Annual Report and Accounts 2003

ng the way in Asia, Africa
and the Middle East

Key Highlights

- Consistent performance record
- Tight cost management
- Commitment to service excellence
- Talented workforce
- Consumer Banking transformation
- Focused Wholesale Banking business
- Strengthening our community partnerships
- Successful Standard Chartered Nairobi Marathon

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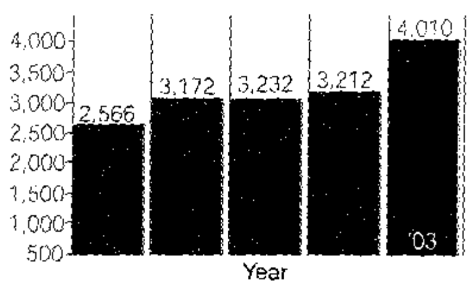
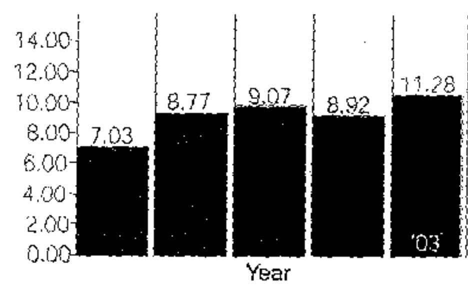
Financial Highlights

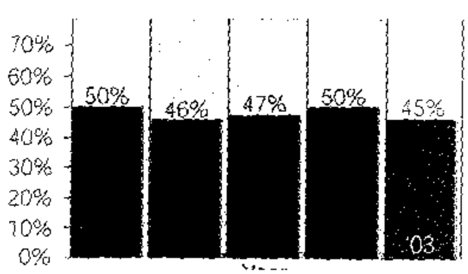
Profit before tax - KShs million



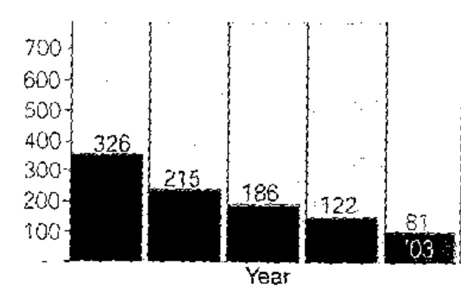
Earnings Per Share – KShs



Cost: Income Ratio – %

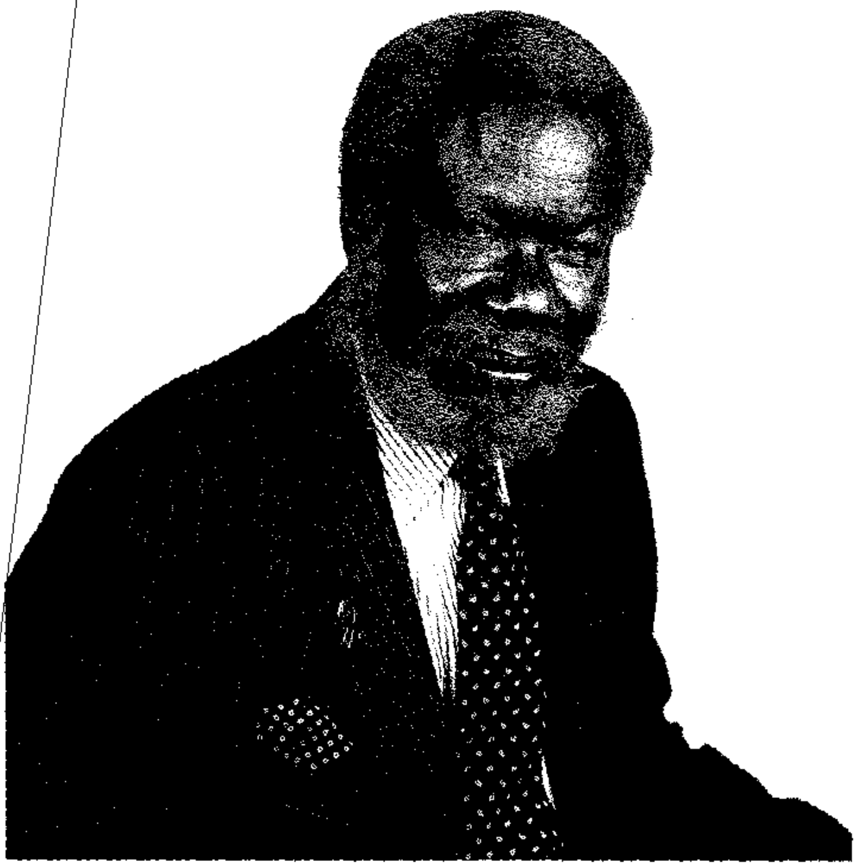


Net debt charge - KShs million



1. Standard Chartered Bank - Kenya
2. Banks and banking - Kenya - Periodicals

irman's Statement



I am delighted to report that your Bank has produced very strong results in 2003.

Economic Outlook

As you are probably aware, 2003 started optimistically with a new government and a new economic recovery plan. Though the economy eventually registered a growth rate of 1.4% it did not gather momentum. The Central Bank successfully managed down interest rates by restructuring its domestic debt and lengthening the maturity of its portfolio. The IMF also indicated its willingness to resume lending to Kenya and this was followed by a number of pledges by the other donors. Subsequently, the Paris Club agreed to restructure the debt owed to them as well.

The Bank's performance in 2003 is a demonstration of the resilience of our business in Kenya, the motivation of our staff and the focus and discipline of our senior management.

Financial Highlights

Here are the financial highlights of our 2003 results:-

- Profit before taxation was KShs 4.0 billion, up 25% from 2002
- Total income rose by 10.9% to KShs 7.4 billion compared to KShs 6.7 billion in 2002
- Costs fell by 1% to KShs 3.31 billion
- Bad debt charge fell to KShs 81 million from KShs 122 million last year, a reduction of 34%
- Loans and advances increased by 13.6% to KShs 18.9 billion
- Customer deposits increased by 4.4% to KShs 53.8 billion
- Earnings per share increased by 26.5% to KShs 11.28 per share from KShs 8.92 per share in 2002.

Dividend

The directors are recommending a final dividend of KShs 4.10 per share, bringing the total dividend for 2003 to KShs 8.50 per share. The total dividend paid in 2002 was KShs 8.25 per share. In addition, the directors are also recommending the issue of 1 bonus share for every 10 shares held.

Capital

In 2004, we are projecting substantial growth in our balance sheet. This will need to be supported by additional capital in order for the Bank to remain well capitalised.

The directors are recommending a debt capital issue in the form of non-cumulative, non-voting and non-redeemable preference shares. These will be issued to the majority shareholder and will allow for the injection of capital as and when required in order to support the growth of our business.

Both the bonus share issue mentioned earlier and this preference share issue have been approved by the Capital Markets Authority and will be put forward for approval by shareholders at the forthcoming Annual General Meeting.

The Board

I would like to thank the Board for steering the Bank through a very difficult trading environment.

On the Board composition, I wish to report that Jeremy Awori, Executive Director - Consumer Banking left the Board in 2003 to take on a new role in the United Arab Emirates. Sheila M'Mbijjewe, previously the Executive Director - Finance was appointed Executive Director - Consumer Banking. Richard Etemesi has been appointed the Executive Director – Finance. In addition, I will be introducing to you two new non-executive directors, at the forthcoming Annual General Meeting.

Standard Chartered PLC Board Visit

The main Board of Standard Chartered PLC visited Kenya last November to not only hold its main board meeting in Nairobi but also to review the Bank's business in Kenya. We are greatly touched by that honour. The Board members, who included the Chairman, Bryan Sanderson and the Group Chief Executive Officer, Mervyn Davies took time off to meet with H.E the President, staff and customers. They also participated in a number of Community Partnership projects. Mr Sanderson formally handed over a KShs 3 million borehole to the Emanyatta School and Feeding Programme in Ngong while Mr Davies launched a KShs 18.5 million 'Facilities Improvement Project' at the Salvation Army Secondary School for the Blind in Thika. This project includes a donation of a 62-seater bus, which will be handed over in the coming months.

Corporate Social Responsibility

In 2003, we celebrated our 150th anniversary. As you will see in the report of the Chief Executive Officer, part of the celebrations entailed reinvesting into communities in which we operate. The Board is satisfied with the good work that the staff of Standard Chartered Bank Kenya Limited have done in the community.

Recognition

We were voted the 'Most Respected Financial Institution in East Africa'. On behalf of the Board, I congratulate

the management and staff of the Bank for all the good work they did that culminated in this award.

Looking Forward

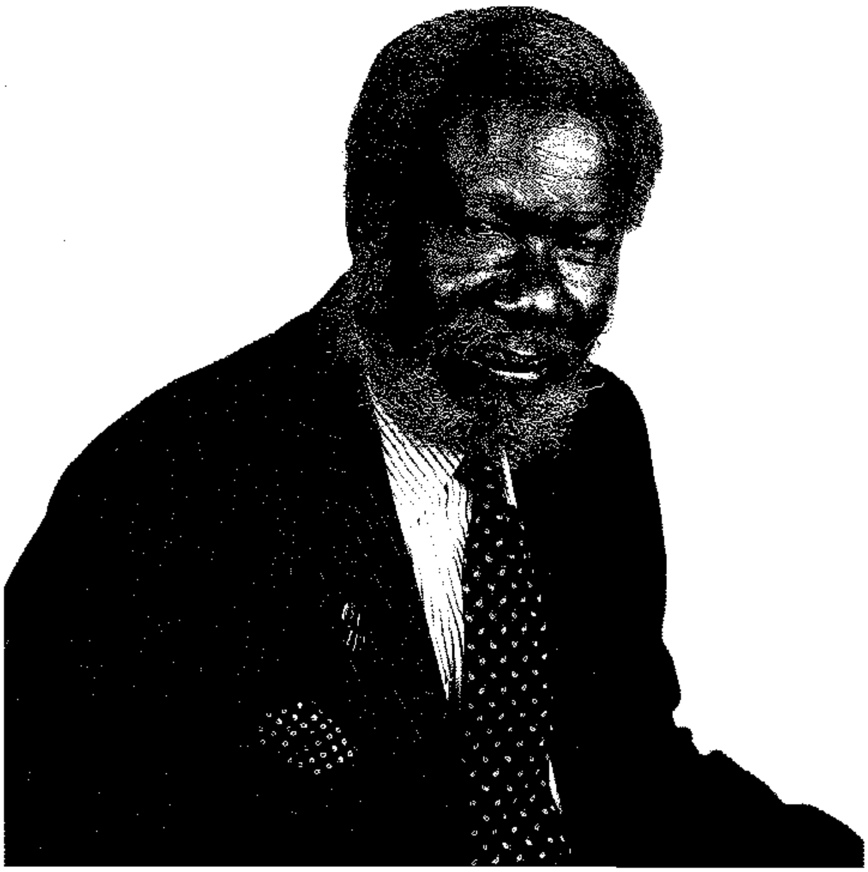
We are optimistic about 2004, although we do not expect GDP growth to be much in excess of 3%. Economic activity is expected to gather momentum in the second half of the year. This is likely to be achieved on the back of increased government spending on infrastructure and capital projects. With the increased demand for funds, we expect interest rates to move up gradually, to reflect positive real interest rates. Given the expected growth in the economy, inflationary pressures are likely to build up in the latter part of the year. As the economy picks up and import demand increases we also expect a gradual depreciation in the Kenya Shilling.

We are proud of our 2003 performance. With your support, we are determined to deliver again in 2004.

Hannington Awori, EBS
Chairman

26 February 2004

Taarifa ya Mwenyekiti



Nina furaha sana kueleza kwamba Benki yenu imepata matokeo mema sana katika mwaka wa 2003.

Mtazamo wa Kiuchumi

Kama mnavyofahamu, mwaka wa 2003 ulianza kwa matumaini ya kuwa na serikali mpya na mpango mpya wa ufufuzi wa kiuchumi. Ingawa uchumi uliendelea kukua kwa kiwango cha asilimia 1.4, haukupata kasi ya kukua kwa haraka zaidi. Benki Kuu ya Kenya ilifaulu kupunguza viwango vya riba kwa kupunguza deni lake la humu nchini na kuongeza muda wa ulipaji wa deni lililobakia. Shirika la Fedha la Kimataifa IMF, pia lilionyesha kuwa liko tayari kurejesha utoaji mikopo kwa Kenya na hii imani ilisababisha ahadi kadhaa zilizotolewa na wafadhili wengine. Vile vile, mataifa fadhili yalikubali kupanga upya ulipaji wa madeni yaliyoko sasa.

Matokeo ya Benki hii katika mwaka wa 2003 ni kielelezo cha ustahimilivu katika shughuli za biashara yetu hapa Kenya, motisha wa wafanyikazi wetu na wasimamizi wetu wakuu kuwa na mwelekeo bora na nidhamu.

Hali ya Kifedha

Haya ni matokeo yetu ya kifedha kwa mwaka 2003:-

- Faida kabla ya kutozwa ushuru ilikuwa shilingi bilioni 4.0 hili likiwa ni ongezeko la asilimia 25 kutoka mwaka wa 2002
- Pato la jumla liliongezeka kwa asilimia 10.9 hadi shilingi bilioni 7.4 ikilinganishwa na shilingi bilioni 6.7 mwaka wa 2002
- Gharama zilipungua kwa asilimia 1 hadi shilingi bilioni 3.31
- Mikopo isiyolipwa ilipungua hadi shilingi milioni 81 kutoka shilingi milioni 122 mwaka uliopita, kiwango ambacho ni sawa na asilimia 34
- Mikopo iliongezeka kwa asilimia 13.6 hadi shilingi bilioni 18.9
- Akiba za wateja ziliongezeka kwa asilimia 4.4 hadi shilingi bilioni 53.8
- Mapato ya kila hisa yaliongezeka kwa asilimia 26.5 hadi shilingi 11.28 kwa kila hisa kutoka shilingi 8.92 kwa kila hisa mwaka wa 2002.

Mgawo

Wakurugenzi wamependekeza mgawo wa mwisho wa shilingi 4.10 kwa kila hisa na kufikisha jumla ya mgawo kwa mwaka wa 2003 hadi shilingi 8.50 kwa kila hisa. Mgawo wa jumla wa mwaka wa 2002 ulikuwa shilingi 8.25 kwa kila hisa. Vile vile, Wakurugenzi pia wamependekeza bakshishi ya hisa moja kwa kila hisa kumi.

Mtaji

Katika mwaka huu wa 2004, tunatarajia ukuaji katika jalada letu la pesa. Hii itahitajika kuungwa mkono kwa kupata mtaji zaidi ili Benki iendelee kuwa na mtaji wa kutosha.

Wakurugenzi wamependekeza uuzaji wa hisa za ziada ili kuongeza mtaji huu. Hisa hizo zitauziwa mwenye hisa mkuu na kuruhusu kukua kwa mtaji kama

Taarifa ya Mwenyekiti (yaendelea)

inavyohitajika ili kusaidia kupanuka kwa shughuli zetu.

Hisa za bakshishi zilizotajwa hapo awali na hisa za ziada zimeidhinishwa na Halmashauri ya usimamizi wa Masoko ya Hisa na zinasubiri kuidhinishwa na wenye hisa kwenye mkutano mkuu wa kila mwaka.

Halmashauri
Ningependa kuishukuru Halmashauri hii kwa kuiongoza Benki hii kupitia mazingira magumu sana ya kibiashara.

Kwa wanaojumuishwa kwenye Halmashauri hii, ningependa kuwaeleza kwamba Jeremy Awori, Mkurugenzi mkuu wa Huduma za Benki kwa wateja aliondoka kwenye Halmashauri hii mwaka wa 2003 kuchukua jukumu jipya katika Muungano wa Milki za Kiarabu. Sheila M'Mbijjewe ambaye hapo awali alikuwa Mkurugenzi mkuu wa shughuli za Kifedha aliteuliwa kuwa Mkurugenzi Mkuu wa Huduma za Benki kwa wateja, naye Bwana Richard Etemesi aliteuliwa kuwa Mkurugenzi Mkuu wa Shughuli za Kifedha. Kadhalika, nikiongezea, nitawajulisha wakurugenzi wawili wapya wasio na mamlaka maalum wakati wa mkutano mkuu ujao wa kila mwaka.

Ziara ya Halmashauri kuu ya Standard Chartered PLC
Halmashauri kuu ya Standard Chartered PLC ilizuru Kenya mwezi Novemba mwaka uliopita, sio tu kufanya mkutano wake mkuu hapa Nairobi, bali pia kuchunguza shughuli za kibiashara za kampuni hapa nchini. Tumeguswa mno kwa heshima tuliyotunukiwa. Wanachama wa Halmashauri ambao ni pamoja na Mwenyekiti Bwana Bryan Sanderson na Afisa Mkuu Bwana Mervyn Davies walipata muda wa kukutana na Mheshimiwa Rais, wafanyikazi na wateja. Pia walishiriki katika miradi kadhaa ya ushirikiano wa jamii. Bwana Sanderson alikabidhi rasmi kisima kilichochimbwa kwa gharama ya shilingi milioni 3 kwa shule ya Emanyatta na mradi wa lishe huko Ngong, hali Bwana Davies akazindua mradi wa kuimarisha vifaa katika shule ya sekondari ya vipovu Salvation Army, huko Thika, uliogharimu shilingi milioni 18.5. Mradi huu ni pamoja na mchango wa Basi lenye uwezo wa kubeba abiria 62, litakalo kabidhiwa shule hiyo hivi karibuni.

Jukumu la Kampuni kwa Jamii
Mnamo mwaka wa 2003, tuliadhimisha sherehe za miaka 150 tangu kampuni hii ilipobuniwa. Kama utakavyoona kwenye taarifa ya Mkurugenzi Mkuu, sehemu ya sherehe hizo ilihusu kuzingatia zaidi uwekezaji katika jamii tunayoihudumia. Halmashauri hii inaridhishwa na kazi nzuri ambayo wafanyikazi wa Benki ya Standard Chartered Bank Kenya Limited wamefanya katika jamii.

Kutambuliwa
Tulitunukiwa tuzo la kuwa Benki inayoheshimiwa kwa shughuli za kifedha katika Afrika Mashariki. Kwa

niaba ya Halmashauri hii, nawapongeza wasimamizi na wafanyikazi wa Benki hii kwa kazi yao nzuri waliyofanya, ambayo imewezesha kupatikana kwa tuzo hili.

Matarajio Yetu
Tuna matumaini makubwa kwa mwaka huu wa 2004, ingawa hatutarajii ukuaji wa pato la taifa, GDP kuongezeka kwa zaidi ya asilimia 3. Shughuli za kiuchumi zinatarajiwa kupata kasi kwenye nusu ya pili ya mwaka huu. Hatua hii huenda ikafikiwa kufuatia ongezeko la matumizi ya serikali kwenye miradi mikubwa na ile ya miundo msingi. Kutokana na ongezeko la mahitaji ya pesa, tunatarajia viwango vya riba kupanda pole pole, ili kufikia kielelezo halisi cha viwango hivyo. Uchumi ukiendelea kukuwa kama inavyotarajiwa, kiwango cha kupanda kwa gharama ya maisha huenda kikathibitiwa na kupanda katika sehemu ya mwisho ya mwaka huu. Huku uchumi unapoendelea kuimarika na mahitaji ya bidhaa kutoka nje yanapoongezeka, pia tunatarajia kupungua kwa thamani ya shilingi ya Kenya.

Tunajivunia matokeo yetu. Kwa msaada wenu, tumejitolea kutoa huduma bora ipasavyo mwaka huu wa 2004.

Hannington Awori, EBS
Mwenyekiti

26 Februari 2004

National Hospital in Nairobi and at the Aga Khan Hospital in Mombasa. Doctors from the world-famous Guys Hospital in the United Kingdom conducted these operations

- We responded rapidly to the plight of the 2003 flood disaster victims by making the opening commitment to the Vice President's Flood Disaster Relief Fund. With our timely contribution of KShs 2 million towards this emergency and our transparent management of the fund's account, the victims were able to obtain much needed emergency items to help them deal with their plight
- We committed KShs 18.5 million to improve learning and boarding facilities at the Salvation Army Secondary School for the Blind in Thika. For your information, this is the only secondary school in East Africa that caters for the visually impaired. Our commitment will enable the school to increase girls' enrolment by 95% to 164 from 84 and total enrolment by 36% to 305 from 225 students. Building will commence in 2004.

HIV/AIDS

We successfully conducted our *Living with HIV* campaign, which followed the *Staying Alive* campaign undertaken between 2001 and 2002. As part of this campaign, more than 2,000 staff and their families received information and guidance on how to care for and support both infected and affected members of their families and communities.

The Standard Chartered Nairobi Marathon

We organised and sponsored the first international marathon in Nairobi in November 2003. The event is the only IAAF accredited marathon to have been held in Nairobi. With the participation of over 5,000 runners, the Standard Chartered Nairobi Marathon was an outstanding success and will now become a regular annual event. Last year, we invested KShs 25 million in this event. We have committed to organise and sponsor this event for at least the next four years.

Standard Chartered Bank Kenya Limited committed over KShs 40 million to community projects in 2003. We will continue to increase our contribution in the coming years.

Recognition

I am pleased to report that in 2003, the chairman, Hannington Awori and Sheila M'Mbijjewe, Executive Director, Consumer Banking were decorated by H.E. the President with the Elder of the Burning Spear (EBS) and Moran of the Burning Spear (MBS) awards respectively for their role in the development of the financial and other sectors of the economy. Please join me in congratulating Hannington and Sheila for receiving this deserving recognition.

Conclusion

The past 12 months have been extremely challenging and rewarding for Standard Chartered Bank Kenya Limited. With a great team, we were able to deliver a very strong performance. We look forward to another good performance in 2004.

Mike Hart
General Manager, East Africa
and Chief Executive Officer, Kenya

26 February 2004

Taarifa ya Mkurugenzi Mkuu

Kumalizika kwa mwaka 2003 kunaadhimisha mwaka wangu wa kwanza kamili kama Mkurugenzi Mkuu wa Benki ya Standard Chartered Bank Kenya Limited. Nina furaha kueleza kwamba Benki yenu ilitoa matokeo mema sana katika mwaka wa 2003, na kadhalika kuimarisha zaidi kumbukumbu yetu ya kutoa huduma na matokeo bora kila wakati. Faida yetu kabla ya kutozwa ushuru iliongezeka kwa asilimia 25. Faida hii ilifikiwa licha ya mazingira magumu ya kiuchumi.

Baadhi ya maswala muhimu yaliyotuwezesha kuleta matokeo yetu ya mwaka wa 2003 ni pamoja na:

Shughuli za Jumla za Benki

Shughuli za jumla za Benki ambazo ni pamoja na uhusiano kwa wateja na Masoko ya Kimataifa, ziliendelea vyema mwaka wa 2003. Katika shughuli za uhusiano wa wateja, tuliendelea kuzingatia kuweka vifaa bora vya mikopo kwa sekta ya kampuni kubwa. Pia tuliendelea kustawisha na kupanua usimamizi wetu wa kifedha, utaratibu wa kimaendeleo na shughuli za kifedha na tukapata ongezeko muhimu katika mapato yetu. Kadhalika tuliimarisha bidhaa yetu kwa kuanzisha mtindo wa utoaji huduma za benki kwa njia ya mtandao wa kompyuta, hali iliyoboresha huduma zetu na kuwafikia wateja wengi zaidi. Licha ya kuendelea kupanuka kwa vifaa vyetu, kiwango cha mikopo isiyolipwa kilipungua hadi asilimia 5.9, hiki kikiwa ni kiwango cha chini kutoka asilimia 6.7 mwaka uliotangulia, hali ambayo iliambatana na hatua madhubuti ya usimamizi bora wa kukabiliana na hatari za utoaji wa mikopo.

Shughuli za masoko yetu ya kimataifa ziliendelea kuongezeka hapa Kenya kwa kuendelea kuongoza katika shughuli hizi. Tukiwa kama wathibiti wakuu wa soko la pesa za hapa nchini, tuliweza kuwapa wateja bidhaa bora zilizoongezwa thamani. Mapato yaliyotokana na faida na pesa za kigeni yaliongezeka kwa asilimia 17 kutoka shilingi milioni 608 mwaka wa 2002, hadi shilingi milioni 710 mwaka wa 2003.

Shughuli muhimu kwa kundi la Masoko yetu ya kimataifa ni kusimamia pesa za ziada zilizoko kwenye Benki hii. Huku likitarajia kupungua kwa viwango vya riba, kundi hili liliandaa jalada lake la pesa kwa njia bora na kupunguza hatari ya kushuka kwa viwango vya riba. Kutokana na hali hii mapato yetu kutokana na uuzaji wa hati za dhamana mwaka wa 2003, yalifikia shilingi milioni 624 kufuatia kuimarika kwa mtaji wetu uliotokana na uuzaji wa hati za dhamana za serikali. Tukiwa miongoni mwa watekelezaji wakuu kwenye soko la hati za mdhamana, pia

Board of Directors (continued)

4. Sheila M. M'Mbijjewe
Executive Director
Appointed to the Board on 24 May 1999. She is responsible for Consumer Banking and was previously responsible for Finance. She also worked as Finance Director at Stagecoach, Director of Finance at PriceWaterHouseCoopers and a Consultant Administrator at Dr. Barnados Childrens' Home.

5. Peter D. Sullivan
Non-Executive Director
Appointed to the Board on 17 November 2001. He is Chief Executive Officer, Africa. He has held the positions of Group Head of Global Cash Management Services, Group Head of Product Management, Corporate and Institutional Banking, and Chief Executive Officer of Standard Chartered Grindlays Bank.

6. Denis D. Afande
Non-Executive Director
Appointed to the Board on 1 August 2000. He was for many years a career diplomat, served in various positions as an Ambassador to the United States of America and United Nations Geneva. He also served as Permanent Secretary (Ministries of Home Affairs & Health). He is Chairman of Undugu Society of Kenya. He is a member of Children of God Relief Institute (Nyumbani) and National Council for Children Service.

7. Alan J. Dodd
Executive Director
Appointed to the Board on 30 July 1998. He is responsible for the Shared Services Centre and was previously responsible for Client Relationships. He has worked in various positions within the Group in Botswana, Bahrain, Seychelles, Hong Kong, Oman and Brunei.

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Board of Directors (continued)

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8. Nancy N. Oginde
Company Secretary
Appointed to the Board on 1 March 1999. She is secretary to the Board and is Head of Legal & Compliance.

9. Peter N. Simpson
Executive Director
Appointed to the Board on 24 July 2003. He is responsible for Client Relationships. He previously worked as Executive Director, Client Relationships, Tanzania; Project Coordinator for acquisition of Thai Bank; Head of Client Relationships, Thailand; Account Relationship Manager, Hong Kong.

10. Ravneet Chowdhury
Executive Director
Appointed to the Board on 1 August 2002. He joined Standard Chartered Bank Group in 1994 and worked for the Bank in India and Botswana before being posted to Kenya in 2000. He has been Area Manager, Global Markets and also Head of Global Markets, Kenya. Previous appointments include Manager, Capital Markets in American Express Bank and Area Manager, Treasury in ABN Amro Bank, New Delhi.

The Board and Statutory Information

Directors

H.H.O. Awori	Chairman
M.C. Hart*	Chief Executive Officer
D.G. Njoroge	
P.D. Sullivan**	
A.J. Dodd*	
S.M. M'Mbijjewe	
D.D. Afande	
R. Chowdhury***	
J.E.H. Awori	(Resigned on 30 June 2003)
P.N. Simpson*	(Appointed on 24 July 2003)
R.M. Etemesi	(Appointed on 19 February 2004)
K. Shah	(Appointed on 19 February 2004)

* British
** Australian
*** Indian

Audit Committee

D.G. Njoroge	Chairman
D.D. Afande	
R.M. Etemesi	
P. Gitau	
N.N. Oginde	

Secretary
N.N. Oginde
Stanbank House
Moi Avenue
P.O. Box 30003
00100 Nairobi GPO.

Auditors
KPMG Kenya
16th Floor, Lonrho House
Standard Street
P.O. Box 40612
00100 Nairobi GPO.

Registered Office
Stanbank House
Moi Avenue
P.O. Box 30003
00100 Nairobi GPO.

Registrars and Transfer Office
Barclays Advisory and Registrar Services Limited
Bank House
Moi Avenue
P.O. Box 30120
00100 Nairobi GPO.

Report of the Directors
for the year ended 31 December 2003

The directors submit their report together with the audited financial statements for the year ended 31 December 2003 in accordance with Section 22 of the Banking Act and Section 157 of the Companies Act which discloses the state of affairs of the Group and Company.

1 Activities
The Group is engaged in the business of banking and provision of related services and is licensed under the Banking Act.

2 Results
The results for the year are set out on page 22.

3 Dividends
The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of KShs 4.10 for every ordinary share of KShs 5.00. Two interim dividends of KShs 2.20 each were paid in September and December 2003. The total dividend therefore, is KShs 8.50 (2002 – KShs 8.25).

The dividend will be payable to the shareholders registered on the Company's Register at the close of business on 25 March 2004.

4 Bonus shares
The Directors have also resolved to recommend to the shareholders at the forthcoming Annual General Meeting, the issue of bonus shares, subject to all the necessary approvals being obtained, at the rate of 1 ordinary share for every 10 such shares held.

The new shares shall not qualify for the dividends for the year ended 31 December 2003.

5 Preference shares
In anticipation of the expected growth in our asset base and the enhanced capital requirements, the Board has also resolved to recommend to the shareholders an increase of the capital of the Company through the issue of non-cumulative, non-voting and non-redeemable preference shares by a private placement.

The holders of the preference shares shall not be entitled to receive notice of, or attend, or vote at any general meeting of the Company.

6 Directors
The directors who served during the year are set out on pages 14 to 16.

In accordance with the Articles of Association Messrs. D.G. Njoroge, P.N. Simpson, R.M. Etemesi and K. Shah retire by rotation and being eligible, offer themselves for re-election.

7 Auditors
The auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 159(2) of the Companies Act and subject to Section 24(1) of the Banking Act.

8 Approval of financial statements
The financial statements were approved by the directors on 26 February 2004.

BY ORDER OF THE BOARD

N.N. Oginde
Secretary

26 February 2004

Statement on Corporate Governance

Corporate governance deals with the way companies are led and managed, the role of the Board of directors and a framework of internal controls. The Board of Standard Chartered Bank Kenya Limited is committed to proper standards of corporate governance and confirms that the company has complied with the provisions of our regulators including the Central Bank of Kenya, the Capital Markets Authority and the Nairobi Stock Exchange.

Directors

The full Board meets at least four times a year, and has a formal schedule of matters reserved for it. The directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues.

Except for direction and guidance on general policy, the Board has delegated authority for the conduct of day to day business to the Chief Executive Officer. It however retains responsibility for establishing and maintaining the Bank's overall internal control of financial, operational and compliance issues and monitoring the performance of the executive management.

Five out of the eleven members of the Board are non-executive and all directors are subject to periodic reappointment in accordance with the company's Articles of Association. On appointment, each director receives information about the Bank and is advised of the legal, regulatory and other obligations of a director of a listed company. They have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with.

Directors' remuneration

The remuneration of all directors is subject to regular monitoring to ensure that levels of remuneration and compensation are appropriate. Information on the compensation received and the dealings of the directors with the Bank are included in the annual report in notes 7 and 36 on pages 30 and 44 respectively.

Accountability and Audit

The Audit Committee chaired by Mr D.G. Njoroge, a non-executive director receives reports on the findings of the Internal Audit and Frauds and Investigations departments that audit business operations and the internal control environment. It also receives input and reports from the external auditors. In addition, the Committee regularly reviews and considers changes to improve the Bank's security, internal control and risk management processes.

Going concern

The Board confirms that it is satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

Internal controls

The Board has a collective responsibility for the establishment and maintenance of a system of internal control that provides reasonable assurance of effective and efficient operations. However, it recognises that any system of internal control can provide only reasonable, and not absolute assurance against material misstatement or loss.

The Board attaches great importance to maintaining a strong control environment and the Group's system of internal controls includes the assessment of non-financial risks and controls. The Board has reviewed the Bank's internal control policies and procedures and is satisfied that appropriate procedures are in place. The Board also reviewed the level of bad and doubtful debt provisioning as at 31 December 2003 and is satisfied with their adequacy to cover the credit risk exposure.

The Bank ensures that there are written policies and procedures to identify and manage risk including operational risk, balance sheet management, market and credit risk on an ongoing basis.

The Bank's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. The Board has established a management structure, which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

The business performance of the Bank is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls also include segregation of duties, regular reconciliation of accounts and the valuation of assets and positions.

The Board has approved a Code of Conduct, which sets out the Bank's core values relating to the lawful and ethical conduct of business. All employees have a copy of this Code of Conduct and are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Bank operates. This forms part of a Bank compliance structure, which sets policies and standards for compliance with rules, regulations and legal requirements.

Relations with shareholders

The Board recognises the importance of good communication with all shareholders. The Annual General Meeting (AGM) as well as the published annual reports are used as an opportunity to communicate with all shareholders. The Bank will always give shareholders the 21 days notice of the AGM as provided for in the Companies Act.

MAJOR SHAREHOLDERS

	SHAREHOLDER	NUMBER OF SHARES	% HOLDING
1	Standard Chartered Holdings (Africa) BV	182,501,214	73.81
2	Kabarak Limited	2,539,266	1.03
3	Barclays (Kenya) Nominees Limited – A/C 1255	1,861,000	0.75
4	Barclays (Kenya) Nominees Limited – A/C 1853	1,494,355	0.60
5	Standard Chartered Africa Holdings Limited	1,188,000	0.48
6	Kenya Commercial Bank Nominees Limited – A/C 744	1,145,590	0.46
7	Old Mutual Life Assurance Company Limited	962,550	0.39
8	Barclays (Kenya) Nominees Limited – A/C 9230	871,552	0.35
9	Old Mutual Life Assurance Company Limited	739,482	0.30
10	Stanbic Nominees Kenya Limited – A/C SCKPF	700,229	0.28

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 and the company as at the end of the financial year and of the operating results of the group for that year. It also requires directors to ensure the group and the company keep proper accounting records that disclose with reasonable accuracy the financial position of the group and the company. They are also responsible for safeguarding the assets of the group.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and company and of its operating results. The directors further accept responsibility of the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Director: H.H.O. Awori

Director: M.C. Hart

Director: R. Chowdhury

Date: 26 February 2004

Report of the Independent Auditors

to the Members of Standard Chartered Bank Kenya Limited

We have audited the financial statements set out on pages 22 to 44 for the year ended 31 December 2003. 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. The balance sheet of the Company is in agreement with the books of account.

Respective responsibilities of directors and independent auditors

As stated on page 20, the directors are responsible for the preparation of financial statements that give a true and fair view of the state of affairs of the group and the company and of the group's operating results. Our responsibility is to express an opinion on the financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the group and company's financial position at 31 December 2003 and of the group's operating results and cash flows for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

KPMG Kenya
Certified Public Accountants
P.O. Box 40612
00100 Nairobi GPO.

26 February 2004

Consolidated Income Statement

for the year ended 31 December 2003

	Notes	2003 KShs '000	2002 Restated KShs '000
Interest income	3	4,424,623	5,340,902
Interest expense	4	(590,143)	(1,079,710)
NET INTEREST INCOME		3,834,480	4,261,192
Fees and commissions		2,210,546	1,794,796
Foreign exchange trading		709,688	608,327
Gains less losses from investment securities	5	640,213	–
Other income		10,113	13,237
OPERATING INCOME		7,405,040	6,677,552
Impairment losses on loans and advances	14(b)	(80,689)	(122,387)
Operating expenses	6	(3,314,397)	(3,343,157)
PROFIT BEFORE TAXATION	7	4,009,954	3,212,008
Income tax expense	8	(1,221,237)	(1,005,881)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	9	2,788,717	2,206,127
Basic and diluted earnings per share – (KShs)	9	11.28	8.92
Dividends per share – (KShs)	10	8.50	8.25

The notes set out on pages 28 to 44 form an integral part of these financial statements.

Consolidated Balance Sheet

at 31 December 2003

ASSETS	Notes	2003 KShs '000	2002 KShs '000
Cash and balances with Central Bank of Kenya	11	4,384,668	5,834,997
Investments in Government securities	12	33,793,530	27,953,810
Deposits and balances due from banking institutions	13	304,537	555,144
Loans and advances to customers	14	18,924,314	16,660,187
Amounts due from Group companies	15	3,055,292	6,979,654
Other assets	17	2,019,173	1,896,747
Prepaid operating lease rentals	18	117,155	119,197
Property and equipment	19	1,426,931	1,543,166
Tax recoverable		–	47,005
Defined benefit asset	20	–	8,831
Deferred tax asset	21	85,758	51,390
TOTAL ASSETS		64,111,358	61,650,128
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits and balances due to banking institutions	22	584,454	609,322
Customers' deposits	23	53,773,073	51,509,159
Amounts due to Group companies	15	1,030,444	1,314,126
Defined benefit liability	20	26,169	–
Other liabilities	24	1,752,144	2,525,576
Tax payable		140,442	–
Dividends payable		363,729	–
		57,670,455	55,958,183
Shareholders' equity			
Share capital	25	1,236,217	1,236,217
Revaluation reserves		126,888	129,478
Retained earnings		4,064,101	3,374,363
Proposed dividends		1,013,697	951,887
		6,440,903	5,691,945
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		64,111,358	61,650,128

The financial statements set out on pages 22 to 44 were approved by the Board of Directors on 26 February 2004 and were signed on its behalf by:

Director	H.H.O. Awori	Director	R. Chowdhury
Director	M.C. Hart	Secretary	N.N. Oginde

The notes set out on pages 28 to 44 form an integral part of these financial statements.

Company Balance Sheet
at 31 December 2003

ASSETS	Notes	2003 KShs '000	2002 KShs '000
Cash and balances with Central Bank of Kenya	11	**4,384,668**	5,834,997
Investments in Government securities	12	**33,793,530**	27,953,810
Deposits and balances due from banking institutions	13	**304,537**	555,144
Loans and advances to customers	14	**18,924,314**	16,660,187
Amounts due from Group companies	15	**3,055,292**	6,979,654
Investment in subsidiaries	16	**140,243**	140,243
Other assets	17	**2,018,649**	1,898,977
Prepaid operating lease rentals	18	**117,155**	119,197
Property and equipment	19	**1,426,931**	1,543,166
Tax recoverable		**–**	40,026
Defined benefit asset	20	**–**	8,831
Deferred tax asset	21	**75,304**	42,167
TOTAL ASSETS		**64,240,623**	61,776,399
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits and balances due to banking institutions	22	**584,454**	609,322
Customers' deposits	23	**53,769,477**	51,505,563
Amounts due to Group companies	15	**1,030,444**	1,314,126
Amounts due to subsidiaries		**200,628**	204,807
Defined benefit liability	20	**26,169**	–
Other liabilities	24	**1,750,751**	2,524,184
Tax payable		**146,998**	–
Dividends payable		**363,729**	–
		57,872,650	56,158,002
Shareholders' equity			
Share capital	25	**1,236,217**	1,236,217
Revaluation reserves		**126,888**	129,478
Retained earnings		**3,991,171**	3,300,815
Proposed dividends		**1,013,697**	951,887
		6,367,973	5,618,397
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**64,240,623**	61,776,399

The financial statements set out on pages 22 to 44 were approved by the Board of Directors on 26 February 2004 and were signed on its behalf by:

Director	H.H.O. Awori	Director	R. Chowdhury
Director	M.C. Hart	Secretary	N.N. Oginde

The notes set out on pages 28 to 44 form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2003

	Notes	2003 KShs '000	2002 KShs '000
Net cash inflow from operating activities	29 (a)	**821,313**	3,167,137
Cash flows from investing activities			
Purchase of property and equipment		**(250,310)**	(294,285)
Proceeds from sale of property and equipment		**798**	2,150
Proceeds from sale of prepaid operating lease rentals		**–**	1,811
Net cash outflow from investing activities		**(249,512)**	(290,324)
Cash flows from financing activities			
Dividends paid			
– Final 2002		**(951,887)**	(1,050,785)
– Interim 2003		**(724,143)**	(1,087,872)
Net cash outflow from financing activities		**(1,676,030)**	(2,138,657)
(Decrease)/increase in cash and cash equivalents		**(1,104,229)**	738,156
Cash and cash equivalents at 1 January		**16,148,951**	15,410,795
Cash and cash equivalents at 31 December	29 (b)	**15,044,722**	16,148,951

The notes set out on pages 28 to 44 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2003

	Share capital KShs '000	Revaluation reserves KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
At 1 January 2002	1,236,217	128,167	3,204,148	1,050,785	5,619,317
Realised on sale of property net of deferred tax	–	(1,208)	1,208	–	–
Revaluation surplus net of deferred tax	–	5,158	–	–	5,158
Net profit for the year	–	–	2,206,127	–	2,206,127
Excess depreciation transfer net of deferred tax	–	(2,639)	2,639	–	–
Proposed final dividends	–	–	(951,887)	951,887	–
Dividends paid and payable					
– Final 2001	–	–	–	(1,050,785)	(1,050,785)
– Interim 2002	–	–	(1,087,872)	–	(1,087,872)
At 31 December 2002	**1,236,217**	**129,478**	**3,374,363**	**951,887**	**5,691,945**
At 1 January 2003	1,236,217	129,478	3,374,363	951,887	5,691,945
Net profit for the year	–	–	2,788,717	–	2,788,717
Excess depreciation transfer net of deferred tax	–	(2,590)	2,590	–	–
Proposed final dividends	–	–	(1,013,697)	1,013,697	–
Dividends paid and payable					
– Final 2002	–	–	–	(951,887)	(951,887)
– Interim 2003	–	–	(1,087,872)	–	(1,087,872)
At 31 December 2003	**1,236,217**	**126,888**	**4,064,101**	**1,013,697**	**6,440,903**

The notes set out on pages 28 to 44 form an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2003

	Share capital KShs '000	Revaluation reserves KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
At 1 January 2002	1,236,217	128,167	3,126,575	1,050,785	5,541,744
Realised on sale of property net of deferred tax	–	(1,208)	1,208	–	–
Revaluation surplus net of deferred tax	–	5,158	–	–	5,158
Net profit for the year	–	–	2,210,152	–	2,210,152
Excess depreciation transfer net of deferred tax	–	(2,639)	2,639	–	–
Proposed final dividends	–	–	(951,887)	951,887	–
Dividends paid and payable					
– Final 2001	–	–	–	(1,050,785)	(1,050,785)
– Interim 2002	–	–	(1,087,872)	–	(1,087,872)
At 31 December 2002	***1,236,217***	***129,478***	***3,300,815***	***951,887***	***5,618,397***
At 1 January 2003	1,236,217	129,478	3,300,815	951,887	5,618,397
Net profit for the year	–	–	2,789,335	–	2,789,335
Excess depreciation transfer net of deferred tax	–	(2,590)	2,590	–	–
Proposed final dividends	–	–	(1,013,697)	1,013,697	–
Dividends paid and payable					
– Final 2002	–	–	–	(951,887)	(951,887)
– Interim 2003	–	–	(1,087,872)	–	(1,087,872)
At 31 December 2003	***1,236,217***	***126,888***	***3,991,171***	***1,013,697***	***6,367,973***

The notes set out on pages 28 to 44 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2003

1 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

(i) The financial statements set out on pages 22 to 44 have been prepared under the historical cost basis of accounting except the revaluation of certain property and equipment and financial instruments.

(ii) The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries for the year ended 31 December 2003. These subsidiaries are shown in Note 16.

All significant transactions and balances between group companies are eliminated on consolidation.

(c) Revenue recognition

Revenue is recognised on an accrual basis.

(i) Net interest income

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(ii) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. These are mainly from financial services provided by the Group including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured trade finance transactions and asset management services.

Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan.

(d) Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. Financial instruments held by the Group include balances with Central Bank of Kenya, loans and advances, investments in government securities, balances with banks, deposits, derivatives and group balances.

Management determines the appropriate classification of its financial instruments at the time of purchase and re-evaluates its portfolio on a regular basis to ensure that all financial instruments are appropriately classified.

All financial instruments with the exception of trading instruments are recognised on the date they are transferred to the Group. At that date, they are recognised at cost, including transaction costs. Subsequent to initial recognition, such instruments are stated at amortised cost. Amortised cost is calculated using the effective interest rate method. The amortisation and accretion of premiums and discounts is included in interest income.

Financial instruments held for trading are those that the Group principally holds for the purpose of short-term profit taking. These include derivative instruments as described in Note 32. These are recognised on the date the Group commits to acquire the instruments. Trading instruments are initially recognised at cost, including transaction costs.

Subsequent to initial recognition, trading instruments are stated at fair value. Where the fair value cannot be reliably measured, the assets are stated at cost less impairment losses. Changes in fair value are recognised in the income statement.

(e) Impairment

The carrying amounts of the Group's financial assets and property and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

(f) Loans and provisions for loan impairment

Loans and advances are recognised when cash is advanced to borrowers.

Loans originated by the Group by providing money directly to borrowers, other than those created with the intention of short-term profit taking, are classified as originated loans and receivables.

These are carried at amortised cost, which is the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Loan origination fees together with related direct costs are treated as part of the cost of the transaction.

Loans and advances are shown at the gross amount adjusted for any provision for impairment losses. A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount.

In addition, general provisions are maintained based on management's evaluation of the portfolio of advances and other exposures, in respect of losses which, although not specifically identified, are known from experience to be present in the portfolio.

When a loan is deemed uncollectable, it is written off against the related provision for impairment. Subsequent recoveries are credited to the provision for loan losses in the income statement.

(g) Property and equipment

Freehold land and buildings and buildings on leasehold land are included in the financial statements at their historical cost or amount of any subsequent valuation.

Freehold land is not depreciated.

Depreciation is calculated on a straight line basis to write off the cost or revalued amount of property and equipment over their estimated useful lives as follows:

Fixtures and fittings	10%
Equipment	10%
Computers	30 – 33%

Buildings on leasehold land are depreciated over the remaining period of the lease. Buildings on freehold land are depreciated over fifty years.

Excess depreciation is the difference between the depreciation charge for the year based on the revalued amount and the original cost of the related property and equipment. On an annual basis, the amount relating to the excess depreciation is transferred from revaluation reserves to retained earnings to recognise the use of the property and equipment.

(h) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease. Prepaid operating lease rentals in respect of leasehold land is recognised as an asset and amortised over the lease period (Note 18).

(i) Transactions in foreign currencies

Transactions during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities which are expressed in foreign currencies are translated into Kenya Shillings at the exchange rates ruling at the balance sheet date. The resulting differences from conversion are dealt with in the income statement in the year in which they arise.

(j) Taxation

Tax on the profit or loss for the year comprises current tax and the movement on the deferred tax account. Current tax is provided on the results in the year as shown in the accounts adjusted in accordance with tax legislation.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is computed using the currently enacted tax rates.

(k) Employee benefits

The Group's employees are eligible for retirement benefits under a defined contribution scheme. Pensioners and deferred pensioners existing at 31 December 1998 are eligible for retirement benefits under a defined benefit scheme.

For the defined benefit scheme, the pension costs are assessed using the unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the lives of pensioners in accordance with the advice of qualified actuaries who carry out a full valuation of the scheme every three years. The pension obligation is measured as the present value of the estimated future cash outflows.

Contributions to the defined contribution scheme are charged to the income statement as incurred.

The employees and Group also contribute to the NSSF, a national retirement scheme. Contributions are determined by local statutes and the Group's contributions are charged to the income statement in the year to which they relate.

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash balances on hand, balances deposited with the Central Bank of Kenya net of Cash Reserve Ratio, net balances with banking institutions and investments with maturities of three months or less from the date of acquisition.

(m) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the income statement.

(n) Sale and repurchase agreements

Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions. Securities purchased from the Central Bank of Kenya under agreement to resale (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they repurchased and are not negotiable or discounted during the tenure.

(o) Dividends

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2003

2 BUSINESS SEGMENTS

The major part of the business of the Group, which is all within Kenya, falls under the category of banking, with other income comprising less than 2% of the total income of the Group. No segment information is therefore reported.

	2003	2002
3 INTEREST INCOME	**KShs '000**	KShs '000
Loans and advances to customers	**1,618,444**	1,970,501
Treasury bonds	**2,079,602**	1,955,249
Treasury bills	**660,897**	1,284,062
Deposits and balances due from banking institutions	**65,680**	131,090
	4,424,623	5,340,902
4 INTEREST EXPENSE		
Customers' deposits	**498,521**	910,774
Deposits and balances due to banking institutions	**91,622**	168,936
	590,143	1,079,710
5 GAINS LESS LOSSES FROM INVESTMENT SECURITIES		
Increase in fair value of investment securities held at year end	**16,102**	–
Net gain on disposal of investment securities	**624,111**	–
	640,213	–
6 OPERATING EXPENSES		
Salaries and employee benefits	**1,461,392**	1,606,214
Occupancy expenses	**62,392**	65,405
Deposit Protection Fund	**71,378**	63,980
Other expenses	**1,719,235**	1,607,558
	3,314,397	3,343,157
The following items are included within salaries and employee benefits:		
Retirement benefit costs:		
– Group's defined benefit scheme	**35,000**	35,000
– Group's defined contribution scheme	**134,032**	128,595
– Parent company's scheme	**11,678**	8,303
– Other schemes	**878**	832
	181,588	172,730
The number of employees at the year end was:	**No**	No
Management	**508**	490
Unionisable	**487**	532
	995	1,022

	2003	2002
7 PROFIT BEFORE TAXATION		
Profit before taxation is arrived after charging:	**KShs '000**	KShs '000
Depreciation	**366,544**	240,845
Directors' emoluments – Fees	**2,814**	2,830
– Other	**103,393**	86,609
Auditors' remuneration	**5,418**	4,935
Loss on sale of property and equipment	**–**	4,880
Amortisation of prepaid operating lease rentals	**2,042**	2,078
Deficit on revaluation of property	**–**	12,759
And after crediting:		
Profit on sale of prepaid operating lease rentals	**–**	1,743
Profit on sale of property and equipment	**797**	–

8 INCOME TAX EXPENSE	2003 KShs '000	2002 KShs '000
Current year's tax at 30%	1,255,605	1,007,578
Deferred tax credit	(34,368)	(1,697)
Income tax expense	1,221,237	1,005,881

The tax on the group's profit differs from the theoretical amount using the basic tax rate as follows:

Accounting profit before taxation	4,009,954	3,212,008
Computed tax using the applicable corporation tax rate at 30%	1,202,986	963,602
Non-deductible costs and non-taxable income	18,251	42,279
Income tax expense	1,221,237	1,005,881

9 BASIC AND DILUTED EARNINGS PER SHARE	2003	2002
The calculation of basic earnings per share is based on:		
Profit attributable to shareholders (KShs '000)	2,788,717	2,206,127
Number of ordinary shares outstanding during the year (thousands)	247,243	247,243
Basic earnings per share (KShs)	11.28	8.92

There were no potentially dilutive shares outstanding at 31 December 2003 and 2002.

10 DIVIDENDS PER SHARE

Dividends per share is calculated on dividends of KShs 2,101,569,444 (2002 – KShs 2,039,758,578) and on the number of shares in issue at the respective balance sheet dates of 247,243,464 (2002 – 247,243,464).

11 CASH AND BALANCES WITH CENTRAL BANK OF KENYA
Group and Company

	2003 KShs '000	2002 KShs '000
Cash on hand	1,314,100	1,784,460
Balances with Central Bank of Kenya		
– Cash Reserve Ratio	3,130,925	4,050,537
– Other	(60,357)	–
	4,384,668	5,834,997

The Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. At 31 December 2003, the Cash Reserve Ratio requirement was 6% of all deposits (2002 – 10% of eligible deposits). These funds are not available to finance the Bank's day to day operations.

12 INVESTMENTS IN GOVERNMENT SECURITIES
Group and Company

	2003 KShs '000	2002 KShs '000
Held to maturity – Treasury bonds		
Due after 90 days and within 1 year	240,578	214,602
Due after 1 year	239,700	479,400
	480,278	694,002
Held for trading – Treasury bonds	1,853,620	–
Originated loans and receivables – Treasury bonds		
Due within 90 days	442,393	1,237,573
Due after 90 days and within 1 year	3,928,642	4,343,531
Due after 1 year	11,944,370	11,790,800
	16,315,405	17,371,904
Originated loans and receivables – Treasury bills		
Due within 90 days	11,461,594	9,887,904
Due after 90 days	3,682,633	–
	15,144,227	9,887,904
	33,793,530	27,953,810

The weighted average effective interest rate on treasury bonds at 31 December 2003 was 7.98% (2002 – 11.20%) and on treasury bills was 1.89% (2002 – 8.50%). There were no treasury bills under repurchase agreements (2002 – KShs 1,744,085,000).

13 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

Group and Company

	2003 KShs '000	2002 KShs '000
Due within 90 days	**304,537**	555,144

The weighted average effective interest rate on deposits and balances due from banking institutions at 31 December 2003 was 0.64% (2002 – 8.60%).

14 LOANS AND ADVANCES TO CUSTOMERS

Group and Company

	2003 KShs '000	2002 KShs '000
(a) Classification		
Overdrafts	**6,124,508**	7,129,802
Loans	**12,948,703**	10,151,064
Bills discounted	**1,001,192**	421,613
Gross loans and advances to customers	**20,074,403**	17,702,479
Less: impairment losses on loans and advances	**(1,150,089)**	(1,042,292)
Net loans and advances to customers	**18,924,314**	16,660,187
Repayable on demand	**8,547,834**	9,054,259
Less than 3 months	**2,635,524**	3,584,457
3 months to 1 year	**1,839,265**	293,457
1 to 5 years	**6,585,813**	4,674,405
5 to 10 years	**215,860**	22,905
Over 10 years	**250,107**	72,996
Gross loans and advances to customers	**20,074,403**	17,702,479

(b) Impairment losses on loans and advances

	Specific provision KShs '000	General provision KShs '000	Total KShs '000
At 1 January 2003	885,979	156,313	1,042,292
Additional provisions in the year	269,399	23,514	292,913
Recoveries and provisions no longer required	(184,781)	–	(184,781)
Net increase in provisions against revenue	84,618	23,514	108,132
Amounts written off during the year	(335)	–	(335)
At 31 December 2003	**970,262**	**179,827**	**1,150,089**
Net increase in provisions against revenue	84,618	23,514	108,132
Amounts written off during the year	(27,443)	–	(27,443)
Net charge to the income statement	**57,175**	**23,514**	**80,689**

The weighted average effective interest rate on loans and advances to customers at 31 December 2003 was 7.97% (2002 – 14.00%).

(c) Non performing loans and advances

Loans and advances include amounts totalling KShs 1,121,406,000 (2002 – KShs 1,167,420,000) net of impairment losses on loans and advances which have been classified as non performing. These loans have been written down to their recoverable amounts.

(d) Loans and advances concentration by sector	2003 KShs '000	2002 KShs '000
Business services	**810,069**	1,595,335
Manufacturing	**4,003,975**	5,433,123
Wholesale and retail trade	**7,286,708**	4,351,478
Transport and communication	**1,734,886**	1,258,659
Real estate	**66,154**	34,638
Others	**6,172,611**	5,029,246
	20,074,403	17,702,479

15 GROUP COMPANY BALANCES

Group and Company

	2003	2002
Amounts due from Group companies	3,055,292	6,979,654
Amounts due to Group companies	1,030,444	1,314,126

The weighted average effective interest rate at 31 December 2003 on amounts due from Group companies was 1.12% (2002 – 2.60%) and on amounts due to Group companies was 12.18% (2002 – 10.80%).

16 INVESTMENT IN SUBSIDIARIES

The following subsidiaries are wholly owned by the Bank:

Company	Status	2003 KShs '000	2002 KShs '000
Standard Chartered Investment Services Limited	*Active*	***20,000***	*20,000*
Standard Chartered Financial Services Limited	Dormant	**120,241**	120,241
Standard Chartered Kenya Nominees Limited	*Dormant*	**2**	*2*
		140,243	140,243

The interest in the above undertakings is carried at cost. All the subsidiaries are incorporated in Kenya.

17 OTHER ASSETS

	2003		2002	
	Group KShs '000	**Company KShs '000**	Group KShs '000	Company KShs '000
Uncleared effects	**1,549,644**	**1,550,725**	1,488,477	1,488,477
Prepayments	***112,899***	***112,899***	*99,752*	*99,752*
Other receivables	**356,630**	**355,025**	308,518	310,748
	2,019,173	2,018,649	1,896,747	1,898,977

18 PREPAID OPERATING LEASE RENTALS

Group and Company

Cost	2003 KShs '000	2002 KShs '000
At 1 January and 31 December	**137,636**	137,636
Amortisation		
At 1 January	**18,439**	16,361
Charge for the year	**2,042**	2,078
At 31 December	**20,481**	18,439
Net carrying amount		
At 31 December	**117,155**	119,197

21 DEFERRED TAX ASSET

The net deferred tax assets at 31 December 2003 and 2002 are attributable to the following:

Group

	At 1 January 2003 KShs '000	Credit to the income statement KShs '000	At 31 December 2003 KShs '000
Asset/(liability)			
Tax losses in subsidiaries	*9,223*	*1,231*	10,454
Property and equipment	39,255	14,471	53,726
General provisions	*46,894*	*7,056*	53,950
Revaluation surplus	(41,332)	1,110	(40,222)
Defined benefit (asset)/liability	(2,650)	10,500	7,850
	51,390	**34,368**	**85,758**

Company

	At 1 January 2003 KShs '000	Credit to the income statement KShs '000	At 31 December 2003 KShs '000
Asset/(liability)			
Property and equipment	39,255	14,471	53,726
General provisions	46,894	7,056	53,950
Revaluation surplus	(41,332)	1,110	(40,222)
Defined benefit (asset)/liability	(2,650)	10,500	7,850
	42,167	**33,137**	**75,304**

22 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS

Group and Company

	2003 KShs '000	2002 KShs '000
Payable within 90 days	**584,454**	609,322

The weighted effective interest rate on deposits and balances due to banking institutions at 31 December 2003 was 3.65% (2002 – 4.80%).

23 CUSTOMERS' DEPOSITS

	2003		2002	
	Group KShs '000	**Company KShs '000**	Group KShs '000	Company KShs '000
From Government and parastatals				
Payable on demand	***4,201,946***	***4,201,946***	*921,243*	*921,243*
From private sector and individuals				
Payable on demand	**39,032,541**	**39,028,945**	35,580,692	35,577,096
Payable within 3 months or less	**9,697,010**	**9,697,010**	14,112,178	14,112,178
Payable after 3 months	**841,576**	**841,576**	895,046	895,046
	53,773,073	**53,769,477**	51,509,159	51,505,563

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2003 was 0.54% (2002 – 2.03%).

24 OTHER LIABILITIES

	2003		2002	
	Group	Company	Group	Company
	KShs '000	KShs '000	KShs '000	KShs '000
Bills payable	540,721	540,721	1,307,175	1,307,175
Other accounts payable	1,211,423	1,210,030	1,218,401	1,217,009
	1,752,144	1,750,751	2,525,576	2,524,184

25 SHARE CAPITAL

	2003	2002
Authorised	KShs '000	KShs '000
248,000,000 ordinary shares of KShs 5.00 each	1,240,000	1,240,000
Issued and fully paid		
247,243,464 ordinary shares of KShs 5.00 each	1,236,217	1,236,217

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at annual and other general meetings of the Bank.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2003

26 INTEREST RATE RISK

The Bank is exposed to various risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risks. The table shows the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

All figures are in thousands of Kenya Shillings (KShs '000).

	Up to 3 months	3 – 6 months	6 – 12 months	1 – 3 years	Over 3 years	Non-interest bearing	Total
ASSETS							
Cash and balances with Central Bank of Kenya	–	–	–	–	–	4,384,668	4,384,668
Investments in Government securities	17,556,058	4,314,523	768,310	5,682,242	5,472,397	–	33,793,530
Deposits and balances due from banking institutions	304,537	–	–	–	–	–	304,537
Loans and advances to customers	17,802,908	–	–	–	–	1,121,406	18,924,314
Amounts due from Group companies	3,055,292	–	–	–	–	–	3,055,292
Other assets	–	–	–	–	–	2,019,173	2,019,173
Prepaid operating lease rentals	–	–	–	–	–	117,155	117,155
Property and equipment	–	–	–	–	–	1,426,931	1,426,931
Deferred tax asset	–	–	–	–	–	85,758	85,758
At 31 December 2003	38,718,795	4,314,523	768,310	5,682,242	5,472,397	9,155,091	64,111,358
EQUITY AND LIABILITIES							
Deposits and balances due to banking institutions	584,454	–	–	–	–	–	584,454
Customers' deposits	34,081,780	703,867	105,357	32,352	–	18,849,717	53,773,073
Amounts due to Group companies	1,030,444	–	–	–	–	–	1,030,444
Defined benefit liability	–	–	–	–	–	26,169	26,169
Other liabilities	–	–	–	–	–	1,752,144	1,752,144
Tax payable	–	–	–	–	–	140,442	140,442
Dividends payable	–	–	–	–	–	363,729	363,729
Total shareholders' equity	–	–	–	–	–	6,440,903	6,440,903
At 31 December 2003	35,696,678	703,867	105,357	32,352	–	27,573,104	64,111,358
INTEREST RATE SENSITIVITY – 2003	3,022,117	3,610,656	662,953	5,649,890	5,472,397	(18,418,013)	–
At 31 December 2002							
ASSETS	35,947,405	3,420,883	4,137,200	4,632,200	3,000,000	10,512,440	**61,650,128**
EQUITY AND LIABILITIES	33,905,587	801,523	86,456	7,067	–	26,849,495	**61,650,128**
INTEREST RATE SENSITIVITY – 2002	**2,041,818**	**2,619,360**	**4,050,744**	**4,625,133**	**3,000,000**	**(16,337,055)**	**–**

Customer deposits upto three months represent current, savings and call deposit account balances, which past experience has shown to be stable and of a long term nature.

The Group's operations are subject to the risks of interest rate fluctuations to the extent that the interest earning assets (including investments) and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rates levels consistent with the Group's business strategies.

The Group does not have any significant interest rate risk exposures.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2003

27 LIQUIDITY RISK
The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2003 to the contractual maturity date.

All figures are in thousands of Kenya Shillings (KShs '000).

ASSETS	Up to 3 months	3 – 6 months	6 – 12 months	1 – 3 years	Over 3 years	Total
Cash and balances with Central Bank of Kenya	4,384,668	–	–	–	–	4,384,668
Investments in Government securities	11,903,987	5,247,274	2,604,579	8,041,864	5,995,826	33,793,530
Deposits and balances due from banking institutions	304,537	–	–	–	–	304,537
Loans and advances to customers	10,033,269	1,106,410	732,855	2,721,122	4,330,658	18,924,314
Amounts due from Group companies	3,055,292	–	–	–	–	3,055,292
Other assets	2,019,173	–	–	–	–	2,019,173
Prepaid operating lease rentals	–	–	–	–	117,155	117,155
Property and equipment	–	–	–	–	1,426,931	1,426,931
Deferred tax asset	–	–	–	–	85,758	85,758
At 31 December 2003	31,700,926	6,353,684	3,337,434	10,762,986	11,956,328	64,111,358
EQUITY AND LIABILITIES						
Deposits and balances due to banking institutions	584,454	–	–	–	–	584,454
Customers' deposits	52,931,497	703,867	105,357	32,352	–	53,773,073
Amounts due to Group companies	1,030,444	–	–	–	–	1,030,444
Defined benefit liability	–	–	–	–	26,169	26,169
Other liabilities	1,752,144	–	–	–	–	1,752,144
Tax payable	–	140,442	–	–	–	140,442
Dividends payable	363,729	–	–	–	–	363,729
Total shareholders' equity	–	1,013,697	–	–	5,427,206	6,440,903
At 31 December 2003	56,662,268	1,858,006	105,357	32,352	5,453,375	64,111,358
NET LIQUIDITY GAP – 2003	(24,961,342)	4,495,678	3,232,077	10,730,634	6,502,953	–
At 31 December 2002						
ASSETS	37,988,443	357,406	4,541,189	11,686,023	7,077,067	**61,650,128**
EQUITY AND LIABILITIES	55,063,137	1,753,410	86,456	7,067	4,740,058	**61,650,128**
NET LIQUIDITY GAP – 2002	**(17,074,694)**	**(1,396,004)**	**4,454,733**	**11,678,956**	**2,337,009**	–

Customer deposits upto three months represent current, savings and call deposit account balances, which past experience has shown to be stable and of a long term nature.

27 LIQUIDITY RISK (continued)
Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

28 CURRENCY RISK
The Group operates wholly within Kenya and its assets and liabilities are carried in the local currency. The Group maintains trade with the main shareholder and other correspondent banks.

The various foreign currencies to which the Bank is exposed at 31 December 2003 are summarised in the table below:-

All figures are in thousands of Kenya Shillings (KShs '000).

	USD	GBP	EURO	Other	Total
ASSETS					
Deposits and balances due from banking institutions	49,400	–	–	59,459	**108,859**
Loans and advances to customers	5,539,304	7,952	218,713	8	**5,765,977**
Amounts due from Group companies	2,660,000	–	288,158	85,500	**3,033,658**
Other assets	553,811	593,017	287,497	422,778	**1,857,103**
At 31 December 2003	**8,802,515**	**600,969**	**794,368**	**567,745**	**10,765,597**
LIABILITIES					
Deposits and balances due to banking institutions	–	–	–	37,064	**37,064**
Customers' deposits	6,672,335	555,946	704,049	22,681	**7,955,011**
Amounts due to Group companies	536,497	35,841	8,493	233,450	**814,281**
Other liabilities	1,701,090	9,182	77,678	271,527	**2,059,477**
At 31 December 2003	**8,909,922**	**600,969**	**790,220**	**564,722**	**10,865,833**
Net balance sheet position	**(107,407)**	**–**	**4,148**	**3,023**	**(100,236)**
Net notional off balance sheet position	**439,461**	**522,821**	**(96,053)**	**(16,092)**	**850,137**
Overall net position – 2003	**332,054**	**522,821**	**(91,905)**	**(13,069)**	**749,901**
Overall net position – 2002	**(238,944)**	**232**	**(7,207)**	**2,552**	**(243,367)**

29 NOTES TO THE CASH FLOW STATEMENT

(a) *Reconciliation of profit before taxation to net cash inflow from operating activities*

	2003 KShs '000	2002 KShs '000
Profit before taxation	4,009,954	3,212,008
Depreciation	366,544	240,845
(Profit)/loss on sale of property and equipment	(797)	4,880
Profit on sale of prepaid operating lease rentals	–	(1,743)
Amortisation of prepaid operating lease rentals	2,042	2,078
Deficit on revaluation of property	–	12,759
Defined benefit asset	35,000	35,000
(Increase)/decrease in operating assets		
Balances with Central Bank of Kenya – Cash Reserve Ratio	919,612	(432,545)
Treasury bills under repurchase agreements	1,744,085	940,979
Treasury bills due after 90 days	(3,682,633)	–
Investments in treasury bonds	(583,397)	(5,479,045)
Loans and advances to customers	(2,264,127)	(1,925,145)
Other assets	(122,426)	(61,378)
Increase/(decrease) in operating liabilities		
Customers' deposits	2,263,914	6,449,729
Deposits and balances due to banking institutions	(24,868)	447,179
Other liabilities	(773,432)	729,869
Cash flows from operating activities	1,889,471	4,175,470
Income taxes paid	(1,068,158)	(1,008,333)
Net cash inflow from operating activities	821,313	3,167,137

(b) Analysis of the balance of cash and cash equivalents

	2003 KShs '000	2002 KShs '000
Cash on hand	1,314,100	1,784,460
Other cash balances with Central Bank of Kenya	(60,357)	–
Deposits and balances due from banking institutions	304,537	555,144
Amounts due from Group companies	3,055,292	6,979,654
Amounts due to Group companies	(1,030,444)	(1,314,126)
Treasury bills	11,461,594	8,143,819
	15,044,722	16,148,951

30 OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

Group and Company

In the ordinary course of business, the Group conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

	2003 KShs '000	2002 KShs '000
Guarantees and standby letters of credit	3,849,336	3,841,246
Letters of credit, acceptances and other documentary credits	4,194,652	4,254,458
Performance bonds and warranties	59,159	51,169
	8,103,147	8,146,873
Commitments were as follows:		
Forward foreign exchange contracts	2,304,087	2,132,643

Nature of contingent liabilities

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

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

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

Forward foreign exchange contracts are commitments to either purchase or sell a designated financial instrument at a specified future date for a specified price and may be settled in cash or another financial asset.

31 CREDIT RISK MANAGEMENT

The Group has policies and procedures for managing credit risk. These include ensuring that counterparties operate within the set limits and are of good credit standing.

The credit risk is managed on a regular basis to minimise potential credit exposure and financial loss.

32 FINANCIAL RISK MANAGEMENT DISCLOSURES

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk in respect of derivative financial instruments. The most important types of financial risk to which the Group is exposed to are liquidity risk as detailed in Note 27, credit risk and market risk. Market risk includes interest rate risk and currency risk as detailed in Notes 26 and 28 respectively.

A. Derivative financial instruments

The Group enters into forward foreign exchange contracts for trading and risk management purposes.
Forward contracts result in credit exposure to the counterparty and exposure to market risk based on changes in market prices relative to contracted amounts.

B. Trading activities

The Group manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

(i) Credit risk

The Group's credit exposure from financial instruments held for trading purposes at the balance sheet date is represented by the fair value of instruments with a positive fair value at that date, as recorded on the balance sheet. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the Group's exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments.

To manage the level of credit risk, the Group deals with counterparties of good credit standing, enters into master netting agreements whenever possible, and when appropriate, obtains collateral.

Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

(ii) Market risk
All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognised at fair value, and all changes in market conditions directly affect net trading income.

The Group manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments or entering into offsetting positions.

33 OTHER CONTINGENT LIABILITIES
In the ordinary course of business, the Bank and its subsidiaries are defendants in various litigations and claims. Although there can be no assurances, the directors believe, based on the information currently available and legal advice, that the claims can be successfully defended and therefore no provision has been made in the financial statements.

Two of the significant claims are described below: -

One of the Bank's subsidiaries, Standard Chartered Financial Services Limited, is a litigant in a case in which a former customer was awarded damages amounting to KShs 251 million by the Court of Appeal of the Republic of Kenya.

The directors, having considered the award and obtained appropriate legal advice, have challenged the ruling of the Court of Appeal of the Republic of Kenya at the Common Market for East and Southern Africa (COMESA) Court of Justice.

At an initial hearing, the COMESA court ruled, among others, that no execution should be levied in respect of the award granted by the Court of Appeal of the Republic of Kenya, pending the final determination of the case.

The Bank is also a defendant in a legal suit filed by a former customer. The High Court of the Republic of Kenya entered a judgement in favour of the customer in 2002. The judgement against the Bank was restricted to whether or not the Bank was at fault. The determination of the value of any claim arising has not yet been determined by the High Court of the Republic of Kenya.

The Bank has appealed against the ruling in the Court of Appeal of the Republic of Kenya and the appeal is yet to be determined.

34 CENTRAL BANK OF KENYA (AMENDMENT) ACT, 2000
The Central Bank of Kenya (Amendment) Act, 2000 received assent on 6 August 2001. Subsequent to that date, the Kenya Bankers Association filed a constitutional application at the High Court of Kenya. The Court delivered its Judgement on 24 January 2002.

A Decree to confirm the Judgement was extracted on 22 February 2002. Subsequently, the Attorney General filed an application to have the Decree varied. A Consent Order to vary the Decree was granted but was never extracted. This was then challenged by the Central Bank of Kenya and the Kenya Bankers Association. The matter has not been determined to date and as such the Act continues to be inoperative.

The directors have relied on the legal advice obtained by the Kenya Bankers Association in 2002 on behalf of member banks which confirmed that the Act was inoperative and therefore has no impact on the results for the year.

35 ASSETS PLEDGED AS SECURITY
As at 31 December 2003, there were no assets pledged by the Bank to secure liabilities and there were no secured bank liabilities.

36 RELATED PARTY TRANSACTIONS

In the ordinary course of business, transactions are entered into with Standard Chartered PLC, the ultimate holding company and other companies related to Standard Chartered Bank Kenya Limited through common shareholding or common directorships. The relevant balances are shown in Note 15. These transactions are at arm's length.

The parent company also provides technical support and consultancy services which are charged at market rates.

The Bank also entered into transactions at arm's length with Standard Chartered Kenya Pension Fund (SCKPF). At 31 December 2003, deposits from SCKPF amounted to KShs 26,586,828 (2002 – KShs 25,088,173).

Included in loans and advances to customers are the following amounts:

Group and company	**2003 KShs '000**	2002 KShs '000
Loans and advances to directors, employees and associates		
At start of the year	**402,247**	347,389
Amounts advanced during the year	**290,572**	227,596
Amounts repaid during the year	**(203,260)**	(172,738)
At end of year	**489,559**	402,247

The above loans and advances were given on commercial terms and conditions.

37 CAPITAL COMMITMENTS

Group and Company

Authorised and contracted for	**11,160**	5,000

38 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

Group and Company

The Group's future annual rental commitments under operating leases are as follows:-

	2003		2002	
	Premises KShs '000	**Equipment KShs '000**	Premises KShs '000	Equipment KShs '000
Annual rentals on operating leases expiring:				
Within 1 year	**24,936**	**22,294**	47,743	–
Between 1 and 5 years	**39,750**	**–**	15,447	22,294
	64,686	**22,294**	63,190	22,294

The majority of leases relating to premises are subject to rent escalations.

39 INCORPORATION

The Bank is incorporated as a limited company in Kenya under the Companies Act.

40 HOLDING COMPANY

The ultimate holding company of Standard Chartered Bank Kenya Limited is Standard Chartered PLC, a company incorporated in Great Britain.

41 CURRENCY

These financial statements are expressed in Kenya Shillings (KShs).

Notice and Agenda of the Annual General Meeting

to the Members of Standard Chartered Bank Kenya Limited

Notice is hereby given that the eighteenth Annual General Meeting of the Company will be held at the Hotel Intercontinental Nairobi on Thursday 20 May 2004 at **11.30 a.m.** for the following purposes:

Agenda

1 To receive and consider the report of the Directors and statement of accounts and balance sheet of the Company for the year ended 31 December 2003 together with the Auditors' report thereon.

2 To confirm the payment of two interim dividends of KShs 2.20 each paid on 19 September 2003 and 24 December 2003 and to approve the payment of a final dividend of KShs 4.10 for each ordinary share of KShs 5.00 on the issued Share Capital of the Company in respect of the year ended 31 December 2003.

3 Election of Directors:

i. To elect the following Director retiring by rotation under Article 96 (1) of the Memorandum and Articles of Association:-
   a) Mr. David Njoroge, a Director who being eligible, offers himself for re-election.

ii. To elect the following Directors in accordance with Article 98 (1) of the Memorandum and Articles of Association:-
   a) Mr. Peter Simpson, a Director appointed on 24 July 2003 retires and being eligible, offers himself for re-election.
   b) Mr. Richard Etemesi, a Director appointed on 19 February 2004 retires and being eligible, offers himself for re-election.
   c) Mr. Kaushik Shah, a Director appointed on 19 February 2004 retires and being eligible, offers himself for re-election.
   d) Mr. Harris Mule, a director, retiring and being eligible offers himself for re-election.

4 To authorise the Board to fix the Directors' remuneration.

5 To note the continuance in office of KPMG Kenya as Auditors in accordance with Section 159(2) of the Companies Act and to authorise the Directors to fix their remuneration.

Special Business

6 THAT subject to obtaining clearance from the requisite Authorities, to consider and if thought fit pass the following resolutions:-

6.1 Ordinary Resolution

"THAT the Authorised Ordinary Share Capital of the Company be increased from KShs 1,240 million to KShs 1,365 million by the creation of 25 million new Ordinary Shares of KShs 5.00 each".

6.2 *Special Resolutions*

a) "THAT the sum of KShs 123,621,735 being part of the amount now standing to the credit of the Company's revenue reserve account be capitalised AND THAT the same be applied in making payment in full for 24,724,347 Ordinary Shares of KShs 5.00 each in the capital of the Company, and

THAT the new Shares be distributed as fully paid among the persons who are registered as holders of the Ordinary Shares in the capital of the Company at the close of business on 31 March 2004 at the rate of one fully paid new Ordinary Share for every ten Ordinary Shares of KShs 5.00 each held by the members respectively, and

THAT the new fully paid Shares rank pari passu in all respects with the existing Ordinary Shares save and except that the new Shares shall not rank for dividend for the year ended 31 December 2003."

b) "That no Shareholder in the Company be allotted any fractional part of a Share but instead that all new Shares representing fractions be allotted to Trustees, appointed from among the Directors of the Company, for the purpose of selling the same and accounting for the net proceeds to those Shareholders entitled thereto in the same proportions in which they are so entitled, and

THAT save as aforesaid the Directors of the Company be and are hereby authorised to attend to and complete all matters required to give effect to this and the foregoing Resolutions."

c) "THAT the Authorised Share Capital of the Company be increased by the creation of 56 million Preference Shares of KShs 5.00 each to which shall be attached the following conditions:-

i. All the Preference Shares shall be issued as:
   - Non-redeemable;
   - Non-cumulative;
   - Non-voting – the holders of the Preference Shares shall not be entitled to receive notice of, or attend, or vote at any general meeting of the Company;
   - Non-participating;
   - Non-convertible.

ii. The Preference Shares shall be issued at a premium of KShs 45.00 each;

iii. The Preference Shares shall be issued through a private placement to Standard Chartered PLC;

iv. The issued Preference Shares shall yield a rate of return of 6% per annum on the issue price;

v. In the event of the Company being wound up or on a reduction of capital involving a return of capital, the surplus assets thereof shall be applied in the first place in repaying the holders of the Preference Shares, and of any other shares entitled to rank pari passu with them, the full amount paid up thereon, and, subject as aforesaid, such surplus assets shall belong to and be divided amongst the other members of the Company."

Enclosed with the Annual Report is a Circular that explains the rationale for the preference share issue.

d) That in accordance with Section 13 of the Companies Act (Cap. 486), the Articles of Association of the Company be amended in the manner following:
By substituting the following new Article for Article (5):-
"(5) *The Share Capital of the Company is Kenya Shillings one thousand six hundred and forty five million (KShs 1,645 million)* divided into two hundred and seventy three million (273,000,000) Ordinary Shares of Kenya Shillings Five (KShs 5.00) each and fifty six million Preference Shares (56,000,000) of Kenya Shillings Five (KShs 5.00) each."

(The Article to be amended reads as follows:)
"(5) The Share Capital of the Company is Kenya Shillings one thousand two hundred and forty million (KShs 1,240 million) divided into two hundred and forty eight million (248,000,000) Ordinary Shares of Kenya Shillings Five (KShs 5.00) each."

7. To transact any other business of the Annual General Meeting for which notice has been given.

BY ORDER OF THE BOARD

N.N. Oginde
Company Secretary
P.O. Box 30003, 00100 Nairobi GPO.
26 February 2004

Note:
A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote on his/her behalf. A proxy need not be a member of the Company.

A Form of Proxy is provided in this report. Shareholders unable to attend the meeting are requested to complete the proxy form and return it so as to reach the **office of the Registrar, Barclays Advisory and Registrar Services Limited, Bank House, Moi Avenue not later than 3.00 p.m. on 18 May 2004.**

Notes

Form of Proxy

I/we: ____

____

being a member/members of Standard Chartered Bank Kenya Limited hereby appoint:

____

____

of (address): ____

or failing him/her: ____

of (address): ____

and failing him/her the Chairman of the meeting to be my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday 20, May 2004 at the Intercontinental Hotel, at 11.30 a.m.

or any adjournment thereof.

As witness my/our hand/hands this day of ____________________ 2004

Signed: ____

Note:

1. The completed Form of Proxy by members must be either lodged at the offices of the Company or the Share Registrar's office, Bank House, Moi Avenue, Nairobi or to be posted so as to reach Barclays Advisory and Registrar Services Limited, P.O. Box 30120, not later than 3 p.m. 18 May 2004, failing which it shall be invalid.
2. In case of a Corporation, the proxy must be under its common seal.

Mimi/sisi: ____

____

kama mwanahisa/wanahisa wa Standard Chartered Bank Kenya Limited nateua/tunateua

____

____

wa (anwani): ____

Na akikosa yeye: ____

wa (anwani): ____

Na akikosa yeye Mwenyekiti wa Mkutano kama Mwakilishi wangu/wetu wa kunipigia/kutupigia kura na kwa niaba yangu/yetu kwenye mkutano wa kila mwaka wa kampuni utakaofanywa Alhamisi saa tano unusu za asubuhi Mei 20 2004, Intercontinental Hotel, na wakati wa ahirisho lolote litakalotokea baadaye, kama

shahidi siku hii: ____________________ 2004

Sahihi: ____

Muhimu:

1. **Hii fomu ya uwakilishi lazima irudishwe kwa afisi ya Barclays Advisory and Registrar Services Limited, Bank House, Moi Avenue, kabla ya Jumanne sa tisa alasiri Mei 18, 2004. Mwanahisa/wanahisa watakaowasilisha fomu hii baada ya saa tisa, hataruhusiwa/wataruhusiwa kushiriki katika uchaguzi wowote.**
2. **Ikiwa mteuzi ni Shirika, fomu hii ya uwakilishi lazima ifungwe kwa lakiri.**

Standard Chartered

Standard Chartered Bank Kenya Limited

Circular to shareholders on the proposal to allow and approve the issue of preference shares

26 February 2004

11. Why is the proposed dividend on the preference shares fixed at 6% of the issue price?

The dividend on preference shares is fixed at a rate that enables SCB to lower its cost of capital whilst at the same time providing a reasonable and potentially increasing return to holders of ordinary share capital. At the same time, the preference shareholders require a return to compensate them for their long-term investment at a constant rate of return.

12. What is the impact on returns to ordinary shareholders?

The Board does not expect any negative impact on the returns to ordinary shareholders. Indeed, with an increased Tier 1 capital base, the Bank will be able to fund the growth of its lending business while maintaining an appropriate risk profile and lowering its cost of capital. Consequently, profitability and earnings per share would be expected to improve, allowing better returns to ordinary shareholders given that the preference shares are non-participating.

13. Why are the preference shares being issued at a premium?

The issue of preference shares at a premium will enable some flexibility in SCB's capital management strategy in the future.

14. What is the impact on the capital structure of the Bank?

The Bank intends to increase its share capital by authorising 56 million preference shares of KShs 5 each. Preference shares will then be issued as and when required to support the growth in business.

After this proposed change, the authorised share capital of the company will be KShs 1,645 million made up of 273 million ordinary shares of KShs 5 each and 56 million preference shares of KShs 5 each.

15. Amendments to the Articles and Memorandum of Association

The proposed creation of preference shares involves an increase in the authorised share capital of the Bank which requires the Memorandum and Articles of Association to be amended. This requires the passing of Special Resolutions by the ordinary shareholders. The resolutions are detailed in the Notice and Agenda of the Annual General Meeting included in the Annual Report.

Standard Chartered

Standard Chartered Bank Kenya Limited

Circular to shareholders on the proposal to allow and approve the issue of preference shares

26 February 2004

Standard Chartered Bank Kenya Limited

1. Proposals to allow and approve Standard Chartered Bank Kenya Limited ("SCB") to issue preference shares

SCB intends to raise up to KShs 2.8 billion by issuing a maximum of 56 million non-cumulative, non-redeemable, non-participating, non-voting and non-convertible preference shares ("preference shares") of par value of KShs 5 each.

This circular provides a brief overview of the issue, and the impact on existing ordinary shareholders, as well as addressing some of the concerns that ordinary shareholders may have.

2. Rationale for the issue of preference shares

The Board is proposing the issue of preference shares as part of its ongoing capital management strategy. By way of background, SCB is required under Central Bank of Kenya ("CBK") Prudential Guidelines to maintain a minimum amount of Tier 1 capital. To date, SCB has only issued ordinary shares as part of its Tier 1 capital. SCB has carried out a review of its capital management strategy and has concluded that it would be appropriate for a proportion of its Tier 1 capital to comprise of preference shares. This is subject to the passing of special resolutions by the ordinary shareholders authorising the creation of these preference shares. The Board believes that this will enable SCB to maintain the required amount of Tier 1 capital and an appropriate risk profile whilst lowering its cost of capital. The Board will use the amount raised from the issue to increase its Tier 1 capital and to fund its continued growth.

The Board intends to offer the preference shares by way of a private placement to its parent, Standard Chartered PLC. The preference shares will be issued at a premium of KShs 45 per share, i.e. at an issue price of KShs 50 per share.

3. What are the salient features of the preference shares to be issued?

The preference shares will be non-cumulative, non-redeemable, non-participating, non-voting and non-convertible and will yield a gross dividend of 6% of the issue price. This will be equivalent to KShs 3 per share. The preference shares will be issued through a private placement solely to Standard Chartered PLC and will not be listed on the Nairobi Stock Exchange.

4. What does "non-redeemable" mean?

"Non-redeemable" means that the preference shares will not be redeemed at any date in the future and the preference shares will remain in issue unless there is a winding up of the Company.

5. What does "non-cumulative" mean?

"Non-cumulative" means that should a dividend not be declared, it does not carry over to the next dividend period. The preference shareholder does, however, have preferential access to income distribution before ordinary shares.

6. What does "non-participating" mean?

"Non-participating" means that the preference shareholder is not entitled to participate in the profits of the Company and the return is limited to 6% of the issue price of KShs 50 (i.e. KShs 3 per share.)

7. What does "non-voting" mean?

"Non-voting" means that the preference shareholders will have no voting rights. Also, it should be noted that the preference share issue has no impact on the existing ownership profile of the Bank.

8. What does "non-convertible" mean?

"Non-convertible" means that the preference shares cannot be converted into ordinary shares in the future and therefore will have no impact on the existing ownership profile.

9. What impact will this issue have on the rights of the existing shareholders?

The rights attached to ordinary shares will remain the same following the issue of the preference shares. Again, as noted above, the preference share issue will have no impact on the existing ownership profile.

However, note that the preference shareholders will have priority over ordinary shares for the payment of dividends, which means that SCB ordinary shareholders cannot receive a dividend until the preference dividend has been paid.

10. Will the issue of preference shares have any impact on the proposed bonus share issue?

The Board has proposed the issue of one bonus share for every ten ordinary shares held at the close of business on 31 March 2004. The bonus shares are to be capitalised from retained profits and the proposed preference share issue will have no impact on the issue of bonus ordinary shares.

11. Why is the proposed dividend on the preference shares fixed at 6% of the issue price?

The dividend on preference shares is fixed at a rate that enables SCB to lower its cost of capital whilst at the same time providing a reasonable and potentially increasing return to holders of ordinary share capital. At the same time, the preference shareholders require a return to compensate them for their long-term investment at a constant rate of return.

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The Board does not expect any negative impact on the returns to ordinary shareholders. Indeed, with an increased Tier 1 capital base, the Bank will be able to fund the growth of its lending business while maintaining an appropriate risk profile and lowering its cost of capital. Consequently, profitability and earnings per share would be expected to improve, allowing better returns to ordinary shareholders given that the preference shares are non-participating.

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The issue of preference shares at a premium will enable some flexibility in SCB's capital management strategy in the future.

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After this proposed change, the authorised share capital of the company will be KShs 1,645 million made up of 273 million ordinary shares of KShs 5 each and 56 million preference shares of KShs 5 each.

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