36,376)	(47,218)
De-recognition of deferred income tax liability on available-for-sale reserve on infrastructure bonds	(76,731)	-	76,731	-
Portfolio impairment	367,732	(67,067)	-	300,665
Leasing	-	145,461	-	145,461
Revaluation surplus	(36,779)	-	36,779	-
Other provisions	348,669	409,149	-	757,818
Group intangible assets	(158,685)	29,117	-	(129,568)
<b>Net deferred asset</b>	<b>478,395</b>	<b>393,484</b>	<b>77,134</b>	<b>949,013</b>

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	1.1.2012	Credited to statement of profit or loss	Credited to OCI	31.12.2012
	KShs'000	KShs'000	KShs'000	KShs'000
<b>Year ended 31 December 2012</b>				
<b>Arising from:</b>				
Property and equipment	(185,622)	22,132	-	(163,490)
Unrealised gain on bonds	538,960	91,000	(509,012)	120,948
Portfolio impairment	192,619	175,113	-	367,732
De-recognition of deferred income tax liability on revaluation of buildings	(36,779)	-	-	(36,779)
Other provisions	307,307	41,362	-	348,669
Group intangible assets	(200,357)	41,672	-	(158,685)
<b>Net deferred asset / (liability)</b>	<b>616,128</b>	<b>371,279</b>	<b>(509,012)</b>	<b>478,395</b>

The total amount disclosed as deferred income tax asset is non-current.

#### (d) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2013 KShs'000	2012 KShs'000
Tax losses	26,793	117,156

The unrecognised tax losses relate to the holding company. Deferred tax assets have not been recognised in respect of these losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

## 35 Notes to the cashflow statement

#### (a) Reconciliation of profit before income tax to net cash generated from operation activities

	Group		Company	
	2013 Kshs'000	2012 Kshs'000	2013 Kshs'000	2012 Kshs'000
Net income before income tax	7,224,005	4,588,088	297,477	140,720
Adjusted for:				
- Depreciation - property and equipment (Note 25)	296,015	259,386	60	106
- Amortisation of intangible assets (Note 27)	324,390	377,004	-	-
- Amortisation of prepaid operating lease (Note 26)	2,954	2,954	-	-
- Impairment - property and equipment (Note 25)	161,402	-	-	-
- Tax liability write-back	(9,714)	-	(9,714)	-
- Dividend income	-	-	-	-
- Change in fair value of derivatives	(764,156)	485,968	-	-
- Share based payment reserve	20,081	30,552	-	-
- Gain on disposal of property and equipment	(2,783)	(3,672)	-	-
<b>Cash flow from operating activities</b>	<b>7,252,194</b>	<b>5,740,280</b>	<b>287,823</b>	<b>140,826</b>

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

	Group		Company	
	2013 Kshs'000	2012 Kshs'000	2013 Kshs'000	2012 Kshs'000
Cash and balances with CBK	5,017,781	19,533,516	92,907	177,680
Treasury bills	17,104,540	-	-	-
Loans and advances to banks	34,604,199	10,884,906	-	-
Amounts due to other banks	(15,069,727)	(24,608,653)	-	-
<b>Cash and cash equivalent at the end of the year</b>	<b>41,656,793</b>	<b>5,809,769</b>	<b>92,907</b>	<b>177,680</b>

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

#### (c) Unrealised foreign currency translation differences

	Group		Company	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Property and equipment	(28,184)	(2,251)	-	-
Retained earnings	30,224	(35,105)	-	-
Current tax liability	2,272	(7,470)	-	-
<b>Unrealised foreign currency translation differences at the end of year</b>	<b>4,312</b>	<b>(44,826)</b>	<b>-</b>	<b>-</b>

### 36 Fair value of financial instruments

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

	Level 1	Level 2	Level 3
Fair value determined using;	Unadjusted quoted prices in an active market for identical assets and liabilities.	Valuation models with directly or indirectly market observable inputs.	Valuation models using significant non-market observable inputs.
Example types of financial assets	Actively traded government and other agency securities.  Listed derivative instruments in an active market.  Listed equities in an active market.	Corporate and other government bonds and loans.  Over-the-counter (OTC) derivatives.	Corporate bonds in illiquid markets.  Highly structured OTC derivatives with unobservable parameters.
Example types of financial liabilities	Listed derivative instruments in an active market	Over-the-counter (OTC) derivatives.	Highly structured OTC derivatives with unobservable parameters.

#### Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily of cash and subordinated debt listed on the Nairobi Securities Exchange.

#### Financial instruments in level 2 and 3

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in

level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- i. Quoted market prices or dealer quotes for similar instruments;
- ii. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- iii. The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- iv. Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the market yield curves and are within level 2 of the fair value hierarchy.

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(a) Financial instruments measured at fair value

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy:

	Note	Level 1 Kshs'000	Level 2 Kshs'000	Total Kshs'000
<b>At 31 December 2013</b>				
<b>Assets</b>				
Trading assets	20	128,312	23,077,039	23,205,351
Other-financial investments	20	-	21,948,112	21,948,112
Available-for-sale pledged assets	19	-	3,391,972	3,391,972
		<b>128,312</b>	<b>48,417,123</b>	<b>48,545,435</b>
<b>Comprising:</b>				
Held-for-trading	20	128,312	23,077,039	23,205,351
Designated at fair value through profit or loss		-	-	-
Available-for-sale	20	-	25,340,084	25,340,084
		<b>128,312</b>	<b>48,417,123</b>	<b>48,545,435</b>
Derivative assets	30	-	3,003,522	3,003,522
<b>Comprising:</b>				
Held-for-trading		-	3,003,522	3,003,522
<b>Liabilities</b>				
Trading liabilities	21	-	259,676	259,676
Derivative liabilities		-	2,777,183	2,777,183
		-	3,036,859	3,036,859
<b>Comprising:</b>				
Designated at fair value through profit or loss		-	3,036,859	3,036,859
<b>At 31 December 2012</b>				
<b>Assets</b>				
Trading assets	20	127,068	15,098,957	15,226,025
Other financial investments	20	-	5,740,052	5,740,052
Available-for-sale pledged assets	19	-	3,123,196	3,123,196
		<b>127,068</b>	<b>23,962,205</b>	<b>24,089,273</b>
<b>Comprising:</b>				
Held-for-trading	20	127,068	15,098,957	15,226,025
Designated at fair value through profit or loss		-	-	-
Available-for-sale	20	-	8,863,248	8,863,248
		<b>127,068</b>	<b>23,962,205</b>	<b>24,089,273</b>
Derivative assets	30	-	1,931,831	1,931,831
<b>Comprising:</b>				
Held-for-trading		-	1,931,831	1,931,831
<b>Liabilities</b>				
Trading liabilities	21	-	-	-
Derivative liabilities	30	-	2,469,648	2,469,648
		-	2,469,648	2,469,648
<b>Comprising:</b>				
Designated at fair value through profit or loss		-	2,469,648	2,469,648

There were no financial assets measured at fair value in level 3 as at 31 December 2013 and 31 December 2012.

## 36 Fair value of financial instruments (continued)

### (b) Financial instruments not measured at fair value

#### Cash and balances with Central Bank of Kenya (CBK)

The carrying amount of cash and balances with CBK is a reasonable approximation of fair value

#### Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight loans is a reasonable approximation of fair value. The estimated fair value of fixed interest bearing loans is based on discounted cash flows using prevailing money-market interest rates for debts (ranging from 9% to 11.75%) with similar credit risk and remaining maturity.

#### Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of

estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates (ranging from 9% to 11.75%) to determine fair value.

#### Deposits from banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts (ranging from 9% to 11.75%) with similar remaining maturity.

#### Subordinated debt

The fair value of listed subordinated debt was estimated as the market value listed on the Nairobi Securities Exchange as at 31 December 2013.

The fair value of the IFC borrowing was estimated by discounting all future estimated cash flows payable under the contract at current market rates (ranging from 10.35% to 11.79% depending on the timing of cashflows).

The fair value hierarchy for financial assets not measured at fair value is as shown in the table below:

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
<b>At 31 December 2013</b>				
<b>Assets</b>				
Cash and balances with CBK	9,466,550	-	-	9,466,550
Loans and advances to banks	-	34,714,199	-	34,714,199
Loans and advances to customers	-	-	69,133,492	69,133,492
	<b>9,466,550</b>	<b>34,714,199</b>	<b>69,133,492</b>	<b>113,314,241</b>
<b>Liabilities</b>				
Deposits from banks	15,069,728	25,839,101	-	40,908,829
Deposits from customers	79,768,952	14,375,599	-	94,144,551
Subordinated debt	4,948,385	623,834	-	5,572,219
	<b>99,787,065</b>	<b>40,838,534</b>	<b>-</b>	<b>140,625,599</b>
<b>At 31 December 2012</b>				
<b>Assets</b>				
Cash and balances with CBK	23,366,583	-	-	23,366,583
Loans and advances to banks	-	12,333,987	-	12,333,987
Loans and advances to customers	-	-	66,149,841	66,149,841
	<b>23,366,583</b>	<b>12,333,987</b>	<b>66,149,841</b>	<b>101,850,411</b>
<b>Liabilities</b>				
Deposits from banks	24,608,653	947,831	-	25,556,484
Deposits from customers	45,733,131	29,173,632	-	74,906,763
Subordinated debt	4,711,563	594,535	-	5,306,098
	<b>75,053,347</b>	<b>30,715,998</b>	<b>-</b>	<b>105,769,345</b>

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### 37 Related party transactions

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

#### (a) Loans due from group banks

	2013 KShs'000	2012 KShs'000
Stanbic Bank Uganda Limited	11,153	37,034
Stanbic Bank Tanzania Limited	123,063	15,795
Standard Bank London Limited	601,006	597,627
Standard Bank of South Africa Limited	848,508	113,207
Standard Bank Isle of Man	13,062,748	1,499,780
	<b>14,646,478</b>	<b>2,263,443</b>
<b>Interest income earned on the above is:</b>	<b>2,623</b>	<b>44,930</b>

#### (b) Deposits due to group companies

Standard Bank of South Africa Limited	252,630	722,823
Standard Bank London Limited	1,392	333,039
Standard Bank Namibia Limited	1,011	890
Stanbic Bank Uganda Limited	2,686,885	201,813
Stanbic Bank Zambia Limited	9,383	782
Stanbic Bank Zimbabwe Limited	423	325
Stanbic Bank Botswana Limited	998	1,104
Standard Bank Mauritius Limited	37,307	29,907
Stanbic Bank Malawi Limited	869	235
Standard Bank Isle of Man	12,964,637	-
Stanbic Bank Tanzania Limited	11,401	1,467
Standard Bank South Sudan	-	1,329,014
Standard Bank PLC	108,802	4,501
Standard Bank Swaziland	27	107
	<b>16,075,765</b>	<b>2,626,007</b>
<b>Interest expense incurred on the above is:</b>	<b>44,032</b>	<b>90,859</b>

#### (c) Company

Amounts due to group companies	158,877	355,074
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### 37 Related party transactions (continued)

#### (d) 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 2013 and 31 December 2012 are as shown below:

#### Directors' associated companies

The aggregate amount of loans to directors, affiliates and their families on the statement of financial position is:

	2013 KShs '000	2012 KShs '000
At start of year	395,610	1,127,466
New loans issued	47,553	383,751
Accrued interest	13,439	176,690
Loan repayments	(402,955)	(1,292,297)
<b>At end of year</b>	<b>53,647</b>	<b>395,610</b>

The aggregate amount of advances to directors, affiliates and their families off the statement of financial position is:

	2013 KShs '000	2012 KShs '000
At start of year	1,192,187	1,365,489
Facilities issued	718,233	1,107,307
Facilities settled	(1,023,615)	(1,280,609)
<b>At end of year</b>	<b>886,805</b>	<b>1,192,187</b>

No provision was required in 2013 (2012: nil) for the loans made to key management personnel and associates

#### (e) Deposits

	2013 KShs '000	2012 KShs '000
At 1 January	726,163	327,495
Net movement for the year	-	398,668
<b>At 31 December</b>	<b>726,163</b>	<b>726,163</b>

#### (f) Key management compensation

	2013 KShs '000	2012 KShs '000
Salaries and other short-term employment benefits	344,076	463,101
Directors' remuneration	8,997	11,602
Fees for services as non-executive directors	81,602	70,915
Other emoluments (included in key management compensation above)	90,599	82,577

Key management comprises of directors and members of the executive committee of the principal operating entities.

Contingent liabilities at 31 December 2013 include contingencies on behalf of companies associated to the directors of KShs 885,805,000 (2012: KShs 1,192,187,000).

#### (g) The Group incurred the following related party expenses payable to Standard Bank of South Africa:

##### Standard Bank South Africa

	2013 KShs '000	2012 KShs '000
Franchise fees	452,967	405,101
Information technology	139,233	99,123
Other operating costs	32,368	18,226
	<b>624,568</b>	<b>522,450</b>

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### 38 Retirement benefit liability

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

The CFC Bank Limited Staff Retirement Benefits Scheme was incorporated in 1 January 1975 and it operates on a defined contribution basis.

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

With effect from 1 October 2001 all the active in-service

members were transferred to the defined contribution portion of the SBK Scheme with the actuarial reserves/liabilities calculated on the defined benefits basis as at 30 September 2001 forming the opening balances in the members' defined contribution fund.

Until June 2013, pensions continued to be paid to existing pensioners from the SBK Scheme Fund and the terms for benefit provision to deferred pensioners were retained on a defined benefits basis.

During the year, the Trustees of the Scheme sought to outsource the pensioner pay-out's and purchased annuities in respect of all the 37 pensioners already receiving pensions from the Scheme. However, 9 deferred pensioners remained under the defined benefits scheme.

Accordingly, the pension benefits payable to all the deferred pensioners will continue to be met from the resources of the SBK Scheme Fund. The consulting actuaries carried out an actuarial review of the SBK Scheme as at 31 December 2013. Using the projected unit credit method as prescribed by IAS 19, the net defined obligation amounted to KShs 95,000 comprising of an asset market value of KShs 22,748,000 and a benefit obligation of KShs 22,843,000.

No balances have been recognised on the statement of financial position, the statement of profit or loss and the statement of other comprehensive income on the basis of insignificance.

### 39 Contingent liabilities - Group

#### Commitments with respect to:

Irrevocable letters of credit  
Irrevocable unutilised facilities  
Guarantees  
Acceptances

	2013 KShs'000	2012 KShs'000
	9,123,204	4,508,450
	15,303,044	25,947,649
	12,582,369	5,719,668
	4,018,370	3,250,883
	<b>41,026,987</b>	<b>39,426,650</b>

#### (a) Nature of contingent liabilities

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

Guarantees are generally written by a Group to support performance by

a customer to third parties. The Group will only be required to meet these obligations in the event of customers' default.

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

#### (b) Segmental analysis of off-balance sheet liabilities

	2013		2012	
	KShs'000	%	KShs'000	%
Agriculture	3,269,321	8%	4,455,519	11%
Manufacturing	2,664,931	6%	5,983,465	15%
Construction	1,655,939	4%	193,232	0%
Energy	6,730,299	16%	2,765,770	7%
Transport and Communication	1,547,948	4%	1,559,667	4%
Distribution/Wholesale	2,962,670	7%	8,462,223	21%
Financial Services	186,063	0%	2,113,007	5%
Non-Financial	90,752	0%	1,734,187	4%
Tourism	5,107	0%	21,871	0%
Other activities and social service	21,913,957	53%	12,137,709	31%
	<b>41,026,987</b>	<b>100%</b>	<b>39,426,650</b>	<b>100%</b>

## 40 Other reserves

	Note	Group	
		2013	2012
		KShs '000	KShs '000
Statutory reserve		(202,078)	(202,078)
Fair value reserve		418,754	199,038
Foreign currency translation reserve		(4,881)	(35,105)
Share based payment reserve	41	110,316	95,751
Revaluation reserve		122,598	85,819
<b>At end of year</b>		<b>444,709</b>	<b>143,425</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 an appropriation from retained earnings to comply with the Central Bank of Kenya's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognised in accordance with the Company's accounting policy. The reserve is not distributable.

## 41 Share-based payment reserve

	2013	2012
	KShs'000	KShs'000
At the start of the year	95,751	65,199
Options exercised during the year	(5,516)	-
Equity growth scheme for the year	20,081	30,552
<b>As at 31 December</b>	<b>110,316</b>	<b>95,751</b>

The Group's share incentive scheme enables key management personnel and senior employees of the Group to benefit from the performance of 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 2013, the total amount included in staff costs for Group Share Incentive Scheme was KShs.18,847,053 (2012: KShs 27,553,467) and for Equity Growth Scheme was KShs 1,288,376 (2012: KShs 2,998,892).

The two schemes have five different sub-types of vesting categories as illustrated by the table below:

	Year	% vesting	Expiry
Type A	3, 4, 5	50, 75, 100	10 Years
Type B	5, 6, 7	50, 75, 100	10 Years
Type C	2, 3, 4	50, 75, 100	10 Years
Type D	2, 3, 4	33, 67, 100	10 Years
Type E	3, 4, 5	33, 67, 100	10 Years

A reconciliation of the movement of share options and appreciation rights is detailed below:

Group Share Incentive Scheme	Option price range (ZAR)		Number of options	
	2013	2013	2013	2012
Options outstanding at beginning of the period	-	558,250	683,350	
Transfers	40.65 - 111.94	17,750	-	
Exercised	62.39 - 111.94	(57,100)	(97,600)	
Lapsed	62.39 - 111.94	(15,500)	(27,500)	
<b>Options outstanding at end of the period</b>		<b>503,400</b>	<b>558,250</b>	

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The weighted average SBG share price for the period to 31 December 2013 year end was ZAR 115.39 (2012: ZAR 110.19).

The following options granted to employees had not been exercised at 31 December 2013:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
7,000	65.60	65.60	Year to 31 December 2015
1,300	79.50	79.50	Year to 31 December 2016
8,300	98.00	98.00	Year to 31 December 2017
28,600	92.00	92.00	Year to 31 December 2018
49,700	62.39	62.39	Year to 31 December 2019
207,250	104.53-111.94	109.26	Year to 31 December 2020
201,250	97.80-107.55	99.66	Year to 31 December 2021
<b>503,400</b>			

The following options granted to employees had not been exercised at 31 December 2012:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
25,000	40.65	40.65	Year to 31 December 2014
7,000	65.60	65.60	Year to 31 December 2015
2,500	79.50	79.50	Year to 31 December 2016
9,500	98.00	98.00	Year to 31 December 2017
34,200	92.00	92.00	Year to 31 December 2018
48,800	62.39	62.39	Year to 31 December 2019
253,750	104.53 - 111.94	109.02	Year to 31 December 2020
177,500	98.80 - 107.55	99.92	Year to 31 December 2021
<b>558,250</b>			

Equity Growth Scheme	Option price range (ZAR) 2013	Number of options 2013	2012
Rights outstanding at beginning of the period	-	305,654	311,504
Transfers	62.39 - 98.00	(108,300)	-
Exercised <sup>1</sup>	62.39 - 111.94	(37,512)	(5,850)
Lapsed	62.39 - 111.94	(1,238)	-
<b>Rights outstanding at end of the period<sup>2</sup></b>		<b>158,604</b>	<b>305,654</b>

1. During the year 9,330 (2012: 949) SBG shares were issued to settle the appreciated rights value.

2. At 31 December 2013 the Group would need to issue 56,210 (2013: 93,261) SBG shares to settle the outstanding appreciated rights value.

The following rights granted to employees had not been exercised at 31 December 2013:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
6,500	65.60	65.60	Year to 31 December 2015
9,204	79.50 - 82.00	81.05	Year to 31 December 2016
19,650	98.00 - 105.25	99.84	Year to 31 December 2017
67,200	92.00	92.00	Year to 31 December 2018
45,550	62.39	62.39	Year to 31 December 2019
4,250	111.94	111.94	Year to 31 December 2020
6,250	98.80	98.80	Year to 31 December 2021
<b>158,604</b>			

The following options granted to employees had not been exercised at 31 December 2012:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
30,000	65.60	65.60	Year to 31 December 2015
28,204	79.50 - 82.00	79.50	Year to 31 December 2016
38,400	98.00 - 105.25	98.94	Year to 31 December 2017
114,750	92.00	92.00	Year to 31 December 2018
76,800	62.39	62.39	Year to 31 December 2019
11,250	111.94	111.94	Year to 31 December 2020
6,250	98.80	98.80	Year to 31 December 2021
<b>305,654</b>			

## 42 Capital commitments

Capital commitments for the acquisition of property and equipment are summarised below:

	2013 KShs'000	2012 KShs'000
Authorised and contracted for	67,851	407,836
Authorised but not contracted for	<b>364,507</b>	<b>301,299</b>

## 43 Operating lease commitments

The future minimum payments under non-cancellable operating leases are as follows:

	2013 KShs'000	2012 KShs'000
Less than one year	350,685	307,243
Between one and five years	1,164,229	597,671
More than five years	483,570	839,908
	<b>1,998,484</b>	<b>1,744,822</b>

The operating lease commitments comprise a number of separate operating leases in relation to properties and equipment, none of which is individually significant to the Group.

## 44 Fiduciary activities

The assets held on behalf of individuals, trusts, retirement benefit plans and other institutions:

	2013 KShs'000	2012 KShs'000
Assets held on behalf of individual's trusts and other institutions	<b>153,173,440</b>	<b>126,398,805</b>



## **Shareholder information**

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# Group shareholding

## Shareholding

The ten largest shareholdings in the company and the respective number of shares held at 31 December 2013 are as follows:

Name	Number of shares held	Shareholding (%)
Stanbic Africa Holdings Ltd. (UK)	163,715,735	41.41
CfC Stanbic Nominees (K) Ltd non-resident A/C NR00901	73,477,246	18.59
Standard Chartered Nominees non-resident A/C 9866	24,095,183	6.10
Standard Chartered nominees non-resident A/C 9867	16,024,572	4.05
Sovereign Trust Ltd	10,745,554	2.72
Standard Chartered nominees non-resident A/C KE9053	8,432,533	2.13
Archer & Wilcock Nominees Limited	6,125,000	1.55
Kingsway Nominees Ltd	5,198,498	1.32
The Permanent Secretary to the Treasury of Kenya (on behalf of the Government of Kenya)	4,342,548	1.10
Standard Chartered Nominees account 9230	4,323,922	1.09

	Number of shareholders	Number of shares held	Shareholding (%)
1 – 500	1,657	329,827	0.08%
501 – 1,000	527	435,928	0.11%
1001 – 5,000	953	2,267,138	0.57%
5,001 – 10,000	436	3,201,343	0.81%
10,001 – 50,000	356	7,593,530	1.92%
50,001 – 100,000	87	6,548,072	1.66%
100,001 – 500,000	76	17,207,191	4.35%
500,001 – 1,000,000	17	11,673,012	2.95%
Over 1,000,000	26	346,065,597	87.54%
<b>Total</b>	<b>4,135</b>	<b>395,321,638</b>	<b>100.00%</b>

# Notice of Annual General Meeting

Notice is hereby given that the **Fifty-Ninth Annual General Meeting of the Members of CfC Stanbic Holdings Limited will be held on Tuesday, June 3rd, 2014, at Louis Leakey Auditorium, National Museums of Kenya, Nairobi, at 11.00am to transact the following business:**

1. The Secretary to read the notice convening the meeting and confirm the presence of a quorum.
2. To receive and consider the Audited Financial Statements for the year ended 31st December, 2013, and the Directors' and Auditor's Report thereon.
3. To consider and approve a final dividend of KShs 1.52 per ordinary share for the year ended 31st December 2013.
4. To elect Directors:
  - i) In accordance with Article 110 of the Company's Articles of Association, Mr. Charles K Muchene 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. Ruth T Ngobi retires by rotation and, being eligible, offers herself for re-election.
  - iii) In accordance with Article 110 of the Company's Articles of Association, Mr. Edward W Njoroge retires by rotation and, being eligible, offers himself for re-election.
  - iv) In accordance with Article 109 of the Company's Articles of Association, Mr. Michael A Blades, a director appointed to fill a casual vacancy retires at the dissolution of the meeting and being eligible, offers himself for re-election.
5. To approve the Directors' remuneration for the year ended 31st December 2013 as provided in the Financial Statements.
6. To note that Messrs PricewaterhouseCoopers have indicated their willingness to continue in office as the auditors under Section 159(2) of the Companies Act and to authorise the Directors to fix their remuneration.
7. To ratify the incorporation of a subsidiary company of CfC Stanbic Bank in South Sudan.
8. Any other business for which due notice has been given.

## BY ORDER OF THE BOARD



**Lillian Mbindyo**  
**Company Secretary**  
**Date: 28th February, 2014**

## NOTE:

1. In accordance with section 136(2) of the Companies Act, every member entitled to attend and vote at the above meeting and any adjournment thereof is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy need not be a Member of the Company. A proxy form can be downloaded from the Company's website, [www.cfstanbicbank.co.ke](http://www.cfstanbicbank.co.ke), or collected from the Registered Office of the Company at CfC Stanbic Centre, Chiromo Road, Westlands, Nairobi.
2. Completed proxy forms should be returned to the Company Secretary by delivery to the Registered Office or by post to P.O. Box 72833-00200 Nairobi, to arrive not later than 48 hours before the meeting.
3. In accordance with Article 165 of the Company's Articles of Association, a copy of the Annual Report may be obtained from the website stated above or from the Company Secretary at the Registered Office.
4. Shareholders wishing to receive a proxy form and/or a copy of the Annual Report by e-mail may send a request, quoting their full name and account number, to [registrar@stanbic.com](mailto:registrar@stanbic.com)





# PROXY FORM

The Company Secretary  
CFC Stanbic Holdings Limited  
CFC Stanbic Centre  
Chiromo Road, Westlands  
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 3<sup>rd</sup> June, 2014, and any adjournment thereof.

Dated this ..... day of ..... 2014

Signed .....

Name .....

Note: The proxy form should be completed and returned to the Company Secretary no later than 48 hours before the meeting or any adjournment thereof.



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Africa is a complex and diverse continent deserving nuanced insight. With differing prospects and performance across the continent, a 'one size fits all' approach is inappropriate. We are able to navigate unique environments by employing and developing local skills. Together with our other competitive advantages, our heritage and footprint, we are in a prime position to turn Africa's challenges into market opportunities.