Standard Chartered

Annual Report & Financial Statements 2010



Leading the way

in Kenya

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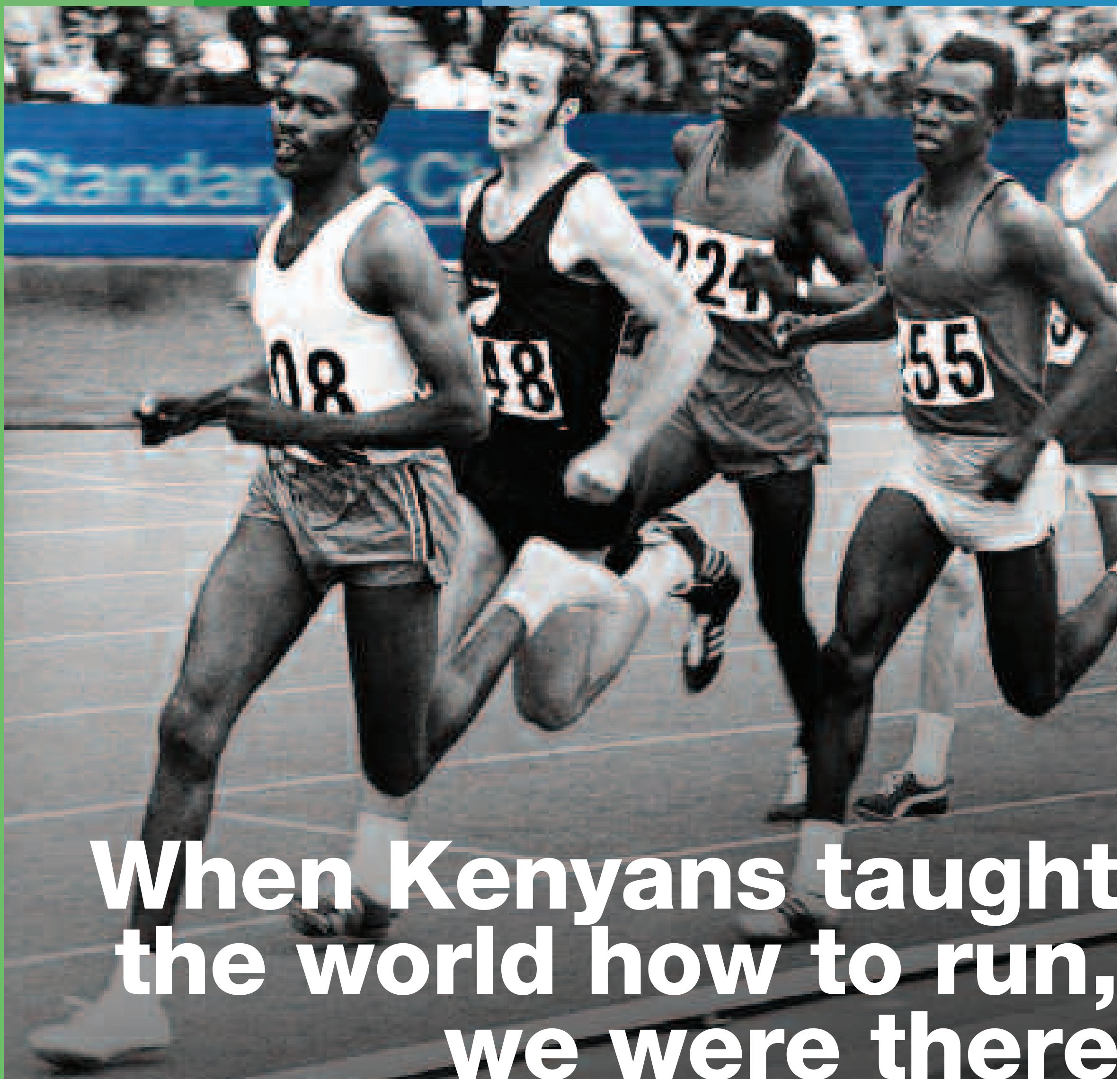

As we celebrate a century in Kenya, we continue to invest in building a long-term sustainable business.
We are ‘Here for good’.

100 years in Kenya

Here for good
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A Year of Continued Strong Performance

Business Highlights/KPIs

Operating income up 14% to
KShs 13,903 m
2009 KShs 12,246 m

Profit before taxation up 14% to
KShs 7,682 m
2009 KShs 6,728 m

Earnings per share up 13% to
KShs 18.58
2009 (Restated) KShs 16.45

Loans and advances to customers up 6% to
KShs 60,337 m
2009 KShs 56,695 m

Deposits from customers up 16% to
KShs 100,504 m
2009 KShs 86,774 m

Shareholders' equity up 45% to
KShs 20,331 m
2009 (Restated) KShs 13,992 m

Employees
1,554
2009 1,442

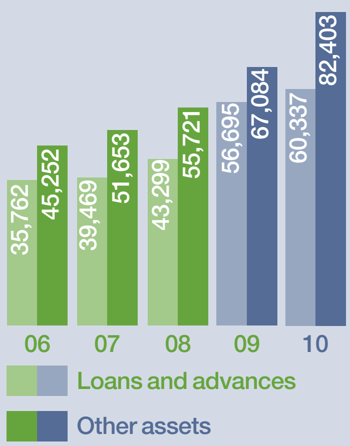
Total dividends
KShs 4,044 m
2009 KShs 3,432 m

Branches
31
2009 32

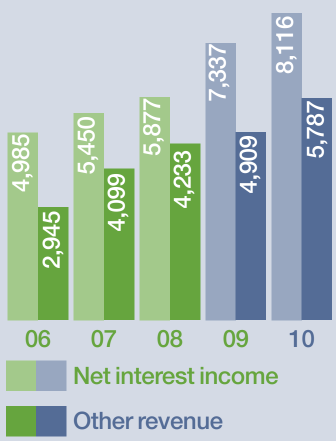
ATMs
85
2009 95

Five Year Performance Review

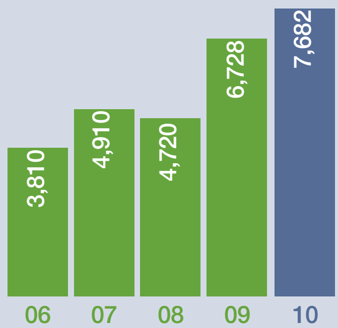
Balance sheet
KShs million



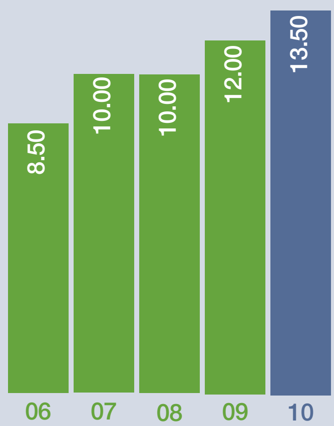
Operating income
KShs million



Profit before taxation
KShs million



Dividend per share
KShs



Five Year Summary

	2010	Restated 2009	2008	2007	2006
Statement of Comprehensive Income	**KShs '000**	KShs '000	KShs '000	KShs '000	KShs '000
Operating income	**13,902,729**	12,246,432	10,110,070	9,549,399	7,930,398
Impairment losses on loans and advances	**(332,321)**	(474,936)	(365,349)	(206,019)	(502,178)
Operating expenses	**(5,888,524)**	(5,043,049)	(5,024,907)	(4,433,192)	(3,617,793)
Profit before taxation	**7,681,884**	**6,728,447**	**4,719,814**	**4,910,188**	**3,810,427**
Taxation	**(2,305,693)**	(1,995,693)	(1,469,001)	(1,440,311)	(1,176,127)
Profit after taxation	**5,376,191**	**4,732,754**	**3,250,813**	**3,469,877**	**2,634,300**
Information per ordinary share					
Basic and diluted earnings per share (EPS)	**18.58**	**16.45**	**11.11**	**11.90**	**8.89**
Dividend per share on each ordinary share (DPS)	**13.50**	**12.00**	**10.00**	**10.00**	**8.50**
Statement of Financial Position					
Loans and advances to customers (gross)	**61,599,405**	58,016,010	44,857,772	41,025,357	37,415,666
Impairment losses on loans and advances	**(1,262,576)**	(1,321,134)	(1,558,953)	(1,556,835)	(1,653,382)
Government securities	**54,540,817**	43,357,357	23,251,930	26,674,673	27,651,320
Other assets	**114,877,646**	23,726,739	32,468,822	24,978,747	17,600,519
Total assets	**142,746,249**	**123,778,972**	**99,019,571**	**91,121,942**	**81,014,123**
Deposits from customers	**100,504,065**	86,773,652	76,898,456	73,840,563	64,879,129
Other liabilities	**21,911,062**	23,013,165	10,622,308	6,365,371	6,005,137
Total liabilities	**122,415,127**	**109,786,817**	**87,520,764**	**80,205,934**	**70,884,266**
Net assets	**20,331,122**	**13,992,155**	**11,498,807**	**10,916,008**	**10,129,857**
Shareholders' funds	**20,331,122**	**13,992,155**	**11,498,807**	**10,916,008**	**10,129,857**
Ratios					
Cost: income ratio	**42%**	41%	50%	46%	46%
Return on capital employed	**30%**	39%	32%	38%	30%
Gross non performing loans and advances/total gross loans and advances	**2%**	3%	4%	5%	7%
Impairment charge/gross loans and advances	**1%**	1%	1%	1%	1%
Gross loans and advances to deposits ratio	**61%**	67%	58%	56%	58%
Core capital/total deposit liabilities	**11%**	12%	12%	12%	13%
Core capital/total risk weighted assets	**14%**	14%	16%	16%	18%
Total capital/total risk weighted assets	**14%**	14%	16%	17%	19%

Chairman's Statement

Sustainable growth

"The banking sector had a great year and recorded significant growth in assets driven by growth in deposits, injection of capital and retention of profits."

I am delighted to report that 2010 is the fourth consecutive year that Standard Chartered Bank has reported strong performance in terms of income and profit despite the challenging external environment.

Operating environment

Kenya's economy grew by 4.9% in 2010 recovering from the food, fuel, and financial crisis and experiencing significant growth fuelled by the telecommunications boom, macroeconomic management and regional integration and recent investment in infrastructure among other factors. For the first time in three years, Kenya experienced balanced growth across all sectors.

Accommodative monetary policy and favorable weather supported economic expansion with agriculture, tourism, electricity and water, cement and financial services posting increased growth. Increased consumer confidence coupled with credit expansion boosted the manufacturing sector while fuel-driven inflation slowed the transport and telecommunications sector.

Kenya has experienced a telecommunications revolution in the last decade. Without the robust growth in ICT, growth in GDP per capita would have stagnated. The explosive growth in ICT occured because the government liberalised the telecoms sector, allowing competition.

The banking sector had a great year and recorded significant growth in assets driven by growth in deposits,

Chairman's Statement (Continued)

injection of capital and retention of profits. The level of non-performing loans decreased compared to a similar period in 2009. In 2010, the sector also experienced various reforms which included the introduction of Credit Information Sharing to promote competitive risk based pricing of credit facilities and development of information capital for borrowers who may not have physical collateral; the rolling out of the agent banking model with an aim of lowering the service delivery costs of banks while expanding their footprint; the revision of the Banking Act to accommodate the changing market landscape by facilitating innovation as well as enabling the Central Bank to safeguard the market without stifling innovation; and the introduction of currency centres outside Nairobi to reduce the banks' spend on cash-in-transit.

Financial results

Against an uncertain global economic recovery and despite the return of competition in many of our segments, Standard Chartered continued to perform strongly. Our performance in 2010 once again demonstrates our ability to deliver substantial, sustained value for our shareholders.

- profit before taxation was KShs 7.7 billion compared to KShs 6.7 billion in 2009;
- total income was KShs 13.9 billion compared to KShs 12.3 billion in 2009;
- total operating costs increased by 17% to KShs 5.9 billion as the Bank continued to invest in new business capabilities;
- net bad debt charge decreased to KShs 332 million down from KShs 475 million due to a significant reduction of non-performing loans driven by a disciplined and proactive approach to risk and helped by an improved credit environment;
- total non-performing loans, as a proportion of total gross loans, stood at 2.0% compared to 2.5% in 2009 and remains one of the lowest in the banking sector in Kenya;
- loans and advances grew by 6% to KShs 60.3 billion;
- customer deposits increased by 16% to KShs 100.5 billion; and
- earnings per share increased by 13% from KShs 16.45 per ordinary to KShs 18.58 per ordinary share.

The Board is recommending a final dividend for the year of KShs 8.50 per ordinary share, bringing the total dividend for 2010 to KShs 13.50 per ordinary share, an increase of 13% from the previous year. We are proud of our long track record in creating shareholder value. Over the recent years, we have simultaneously increased our income, earnings per share, capital adequacy ratios and total dividends paid out.

We were delighted by the way our shareholders backed us with the rights issue last September that saw an oversubscription rate of 60.9%. We now have a robust custody business whose return we shall start to realise in 2011 onwards. I would like to thank our shareholders for their continued support throughout the year, and for the confidence they have shown in our future. This has given us excellent balance sheet strength as a foundation for further growth. Indeed, the strength of our capital position, combined with the depth of our liquidity gives us a balance sheet that is a powerful source of competitive advantage.

The Bank is positioned in some of the fastest growing segments, and has a strong capital base, liquidity and customer relationships required to make the most of this opportunity. We have broad based, diversified sources of income growth in both Consumer and Wholesale Banking, and are committed to investing for long term growth in both businesses. Most importantly, we have a cohesive, global culture and a consistent strategy focused on the basics of banking.

In recent times, this distinctive culture has emerged as a key differentiator between us and other banks. "Here for good", our brand promise, powerfully captures who we are and what makes us different. Our performance in 2010 reflects the continued success of our business model.

Once again, we have demonstrated our determination to stand by our customers and clients, using our capital and liquidity strength to support them in good times and bad. Our total lending to customers and clients increased and we continued to lend more to key sectors of the economy across Kenya including home owners and Small and Medium-sized Enterprises (SMEs).

Chairman's Statement (Continued)

Corporate Governance

Strong management and governance are key components of our business model. This year, we strengthened our board by appointing Les Baillie, the Chief Investor and Relations Officer of Safaricom Limited, as a non-executive director. Les brings to the Board extensive financial experience having worked in various senior positions in finance.

The Board will continue to play its role effectively under the corporate governance structure. The non-executive directors will maintain oversight on the management of the Bank, through board meetings as well as through the various board committees.

Community partnership

During 2010, the Bank continued to support high impact community partnership projects in Kenya. In total, the Bank spent about KShs 116 million on corporate social responsibility activities.

We continued to sponsor the Standard Chartered Nairobi International Marathon for the eighth year, attracting over 14,500 participants drawn from 55 countries. We are very pleased to have staged yet another world class event and at the same time raised funds for charity. The 2010 marathon raised KShs 16.5 million, up from KShs 14.2 million in 2009. The funds will go towards supporting congenital cataract, glaucoma and trauma related surgeries for children under the age of nine at a number of selected hospitals countrywide. Since the launch of the marathon in 2003, over 4,000 beneficiaries have had their sight restored through this initiative. This is part of Standard Chartered Group's "Seeing is Believing" campaign, which aims to restore sight to over 1 million people worldwide.

Other projects the Bank supported during the year included internal and external environmental interventions as well as training of our stakeholders on HIV/AIDS prevention. As part of our global Liverpool Football Club (LFC) sponsorship, the Bank organised a two day football clinic where children from the community received coaching from Liverpool coaches and LFC legend, Ian Rush.

Through these initiatives the Bank hopes to deepen its relationships with various stakeholders while providing opportunities to involve employees and develop their own skills. Standard Chartered Bank will continue to be "Here for good" to the communities in which we operate.

Summary

The pace of change being experienced in Kenya and the world over will create major social, environmental and economic challenges. These changes will pose risks, but also significant opportunities. Businesses, governments and regulators will increasingly need to work together to manage these challenges, and we are ideally placed to be the right partner. Through the development of innovative products and services, we can lead by example to build a sustainable business to set us apart from our competitors.

Longevity in Kenya is something that we are very proud of. Not only does it give us the local knowledge to serve our customers well, it also makes us part of the community. This year, Standard Chartered is celebrating 100 years of doing business in Kenya. Since 1911, when we opened our first two branches at Kenyatta Avenue in Nairobi and Treasury Square in Mombasa, we have continued to contribute to Kenya's economic and social development. Over the years, the Bank has invested heavily in supporting various sectors of our economy which include agriculture, manufacturing, telecommunications and SMEs.

Going forward, the Bank remains absolutely committed to building a long-term sustainable business in Kenya and will continue to invest strategically in its franchise to further position itself for growth.

In summary, 2010 was another year of great performance. We have demonstrated we have the right strategy, the right culture and the right market segments to deliver consistent and sustained value for our shareholders. We enter 2011 in excellent shape and with strong growth momentum.

Finally, I wish to express my sincere appreciation to our customers for their untiring support. I would also like to thank the Board, management and staff of the Bank for the hard work they have put to deliver yet another year of good performance.

Wilfred Kiboro
Chairman

7 March 2011

Taarifa ya Mwenyekiti

Msimamo madhubuti wa ukuaji

“Sekta ya benki ilikuwa na mwaka mzuri mno na kurekodi ustawi mkubwa katika rasilimali iliyochochewa na ukuaji katika uwekaji pesa benki, kuongeza uwekezaji na kudumisha faida.”

Nina furaha kuwaripotia kuwa 2010 ni mwaka wa nne mfululizo ambao Benki ya Standard Chartered Bank imewasilisha matokeo mazuri upande wa mapato na faida licha ya kuweko kwa mazingira yenye hali ngumu.

Mazingira tulimoendesha shughuli zetu

Uchumi wa Kenya ulikua kwa asilimia 4.9 katika 2010 ukionyesha kupata afueni baada ya tatizo kuu lililokuwa la chakula, mafuta na la kifedha na ustawi mkuu uliochochewa na kustawi haraka kwa sekta ya mawasiliano, usimamizi wa uchumi mdogo na ushirikiano baina ya maeneo, uwekezaji wa hivi karibuni katika muundo msingi miongoni mwa mengi mengine. Kwa mara ya kwanza baada ya miaka mitatu, Kenya ilifanikiwa kufikia ustawi mzuri katika sekta zote.

Sera nzuri za kifedha na hali ya hewa ya kupendeza ziliunga mkono upanuzi huo wa uchumi huku kilimo, utalii, stima na maji, saruji, na huduma za kifedha zikiwasilisha ustawi. Ongezeko la matumaini miongoni mwa wateja ikiambatana na ongezeko katika utoaji mikopo ulipatia sekta ya uzalishaji nguvu huku hali ngumu ya maisha itokanayo na kupanda kwa bei ya mafuta ikipunguza kasi ya ukuaji katika sekta ya uchukuzi na mawasiliano.

Kenya imeshuhudia mabadiliko makubwa upande wa mawasiliano katika mwongo uliomalizika. Bila ya ukuaji thabiti uliopatikana kwa Teknolojia ya mawasiliano (ICT), kustawi kwa uwezo wa watu kupata pesa kungedorora. Ustawi wa haraka katika teknolojia ya mawasiliano (ICT) kuliweza kupatikana kwa vile serikali ilifanya sekta ya mawasiliano kuwa huru, hivyo basi kuruhusu ushindani wa kibiashara.

Sekta ya benki ilikuwa na mwaka mzuri mno na kurekodi ustawi mkubwa katika rasilimali iliyochochewa na ukuaji katika

Taarifa ya Mwenyekiti (Yaendelea)

uwekaji pesa benki, kuongeza uwekezaji na kudumisha faida. Viwango vya madeni yaliyoharibika vilipungua ikilinganishwa na wakati kama huo katika 2009. Katika 2010, sekta hii ilishuhudia mageuzo kadha ikiwa ni pamoja na kuletwa kwa mpango wa kufichuliana hali ya muamana (Credit Information Sharing) ili kusaidia mpango wa malipo ya mkopo yaliyoegemezwa kwa dhima ya ushindani na kukuza maelezo ya mtaji kwa waombaji mikopo ambao hawana dhamana dhahiri ya mkopo; kuanzishwa kwa shughuli za benki kupitia uwakala ikiwa matarajio yake ni kupunguza gharama za benki kufikisha huduma kwa wateja wao huku wakijieneza zaidi; masasahisho ya sheria za benki ili kupatia nafasi mabadiliko yalioko katika mandhari ya soko pamoja na kuwezesha Benki Kuu kulinda soko hili bila kuzuiya ubunifu; na kuzinduliwa kwa vituo vya sarafu (currency centres) nje ya Nairobi ili kupunguzia benki gharama ya kusafirisha pesa.

Matokeo ya kifedha

Dhidi ya afueni isiyotegemeka kote ulimwenguni na licha ya kurudi tena kwa ushindani katika vitengo vyetu mbali mbali, Standard Chartered ilizidi kupata matokeo mazuri zaidi. Utendaji wetu katika 2010 kwa mara nyingine ulidhihirisha uwezo wetu wa kuwasilisha thamani maridhawa na imara kwa wenyehisa wetu.

- faida kabla ya kodi ilikuwa bilioni shilingi 7.7 ikilinganishwa na bilioni shilingi 6.7 katika 2009;
- jumla ya mapato ilikuwa bilioni shilingi 13.9 ikilinganishwa na bilioni shilingi 12.3 katika 2009;
- jumla ya gharama ya kuendesha shughuli ilizidi kwa asilimia 17 hadi bilioni shilingi 5.9 wakati benki ilipoendelea kuwekeza kwenye biashara mpya;
- jumla ya fedha zilizowekwa kufidia madeni yasiyotegemewa kulipwa ilipungua hadi milioni shilingi 332 chini kutoka milioni shilingi 475 kutokana na kupungua kukubwa kulioletwa na mwelekeo uliyo na nidhamu na kuwahi kimbele dhima na uliyohimiliwa na mazingira bora ya ukopaji;
- jumla ya mikopo isiotekelezwa, kwa uwiano na jumla ya mikopo yote, ilisimamia kwa asilimia 2.0 ikilinganishwa na asilimia 2.5 katika 2009 na ingali kuwa kiwango cha chini zaidi katika sekta ya benki hapa Kenya;
- mikopo na rubuni ilistawi kwa asilimia 6 hadi bilioni shilingi 60.3;
- pesa za wateja walizoweka zilizidi kwa asilimia 16 hadi bilioni shilingi 100.5; na
- mapato kwa kila hisa yaliongezeka kwa asilimia 13 kutoka shilingi 16.45 hadi shilingi 18.58 kwa kila hisa ya kawaida.

Bodi hii inapendekeza mgao wa mwisho mwaka huu wa shilingi 8.50 kwa kila hisa ya kawaida, hii ikifanya jumla ya mgao katika 2010 kuwa shilingi 13.50 kwa kila hisa ya kawaida, ikiwa ni ongezeko la asilimia 13 kutoka mwaka uliyopita. Twajivunia rekodi nzuri ya kudumu tuliyo nayo ya kuzidisha thamani kwa wenyehisa wetu. Katika miaka iliyopita hivi karibuni, tumeongeza sawia faida yetu, mapato kwa kila hisa, uwiano wa mtaji na jumla ya mgao uliyolipwa wenye hisa.

Tulifurahishwa mno na jinsi mlivyotuunga mkono katika uuzaji wa hisa za ziada iliyofanyika mwezi wa Septemba mwaka 2010 ambapo maombi ya kununua yalikithiri kwa kiwango cha asilimia 60.9. Sasa tunamilki biashara ya usimamizi iliyo imara ambayo faida yake itadhihirika katika 2011 na kuendelea. Ningependa kuwashukuru wenyehisa wetu kwa kuendelea kutuunga mkono katika mwaka wote, na kwa matumaini waliyo nayo kwa mstakabala wetu. Hii imetupatia mizania ya kifedha iliyo bora zaidi na msingi imara wa kusitawi zaidi. Hasa zaidi, uwezo wa hali ya mtaji wetu, ikijumuishwa na kina cha ukwasi wetu zinatupatia mizania iliyo chanzo imara cha kuwa nafasi nzuri ya ushindani.

Benki iko katika nafasi nzuri katika vitengo vya biashara vinavyostawi haraka, na iko na mtaji wenye mizizi imara, ukwasi na uhusiano na wateja zilihitajika kufaidi zaidi fursa hii. Tuna chanzo customer relationships required to make the most of this opportunity. Tuko na vyanzo pana na vya aina mbali mbali vya kukuza mapato katika biashara za kibenki za reja reja na za mashirika, na tunajitolea kuwekeza katika ustawi wa kudumu katika biashaa zote mbili. La muhimu zaidi, tuko na mkakati imara uliyo na utamaduni wa mshikamano na ulimwengu na unaozingatia yalo muhimu zaidi katika biashara ya benki.

Hivi karibuni, uzoefu huu wa kipekee umeibuka kuwa kipambanuzi muhimu kati yetu na benki zingine. “Here for good”, ahadi ya mwito wa chapa yetu, unaelezea barabara sisi ni nani na nini kinachotutofautisha na wengine. Matokeo yetu katika 2010, yanaangizia kuendelea kwetu kufanikiwa katika mipango ya biashara yetu. Kwa mara nyingine tena, tumeonyesha jitihada zetu za kuwaunga mkono makastoma na wateja wetu, huku tukitumia uwezo wetu wa mtaji na ukwasi kuwasaidia wakati mzuri na mbaya. Jumla ya fedha tulizokopesha makastoma na watejawetu kiliongezeka na tuliendelea kukopesha wengi zaidi katika sekta mbali mbali kote katika uchumi wa Kenya ikijumuisha umiliki wa nyumba na wafanyibiashara wadogo na wa kati (SMEs).

Taarifa ya Mwenyekiti (Yaendelea)

Uthibiti wa Shirika

Usimamizi imara na uthibiti shirika ni viungo muhimu katika mpango wa biashara yetu. Mwaka huu, tulifanya thabiti zaidi Bodi yetu kwa kumteua Les Baillie, afisa Mkuu wa Uwekezaji na uhusiano mwema wa Safaricom, kuwa mkurugenzi asiye mtendaji. Les analeta kwenye Bodi uzoefu wa muda mrefu wa maswala ya kifedha kwa vile amewahi kushikilia nyadhifa za juu katika idara za kifedha.

Bodi hii itaendelea kushikilia jukumu lake barabara chini ya muundo wa uthibiti shirika. Wakurugenzi hawa wasiyo watendaji wataendelea kuwa waangalizi katika usimamazi wa Shirika, kupitia kuhudhuria kwao mikutano ya Bodi pamoja na kamati mbali mbali za bodi.

Ushirikiano na Jumuiya

Katika 2010, benki iliendelea kuunga mkono miradi ya kuleta mabadiliko makubwa katika jamii hapa Kenya. Kwa ujumla, Benki hii ilitumia takriban milioni shilingi 116 kwenye shughuli za uwajibikaji wa shirika katika jumuiya.

Tuliendelea kuthamini mbio za masafa marefu za Standard Chartered Nairobi International Marathon kwa mwaka wetu wa nane, tukiweza kuvutia zaidi ya washiriki 14,500 kutoka nchi 55. Tuna furaha kuu kuandaa tukio lingine la daraja la juu duniani na papo hapo kuweza kuchangisha fedha kusaidia wasiyojiweza. Mbio za 2010 ziliweza kuchangisha milioni shilingi 16.5, ikiwa ni ongezeko kutoka milioni shilingi 14.2 za 2009. Hazina hii ya fedha itatumiwa kuwasaidia watoto wa chini ya miaka tisa waliozaliwa na ugonjwa wa macho, glakoma na mengine yanayohitaji upasuaji wa macho waliyo katika hospitali teule kote nchini. Tangu kuanzishwa kwa mbio hizi za masafa marefu katika 2003, zaidi ya watu 4,000 wameshafadhiliwa na kuweza kutibiwa na kuanza kuona tena kupitia mpango huu. Hii ni sehemu ya kampeni ya Kundi la Standard Chartered ya 'Seeing is Believing', yenye lengo la kuwarudushia kuona watu zaidi ya milioni moja kote ulimwenguni.

Miradi mingine ambayo Benki imekuwa ikiunga mkono mwaka 2010 inajumuisha uzuiaji uharibifu wa mazingira pamoja na kuwapa mafunzo washika dau wetu ya kujikinga na ugonjwa wa UKIMWI. Kama sehemu ya uthamini wetu duniani wa klabu ya kandanda ya Liverpool Football Club (LFC), benki hii iliweza kuandaa kliniki ya siku mbili ya kandanda ambapo watoto katika jumuiya walipata mafunzo kutoka makocha wa Liverpool na mchezaji mashuhuri wa zamani wa LFC, Ian Rush.

Kupitia mipango hii Benki inatarajia

kuzidisha uhusiano mzuri na washika dau mbali mbali huku tukitoa fursa muafaka ya kuwahusisha wafanyikazi wetu na kukuza ujuzi wao. Benki ya Standard Chartered itaendelea kuweko na kutekeleza mazuri kufuatia mwito wake wa 'Here for good' katika jumuiya tunamoendesha shughuli zetu.

Muhtasari

Mwendo wa mabadiliko uliyoko hapa Kenya na duniani kote utazumbua changamoto nyingi katika jamii, mazingira na kiuchumi. Mabadiliko haya yataleta mashaka, lakini pia fursa nzuri. Biashara, serikali na wasimamizi wa kanuni wataendelea na juhudi zaidi za kufanya kazi pamoja na kusimamia vyema changamoto hizi, na sisi tuko katika nafasi nzuri ya kuwa washirika sawa - 'the right partner'. Kupitia ubunifu wa bidhaa na huduma mpya, tunaweza kuongoza kwa mfano katika kujenga biashara imara itakayotutofautisha na washindani wetu.

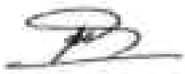
Kudumu kwetu kwa muda mrefu hapa Kenya ni jambo tunalijivunia sana. Hii haitupi tu utambuzi wetu wa humu wa kuweza kuwahudumia vyema wateja wetu, bali pia itafanya sisi kuwa ni sehemu ya jumuiya yao. Mwaka huu, Standard Chartered inaadhimisha miaka 100 ya kuwa katika biashara hapa Kenya. Tangu mwaka wa 1911, tulipofungua matawi yetu ya kwanza mawili katika barabara za Kenyatta Avenue jijini Nairobi na Treasury Square mjini Mombasa, tumeendelea kuchangia katika maendeleo ya kiuchumi na kijumuiya ya Kenya. Katika miaka hii yote, Benki imewekeza sana katika kuunga mkono sekta mbali mbali za uchumi wetu ikiwa ni pamoja na kilimo, uzalishaji, mawasiliano na biashara ndogo na za kati (SMEs).

Tunapoendelea mbele, Benki hii bado inaendelea kujitolea kabisa katika kujenga biashra imara ya kudumu hapa Kenya na itaendelea kuwekeza kimkakati katika uwakala wake ili kujiongezea nafasi zaidi ya kustawi.

Kwa muhtasari, 2010 ulikuwa mwaka wa mafanikio makubwa. Tulidhihirisha kuwa tuko na mkakati sawa, desturi iliyo sawa na vitengo sawa vya soko kuweza kuwasilisha thamani yenye uthabiti na imara kwa wenyehisa wetu. Tunaingia mwaka wa 2011 tukiwa katika hali nzuri sana na msukumo imara wa kujistawisha.

Mwisho ningependa kutoa shukrani zangu za dhati kwa wateja wetu kutuunga mkono bila kusita. Ningependa pia kuwashukuru wanabodi, waongozi na wafanyikazi wa benki hii kwa kazi yao ya bidii wanayofanya iliyotuwezesha kuwasilisha mwaka mwingine wa maanikio makubwa.

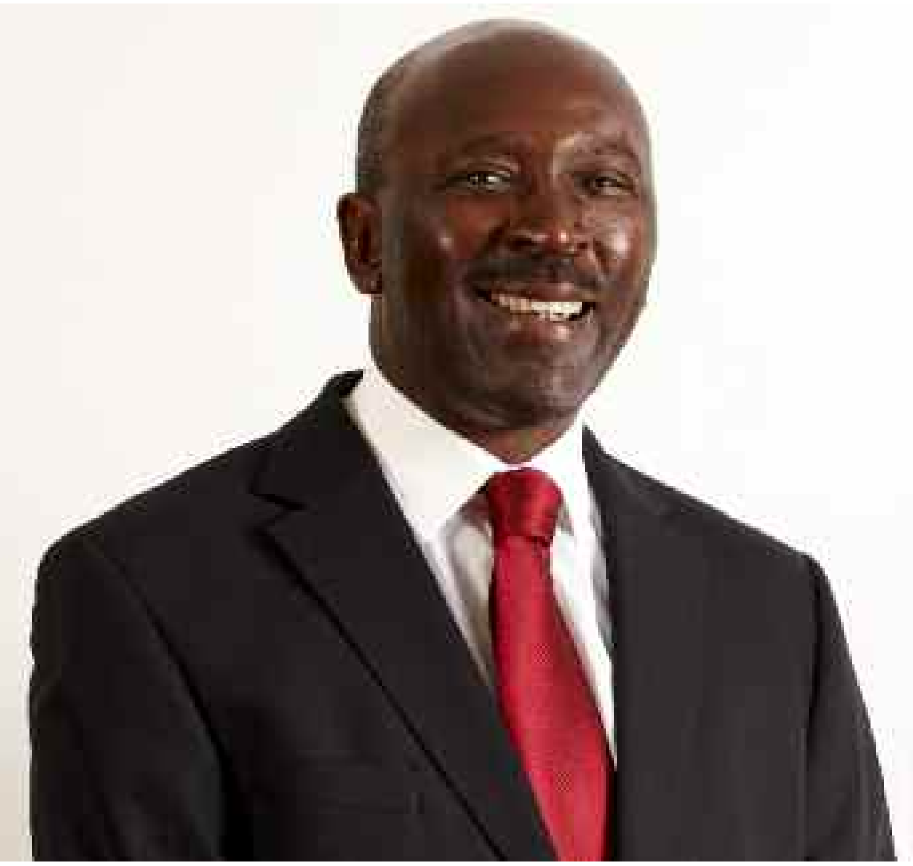
Wilfred Kiboro
Mwenyekiti



7 Machi 2011

Chief Executive Officer's Review

Sustainable growth



"The results represent our fourth consecutive year of record income and profits.Ours is not a recovery story, but one of consistent delivery and sustained growth."

I am delighted to report Standard Chartered Bank performed strongly in 2010. The results represent our fourth consecutive year of record income and profits. Ours is not a recovery story, but one of consistent delivery and sustained growth. As a bank, we continue to benefit from our deep client relationships, our network and a well capitalised balance sheet. The Bank remains disciplined in the execution of its strategy.

Much of what drives the Standard Chartered story remains constant. Our strategy remains unchanged, and our aspiration remains the same – we want to be the world's best international bank, leading the way in Africa, Asia and the Middle East. We are putting even greater focus on our clients and customers, on building deep and long-standing relationships and on improving the quality of our service and solutions. We continue to be obsessed with the basics of banking – balancing the pursuit of growth with disciplined management of costs and risks, keeping a firm grip on liquidity and capital. We are continuing to focus on culture and values, on the way we work together across multiple products and segments, combining deep local knowledge with global capability. These fundamentals underscore everything the Bank does, and everything we as a Bank stand for.

Chief Executive Officer's Review (Continued)

"Here for good" is us at our best.We are a Bank that sticks by its clients and customers at all times.

We re-launched Priority Banking, offering a world of opportunites for our high net-worth customers

I have no doubt that the clarity and consistency of our strategy, our discipline in sticking to it, and unwavering commitment to our distinctive culture and values have been crucial to our continued success.

While our story remains consistent, the Bank continued to evolve rapidly in 2010. One of the most visible changes in 2010 was the launch of "Here for good", our brand promise, which captures the essence of who we are. We are a Bank that sticks by its clients and customers, through good times and bad; a Bank that always tries to do the right thing. We are committed to having a positive impact on the broader economy and on the communities in which we live and work. "Here for good" resonates with staff, clients and customers and other stakeholders because it's true, because it's simple and because it's powerful. It's a benchmark that people will hold us to, but that is the point.

We invested throughout the year to underpin future momentum in 2011 and beyond. One of our major investments in 2010 was the purchase of the custody services business from Barclays Bank of Kenya Limited. This was part of the wider acquisition by Standard Chartered Bank of Barclays Bank PLC Africa custody business comprising operations in Botswana, Ghana, Kenya, Mauritius, Tanzania, Uganda, Zambia and Zimbabwe. The acquisition included principally the client contracts and relevant books and records. It also involved the transfer of assets under custody of transferring clients.

The acquisition of the custody business has given the Bank:

- new products that it can offer to clients domestically;
- sustainable annuity income from the clients that transferred from Barclays Bank of Kenya Limited;
- a new source of deposit liquidity; and
- the opportunity to build relationships with regional and international investors who invest in Kenya.

Banking technology is also evolving rapidly, and we are making full use of new innovations to change the way we run our business, drive cost efficiencies and improve our service. We have fundamentally transformed the infrastructure of the Bank over the last few years, giving us far greater scalability and resilience and providing a much stronger platform for innovation.

By standardising platforms and re-engineering processes, we have been able to drive down both technology and operating costs. We are continuously reducing unit transaction costs and have markedly reduced service failures. Our objective here is to relentlessly improve efficiency, so that we have more headroom for investment, while simultaneously enhancing control and resilience.

2010 performance

Our 2010 financial results demonstrate our commitment to delivering consistent and sustained performance, continuing a trajectory of record profits that now extends over four years, as I had earlier mentioned.

In addition to a strong financial performance, we continued to make great progress on our journey to building a long-term, sustainable business in Kenya. To achieve this, we continued to focus relentlessly on the basics of banking; liquidity and capital management, credit risk management, cost control, efficiency and customer service. We did business in market segments we knew intimately and with products we fully understood. We continued to remain disciplined on costs.

In 2010, we saw strong-based momentum across the businesses, with activity levels and volumes up sharply in a number of products as we helped our customers and clients trade and invest. Double digit growth in operating revenue was achieved in both the businesses.

Profit before taxation was KShs 7.7 billion compared to KShs 6.7 billion in 2009, an increase of 14%.

Total revenue grew to KShs 13.9 billion, driven mainly by the following:

- interest income on loans and advances increased by 4% to KShs 6.0 billion on the back of strong asset growth across both businesses but was impacted by the overall falling interest rates throughout the year that saw our overall yield drop.
- interest income from investments in government securities increased by 20% largely on account of increased volumes.
- our interest expense dropped by 17% to KShs 1.7 billion notwithstanding a growth in deposits of 16% during the year. This clearly pays testament to the low interest rates and squeezed margins that were characteristic of 2010.
- income from foreign exchange trading declined by 7% to KShs 1.6 billion. This was as a result of overall decreased margins on foreign exchange despite a robust growth in volumes and less currency volatility in 2010.
- overall net fee and commission income was up by 10% due to overall increase in transactional volumes driven by the growth in both loans and advances and customer deposits.
- Other income increased by KShs 784 million largely as a result of the profit on disposal of government securities following a good positioning by both our Trading and Asset and Liability Management (ALM) desks.

We continued to support our customers and clients with lending going up by 6% to KShs 60.3 billion due to growth in consumer assets with a marginal decrease in corporate assets. Overall our Consumer portfolio grew by 30% with our personal loan product, growing by 37%.

As the business activity levels have increased due to improved economic conditions as well as the transformation activities targeted at our SME business, we are pleased to note that in the last quarter lending to SMEs has increased with the trend flowing through to 2011. We see great potential in this part of our business as we go forward.

There was a strong performance across the whole product set and the momentum continues to be excellent. As the business continues to grow the balance sheet and gain market share, delivering better customer service, strengthening of the distribution network, hiring more relationship managers, the business continues to deepen customer relationships by increasing the number of products we sell per customer through a needs based approach.

Wholesale Banking focused on key clients, strengthening relationships and growing our product capabilities to support local trade and offering short term working capital solutions. As a result, it posted a strong performance that saw its assets grow by 15%.

The Bank continues to see very good deposit growth in both businesses in 2010 with customer deposits growing by 16% to KShs 100.5 billion. In the Consumer Bank, the momentum from the various products launched in the recent past, coupled with the aggressive sales promotion pushed total deposits to KShs 64.0 billion up 16%. During the year, we have also enhanced the relationship management model in our SME and high net-worth segments.

Chief Executive Officer's Review (Continued)

Growth in customer deposits in the Wholesale Bank was also up a commendable 15%. It should be noted that deposits for this business tend to be transactional in nature and would fluctuate frequently. What is pleasing with this growth is that the underlying 'sticky' deposits in this business continued to show strong growth as a result of strong sales supported by our world-class Integrated Cash Management System (ICMS). We continued to win new mandates onto this platform.

Overall, current account and savings account balances now account for 85% of our total deposits compared to 78% in 2009.

The Bank maintained a liquid and well-capitalised balance sheet throughout 2010. The Bank continues to remain very liquid and well capitalised as we enter 2011 with capital ratios and liquidity ratios that are well above the target ratios set by the Central Bank of Kenya, strategically placing us well to accommodate any further regulatory requirements and simultaneously take advantage of growth opportunities in our businesses.

We have a very strong liquidity position with a well diversified retail funding base. We have a healthy net loan deposit ratio of 60% that gives us good headroom to grow loans and advances.

Our sustained balance sheet momentum ensures a highly liquid and a well diversified balance sheet with limited exposure to problem asset classes. Indeed the strength of our capital position, combined with the depth of our liquidity and the diversity of our assets, gives us a balance sheet that is a powerful source of competitive advantage.

Consumer Banking

Consumer Banking made good progress in transitioning from a product-led business to one that focuses on building deep, longstanding, multi-product relationships with customers. In 2010, the business performed well against a backdrop of continued margin compression posting a 12% growth in operating income. Consumer Bank contributes 46% of our total income which is broadly the same as last year with momentum remaining strong throughout the year.

Using innovation we continued to leverage on our eBBs banking platform to offer a variety of products and services such as e-statements, mobile and internet banking which served to lower the cost of banking as well as to attract new customers. In addition, during the year, we re-launched Priority Banking which has opened up a world of possibilities to our high net-worth customers. We also refurbished Westlands and Muthaiga Priority Centres.

As a result, Consumer Banking delivered a strong financial performance reflecting our increasingly broad based product and customer mix. Our challenge in 2011 is to continue to invest at the right pace and, at the same time, seek to increase productivity and innovation whilst dealing with the continued margin squeeze.

Wholesale Banking

In 2010, Wholesale Banking had another strong year growing its income base by 15%, continuing to strengthen relations with existing clients and diversifying income growth using our network capabilities as a source of differentiation.

Through disciplined investments in key sales and control functions, Wholesale Banking delivered good results across all products and customer segments.

We are proud of the support we give our clients in particular local corporates as they grow and trade. We are among the few banks in the country that offer commodity, interest rate and currency hedging. By helping our clients manage both investment and trade risks in an increasingly risky global economy, these derivative products have real economic and social value.

Costs

Notwithstanding the investments made in the last two years, our

Chief Executive Officer's Review (Continued)

cost:income ratio remained fairly stable at 42.4% compared to 41.2% in 2009 as our cost and balance sheet management continues to deliver attractive results to our investors.

Our cost growth is still in line with our income growth and costs remain firmly under control.

Total operating expenses increased by 17% to KShs 5.8 billion. We continued investing in our businesses to underpin future growth capabilities. A significant one-off integration cost of KShs 120 million with respect to the Custody business purchased from the Barclays Bank of Kenya Limited in the last quarter of 2010 was incurred. Also due to the intangible asset that was recognised arising from the acquisition, we took in an amortisation charge of KShs 86 million.

We continued in 2010 to invest in the Consumer Business transformation strategy primarily by hiring specialist and front line staff. Our infrastructure spend in Consumer Banking also went up by way of new Priority Centres and enhancement of our existing distribution channels.

Impairment losses on loans and advances

The net bad debt charge decreased from KShs 475 million to KShs 332 million, a significant reduction driven by a disciplined and proactive approach to risk and helped by an improved credit environment.

The charge for Consumer Bank increased in line with the growth in the size of the overall portfolio as expected. There continues to be improvement in our portfolio management supported by disciplined approach to risk management, pre-emptive actions taken to reduce risk in certain parts of the portfolio and continued investment in collections infrastructure to minimise account delinquency.

The increase in Consumer Bank net bad debt charge was offset by better recoveries in Wholesale Bank. Portfolio indicators trended positively throughout the year in Wholesale Bank reflecting an improved credit environment and improved early alert processes that enable us be pre-emptive in approach.

Total non-performing loans fell to KShs 1.2 billion and remain among the lowest in the market. This translates to 2.0% of gross total loans compared to 2.5% in 2009.

We are comfortable with the current level of provisions and intend to maintain a robust risk management framework.

Benchmarking

In 2010, we continued to receive recognition for excellence from various institutions. Standard Chartered was crowned the overall winner in Kenya as well as East Africa in the Financial Reporting (FiRe) Awards. The Bank was also declared the winner in the listed company category, banking category and corporate social investment category.

Further accolades received in 2010 include the Best Bank in Kenya by both the prestigious Euromoney as well as Think Business Banking Awards. We believe these awards are recognition of the success of our footprint in Kenya and that Standard Chartered Bank continues to lead the way in product innovation and financial performance.

People

Our people define Standard Chartered Bank. We are committed to helping them grow, supporting individuals to make a difference and teams to win. In 2010, we continued to engage our staff in various initiatives, including finding creative solutions to improve their working environment and to improve customer service. In 2011, we remain committed to attracting and developing talented people, providing the skills and resources necessary for them to succeed, and rewarding them with opportunities to maximise their potential within the Bank.

Outlook

As we look forward, it is essential that we stay focused on our strategy and

Chief Executive Officer's Review (Continued)

on the key priorities for 2011: maintaining our track record of delivery, sustaining the momentum in Wholesale Banking, and completing the transformation of Consumer Banking. We need to continue to deepen our relationships with our customers and clients, and ensure we continue our focus on the basics of banking – liquidity, capital, risk and cost discipline. It is also vitally important that we continue to reinforce, and differentiate our brand.

As an organisation, we must focus on executing these priorities, and on striking the right balance between ensuring we keep delivering in the near term whilst also grasping the many growth opportunities our market offers. This means we need to manage our cost base very tightly, prioritising investment and delivering continuous improvements in productivity.

Some of the external challenges we face is political uncertainty, especially with regard to the governing coalition, high costs of fuel and other inputs which continue to put the economy under enormous strain and slow down recovery. The return of private sector confidence, which is essential, rests on developments in the political arena as well as government efforts to stimulate the economy.

Delivering four years of record income and growth, sustaining our momentum throughout, has taken a lot of hard work, professionalism and discipline. I would like to take this opportunity to thank all of our staff, for once again showing what we can achieve as a team.

I am also extremely appreciative of the support we received from our clients, customers and regulators.

We started 2011 strongly with the balance sheet in excellent shape, with good momentum and with volume growth in both businesses. We have had a good start, both in terms of income and profit.

That said, we remain watchful on the outlook, we are not complacent as to the risk environment. Costs are well controlled as is loan impairment in both businesses. We remain focused on the effective management of capital, on maintaining excellent levels of liquidity, on improving the risk profile further and on the disciplined execution of our strategy.

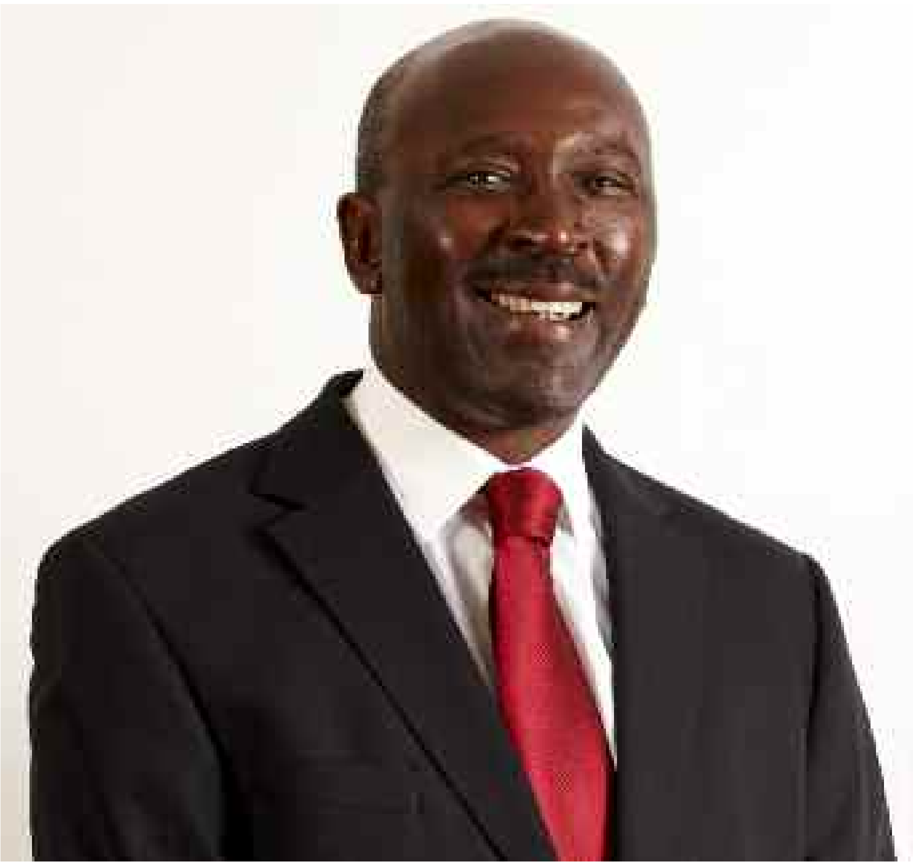
In conclusion, the Bank enters 2011 in great shape. We have a clear strategy, which we will stick to. We have an increasingly powerful brand. We have an exceptionally strong balance sheet.

Both our businesses have good momentum and have begun the year well. As a result, I am very confident that in 2011 we will continue to deliver strong and consistent financial performance, and continue on our journey to building a long-term sustainable business in Kenya.

Richard Etemesi
Managing Director and
Chief Executive Officer

7 March 2011

Msimamo madhubuti wa ukuaji



"Matokeo haya yanawakilisha miaka yetu minne inayofuatana ya mapato na faida ya kuvunja rekodi. Yetu siyo masimulizi ya kupata afueni baada ya msukosuko, bali ni ya msimamo madhubuti wa ukuaji unaoendelea kila kukicha"

Nina furaha kuwaripotia kuwa Benki ya Standard Chartered ilipata ufanisi maridhawa katika mwaka wa 2010. Matokeo haya yanawakilisha miaka yetu minne inayofuatana ya mapato na faida ya kuvunja rekodi. Yetu siyo masimulizi ya kupata afueni baada ya msukosuko, bali ni ya msimamo madhubuti wa ukuaji unaoendelea kila kukicha. Kama benki, tunaendelea kunufaika kutokana na ufahamu wetu wa kina wa uhusiano na wateja, mtandao wetu pamoja na mizania iliyowekewa rasilimali imara. Benki bado inaendelea kuwa na nidhamu katika kutekeleza mikakati yake.

Mengi ya yale yanayopelekea Standard Chartered kupata ufanisi yanabaki vile vile bila kubadilika. Mkakati wetu haubadiliki, na matarajio yetu ni yale yale – tunataka kuwa benki ya kimataifa iliyo bora zaidi ulimwenguni, ikiongoza kuanzia Afrika, Asia na Mashariki ya Kati. Tunaongeza juhudi zaidi kutimiza mahitaji ya wateja na makastoma wetu, kujenga uhusiano mwema na wa kudumu pamoja na kustawisha zaidi ubora wa huduma zetu na utatuzi. Tunaendelea kutilia maanani zaidi masuala ya kimsingi ya benki – kusawazisha shughuli ya ukuaji kwa usimamizi wenye nidhamu wa gharama na dhima, huku tukihimili barabara ukwasi na rasilimali. Tunaendelea kuwa na mtazamo imara kwenye utamaduni na maadili, kwa namna tunavyotekeleza pamoja bidhaa aina nyingi na sehemu mbali

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

mbali, tukileta pamoja kuelewa kwetu kwa kina eneo hili letu na uwezo wetu ulimwenguni. Mambo haya ya kimsingi yanatilia mkazo shughuli zote zinazotekelezwa na Benki hii, na yote ambayo sisi kama Benki tunayaunga mkono.

Sina shaka yoyote kuwa uwazi na msimamo imara uliyoko kwa mkakati wetu, nidhamu yetu ya kushikilia, na kujitolea kwetu kuliyo thabiti katika utamaduni na maadili kumechangia pakubwa kuendelea kufaulu.

Huku usitawi ukiendelea kuwa imara, Benki hii iliendelea kuwa na mabadiliko makubwa katika mwaka wa 2010. Mojawapo ya mabadiliko yaliyodhihirika wazi ni uzinduzi wa wa msemo "Here for good", ahadi ya shirika letu, ambayo inaeleza barabara undani wa jinsi sisi tulivyo na malengo yetu. Sisi ni Benki inayounga mkono wateja wake na makastoma, katika wakati mzuri na mbaya, Benki ambayo wakati wote inajitahidi kutekeleza mazuri. Tumejitolea kuleta athari bayana katika uchumi kwa ujumla na katika jumuiya tunakoishi na kuendesha shughuli. "Here for good" ina umaarufu miongoni mwa wafanyikazi wetu, wateja na makastoma kwa sababu ni ukweli na kwa sababu ni neno lenye uzito. Ni alama teule ambayo watu watatupima nayo, lakini hivyo ndiyo sawa.

Tumewekeza mwakani wote ili kutegemeza msukumo katika mustkabala katika mwakawa 2010 na baadaye. Moja ya rasilimali muhimu tulizowekeza katika 2010 ni ununuzi wa biashara za huduma za usimamizi (custody services business) kutoka benki ya Barclays Bank of Kenya Limited. Hii ilkuwa miongoni mwa mpango mkubwa wa Benki ya Standard Chartered kumiliki biashara na usimamizi wa Barclays Bank PLC Africa, ikiwa ni biashara hizo zote katika nchi za Botswana, Ghana, Kenya, Mauritius, Tanzania, Uganda, Zambia na Zimbabwe. Umiliki huu unajumuisha mikataba iliyoko ya wateja na daftari pamoja na kumbukumbu.

Umiliki wa biashara hii ya usimamizi umeipatia Benki:

- bidhaa mpya ya kuwatolea wateja wake humu nchini;
- mapato ya kudumu ya malipomwaka kutokana na wateja waliohama kutoka Barclays Bank of Kenya Limited;
- njia mpya ya kupata karadha ya ukwasi; na
- fursa ya kujenga uhusiano mzuri na waekezaji wa eneo hili na wa kimataifa wanaoekeza hapa nchini Kenya.

Teknolojia katika shughuli za benki pia inaendelea kubadilika kwa kasi, nasi tunafanya juhudi za kutumia ubunifu huo mpya katika kuendesha shughuli zetu, huku tukipunguza gharama na kuboresha huduma zetu. Kimsingi tumebadilisha kabisa muundo msingi wa Benki katika kipindi cha miaka michache iliyopita, hii ikituwezesha kuinuka zaidi na kuwa na unyumbufu na kutupatia ulingo madhubuti wa ubunifu. Kwa kusanifisha ulingo na kufanyiza upya mifumo ya uhandisi tumeweza kupunguza gharama ya kutumia teknolojia naya kuendesha shughuli zetu. Bado tunaendelea kupunguza gharama ya kila kitengo cha shughuli na kuna ishara dhahiri ya kupungua kutofaulu kwa uwasilishaji huduma. Lengo letu hapa ni kujitahidi, bila kupunguza kasi, kuboresha utendakazi wetu, ili tuwe na nafasi zaidi ya kuwekeza, na wakati huo huo tukiboresha usimamizi na wepesi wa kujirekebisha.

Matokeo ya 2010

Matokeo haya yetu ya kifedha ya mwaka wa 2010 yanaonyesha wazi kujitolea kwetu kuleta mfululizo wa matokeo bora, kuendelea na msukumo huu wa kuleta faida ya kuvunja rekodi ambayo imekuwa hivyo kwa miaka minne sasa, kama nilivyotaja mbeleni.

Pamoja na matokeo bora ya kifedha, tuliendelea kupiga hatua kubwa katika safari yetu ya kujenga biashara ya kudumu hapa Kenya. Kufikia lengo hili, tuliendelea kuwa makini zaidi na masuala ya kimsingi ya shughuli za benki; ukwasi na usimamizi wa rasilimali, usimamizi wa dhima ya deni, usimamizi wa gharama, utendakazi na huduma kwa wateja. Tulifanya biashara yetu katika sehemu tunazozifahamu kwa undani na bidhaa zetu tunazielewa barabara. Tulizidi kuwa na nidhamu katika usimamizi wa gharama.

Katika 2010, tulishuhudia msukumo mzuri miongoni mwa biashara zote, viwango vya shughuli vikizidi sana

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

katika baadhi ya bidhaa tulipokuwa tukiwasaidia makastoma na wateja kufanya biashara na kuwekeza. Ukuaji wa dijiti mbili katika mapato ya uendeshaji shughuli kwenye biashara zote mbili.

Faida kabla ya kodi ilikuwa bilioni shilingi 7.7 ikilinganishwa na bilioni shilingi 6.7 katika mwaka wa 2009, ongezeko la asilimia 14.

Jumla ya mapato ilistawi na kufikia bilioni shilingi 13.9, ikisababishwa zaidi na yafuatayo:

- mapato kutokana na riba ya mikopo na rubuni yaliongezeka kwa asilimia 4 na kufikia bilioni shilingi 6.0 ikiegemeza ukuaji wenye nguvu wa rasilimali kote katika biashara zetu lakini ikiathiriwa kwa ujumla na kuanguka kwa viwango vya faida ya riba mwaka 2010 kuliopelekea kudorora kwa mazao yetu.
- mapato ya faida kutokana na kuwekeza katika dhamana za serikali yaliongezeka kwa asilimia 23 zaidi kwa ajili ya ongezeko la ujazo.
- gharama yetu kwenye riba ilienda chini kwa asilimia 17 hadi bilioni shilingi 1.7 licha ya ukuaji wa uwekaji pesa katika benki wa asilimia 16 katika mwaka huu, ukiwa ni ushuhuda dhahiri wa viwango duni vya riba na faida zilizobanwa kama ilivyodhihirika katika mwaka 2010.
- faida kutokana na biashara ya ubadilishanaji wa sarafu za kigeni ilipungua kwa asilimia 7 na kufika bilioni shilingi 1.6. Hii ilisababishwa kwa ujumla na kupungua kwa viwango vya faida katika ubadilishanaji wa sarafu za kigeni licha ya ongezeko kubwa la ujazo na kupungua kwa mageuzi ya sarafu katika mwaka 2010.
- kwa ujumla asilimia ya faida ilipanda kwa asilimia 10 kutokana na ongezeko la shughuli lillililoletwa na ukuaji wa mikopo na rubuni na pesa zilizowekwa na wateja.
- mapato mengine yaliongezeka kwa milioni shilingi 784 haya yalichangiwa zaidi na faida iliopatikana kutokana na kuuzwa kwa dhamana za serikali kufuatia msimamo mzuri wa kusimamia idara zetu za biashara na rasilimali na dhima (ALM).

Tuliendelea kuunga mkono makastoma na wateja wetu kwa mikopo ambayo iliapanda kwa asilimia 6 hadi bilioni shilingi 60.3 kutokana na kusitawi kwa rasilimali za wateja kukiwa na kupungua kidogo kwa rasilimali ya shirika. Kwa ujumla orodha ya wateja iliongezeka kwa asilimia 30 huku huduma yetu ya mikopo ya kibinafsi ikizidi kwa asilimia 37.

Wakati viwango vya shughuli kutokana na kuimarika kwa hali ya uchumi pamoja na hali ya mabadiliko iliyolenga Biashara ndogo (SME), tuna furaha kuwatambulisha kuwa katika robo ya mwisho ya ukopeshaji wa hizi Biashara ndogo (SMEs), kumeongezeka kasi hadi kufikia mwaka wa 2011. Tunaona kukiwa na matumaini makubwa katika kitengo hiki cha biashara yetu tunapoendelea mbele. .

Kulikuwa na natija nzuri kutokana na bidhaa zetu kwa ujumla. Huku biashara ikiendelea kuimarisha mizania, kuongeza fungu letu katika soko, kutoa huduma bora kwa wateja, kustawisha mtandao wetu wa usamabazaji, kuajiri maafisa zaidi wa uhusiano mwema, biashara yetu inaendelea kuzidisha uhusiano mwema na wateja kwa kuongeza idadi ya huduma tunazowauzia zinazoambatana na mahitaji ya kila mteja.

Uuzaji jumla wa huduma za benki ulizingatia wateja wale muhimu, tukitilia hima uhusiano mwema na huku tukikuza uwezo wa huduma zetu kuunga mkono biashara za humu na kutoa mikopo ya muda mfupi kwa minajili ya mtaji wao. Kutokana na haya, ilileta matokeo bora kabisa yaliyopelekea kitengo hiki kikiimarisha rasilimali zake kwa asilimia 15.

Benki inaendelea kushuhudia ongezeko la uwekaji fedha benki katika biashara zote mbili katika 2010 huku uwekaji fedha na wateja wetu ukiongezeka kwa asilimia 16 na kufikia bilioni shilingi 100.5. Upande wa huduma za Benki kwa wateja, msukumo ulitokana na bidhaa na huduma zilizozinduliwa hivi karibuni, ikiambatana na shughuli kabambe za mauzo zilizosukuma jumla ya uwekaji pesa za wateja kufika bilioni

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

shilingi 64.0 ikiwa ni ongezeko la asilimia 16. Katika mwaka huu pia tuliboresha usimamizi kielelezo cha uhusiano mwema katika mrengo wetu wa SME (wafanyibiashara wadogo) pamoja na vitengo vya thamani kuu.

Ongezeko katika uwekaji fedha na wateja katika shughuli za Benki za jumla pia lilikua kwa kiwango cha kusifika cha asilimia 15. Inastahili kutambulika uwekaji fedha katika biashara hii huwa ni wa pesa za shughuli na hivyo hupanda na kushuka. Jambo la kupendeza na ukuaji huu ni kuwa nadharia ya uwekaji fedha 'wa kudumu' katika biashara hii ilionyesha kuendelea kukua kutokana na uuzaji wetu thabiti unaoungwa mkono na mfumo wetu wa haadhi ya kimataifa wa kufungamanisha usimamizi wa fedha (yaani Integrated Cash Management System- ICMS). Tuliendelea kupata wateja wapya katika kigezo hiki.

Kwa ujumla, akaunti za hundi na za akiba hivi sasa zinashikilia asilimia 85 ya jumla ya pesa zilizowekwa nasi ikilinganishwa na asilimia 78 katika 2009.

Benki ilidumisha ukwasi na mizania yenye rasilimali maridhawa katika mwaka wote wa 2010. Benki inaendelea kuwa na ukwasi zaidi na kudumisha mizania yenye rasilimali maridhawa wakati tunapoingia katika mwaka wa 2011 kukiwa na mtaji wenye nguvu na uwiano wa ukwasi ambao juu zaidi ya uwiano uliyopendekezwa na Benki Kuu ya Kenya, kimkakati hii inatupatia fursa muafaka ya kutekeleza kanuni zozote zitakazoongezewa na pia kuchukua nafasi hiyo kusitawisha zaidi biashara zetu.

Tuko na nafasi kubwa ya ukwasi (uwezo wa kupata pesa) wenye uchuuzi uliyotofautishwa na kewkewa hazina barabara. Tuna rubuni nzuri ya mkopo ya asilimia 60 inayotupatia nafasi nzuri ya kukuza mikopo na rubuni.

Msukumo wa mizania ya hesabu yetu unatuhakikishia ukwasi mkubwa na mizania mbalimbali ambayo itapunguza matatizo ya viwango vya rasilimali. Hasa nguvu ya nafasi yetu ya mtaji, ikiambatanishwa na kina cha ukwasi wetu na rasilimali zetu tofautitofauti, yanatupatia mizania yenye chanzo madhubuti na fursa ya nafasi nzuri kuweza kushindana.

Huduma za Benki kwa watu binafsi

Shughuli za huduma rejareja zilipiga hatua nzuri kugeuka kuwa za kuongozwa na bidhaa hadi kuwa za mtazamo wa kujenga uhusiano wa kina, wa kudumu na kutoa huduma mbali mbali za kufaa wateja. Katika 2010 biashara ilikuwa na matokeo mazuri licha ya kugubukwa na hali ya kuwa na faida finyu, ikionyesha ukuaji wa asilimia 12 ya mapato ya utendakazi. Shughuli za kibenki za rejareja zinachangia asilimia 46 ya mapato yetu kwa jumla ambayo kwa pakubwa mno ni sawa na kama ilivyokuwa mwaka jana japo msukumo ukiendelea kuimarika katika mwaka uliopita wote.
Kwa kutumia ubunifu tuliendelea kutegemeza kizio chetu cha eBBS kutoa bidhaa na huduma za kila aina kama vile taarifa za hesabu kupitia mtandao (e-statements), huduma za benki kupitia simu za rununu na kupitia mtandao ambazo zilisaidia kupeleka chini gharama za shughuli za benki pamoja kuwavutia wateja wapya. Kuongezea haya, tulizindua tena huduma ya wateja wa dhamana (Priority Banking) ambayo imetufungulia njia yetu ya kupata wateja wa thamani kubwa. Vile vile tulifanyia marekebisho majengo ya vituo vya wateja wa dhamana (priority centres) za Westlands na Muthaiga.

Kwa ajili ya haya, shughuli za huduma rejareja za benki zilileta natija ya nguvu ya kifedha hii ikidhihirisha kuongezeka kwa bidhaa za kila aina na mchanganyiko wa wateja. Changamoto yetu katika 2011 ni kuendelea kuwekeza kwa mwenendo sawa na mwaka uliopita, kufuatilia kuongeza utendakazi na ubunifu huku tukishughulikia kufinyika kwa faida kunakoendelea.

Huduma za Benki kwa mashirika

Katika 2010, huduma za benki kwa mashirika zilipata mwaka mwingine wa ukuaji wa nguvu kiini cha mapato kikistawi kwa asilimia 15, tukiendelea kushinikiza uhusiano mwema ulioko na wateja na njia mbali mbali za kukuza mapato kwa kutumia uwezo wa mtandao wetu kama kiini cha kutofautisha.

Kupitia uwekezaji wenye nidhamu katika shughuli ya mauzo na usimamizi, huduma za benki kwa mashirika zilileta faida nzuri miongoni mwa bidhaa zote za vitengo vya wateja.

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

Twajivunia usaidizi tunaowapatia wateja wetu hasa mashirika ya humu nchini wakati yanapoendelea kustawi na kuendesha shughuli zao za biashara. Sisi ni miongoni mwa benki chache hapa nchini zinazotoa huduma ya kukinga kutopata hasara ya bidhaa, viwango vya riba na vya sarafu. Kwa kuwasaidia wateja wetu kusimamia vitega uchumi vyao na dhima ya biashara katika mazingira ya uchumi wenye mashaka kote duniani, huduma hizi maalum zina thamani halisi ya kiuchumi na kijamii.

Gharama

Licha ya uwekezaji tulioufanya katika miaka miwili iliyopita, uwiano wa gharama yetu ikilinganishwa na faida ulibaki imara katika asilimia 42.4 ikilinganishwa na asilimia 41.2 katika 2009 wakati usimamizi wa gharama yetu na mizania unaendelea kuleta matokeo ya kuridhisha kwa wawekezaji wetu.

Ukuaji wa gharama zetu bado unapatana na ustawi wa mapato na gharama bado ziko chini kutokana na usimamizi imara.

Kwa jumla, gharama ya kuendesha shughuli zetu ilipanda kwa asilimia 17 hadi bilioni shilingi 6.0. Tuliendelea kuwekeza katika biashara zetu tukitilia mkazo uwezo wa ukauji katika siku zijazo. Malipo ya maana mara moja ya ukamilifu ni yale ya milioni shilingi 120 kulipia biashara ya usimamizi wa biashara za wateja iliyonunuliwa kutoka benki ya Barclays Bank of Kenya Limited katika robo ya mwisho ya 2010 ndipo zilipotumika. Pia kutokana na kutopimika kulikotokea baada ya umiliki huo, tulitenga fedha kiasi cha milioni shilingi 86.

Tuliendelea katika mwaka wa 2010 kuwekeza kwenye kufanya mageuzi katika biashara ya huduma za benki kwa watu binafsi hasa zaidi kwa kuwaajiri wataalamu na wale muhimu wa kupeana huduma za mbele. Kugharamia muundo msingi wa biashara ya huduma za benki kwa watu binafsi pia kulipanda kutokana na vituo vipya vya wateja wa dhamana (priority centres) pamoja na uboreshaji njia zilizopo na usambazaji wa huduma zetu.

Hasara kutokana na mikopo na rubuni iliyoharibika

Kiasi kilichowekwa kufidia madeni yaliyoshindwa kulipwa kilipungua kutoka milioni shilingi 475 mpaka milioni shilingi 332, ikiwa ni punguo kubwa lililoletwa na mwelekeo wenye nidhamu na kujitolea wa kukabiliana na dhima na pia ikisaidiwa na mazingira bora ya ukopaji.

Kiasi kilichowekewa biashara ya huduma za benki kwa watu binafsi kiliongezeka kufuatia kuongezeka ukubwa wa jumla ya orodha ya fedha zilizowekwa kwa faida kama ilivyotarajiwa. Tunaendelea kuboresha usimamizi wa orodha yetu ya fedha zilizowekwa kwa faida ikisaidiwa mwelekeo wenye nidhamu wa usimamizi wa dhima, hatua za kuwahi mapema zilizochukuliwa ili kupunguza dhima katika daftari letu la orodha ya fedha zilizowekwa kwa faida na kuendelea kwetu kuwekeza katika muundo msingi wa ukusanyaji madeni ili kupunguza uhalifu wa akaunti.

Ongezeko kutokana na biashara ya huduma za benki kwa watu binafsi lilifidiwa na ukuaji bora wa madeni katika biashara ya huduma za benki kwa mashirika. Viashirio vya orodha ya fedha tulizoweka kwa faida vilionyesha mwelekeo mzuri katika mwaka wote kwenye shughuli za benki kwa mashirika ikiakisi mazingira yaliyoimarika ya ukopaji na kuimarika kwa mfumo wa kugundua mapema uliotuwezesha kuchukua mwelekeo wa kuwahi mapema.

Jumla ya mikopo iliyoharibika ilianguka na kufikia hadi bilioni shilingi 1.2 billioni na bado ndiyo ya chini zaidi katika soko hili. Hii ni sambamba na asilimia 2.0 ya jumla ya mikopo yote ikilinganishwa na asilimia 2.5 katika mwaka 2009.

Tunatosheka na viwango vya sasa vilivyowekwa na tuna dhamira ya kudumisha mfumo imara wa usimamizi wa dhima.

Uwekaji alama teule

Katika 2010, tuliendelea kutambuliwa kwa ubora na asisi mbali mbali. Standard Chartered iliibuka mshindi wa kwanza hapa Kenya pamoja na Afrika Mashariki wa taji la Financial Reporting (FiRe) Awards. Benki hii pia ilitangazwa mshindi wa kitengo cha kampuni iliyoorodhesha, kitengo cha benki na kitengo cha kuwekezakatika uwajibikaji katika jumuiya.

Sifa zingine kuu tulizotunukiwa katika 2010 ni pamoja na Benki bora zaidi nchini Kenya katika tuzo mbili za haadhi kuu ile ya Euromoney pamoja

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

na Think Business Banking Awards. Tunaamini tuzo hizi zaonyesha kutambulika kufaulu kwetu kutokana na ufanisi wa kuweko hapa Kenya na kuwa benki ya Standard Chartered inaendelea kuongoza njia katika ubunifu wa bidhaa na matokeo mazuri ya kifedha.

Watu wetu

Watu wetu ndiyo wanaotubainisha jinsi tulivyo katika Benki ya Standard Chartered. Tunaahidi kuwasaidia kujistawisha, tukiunga mkono mmoja mmoja binafsi kuleta yalo tofauti na kwa makundi yao kufualu. Katika 2010, tuliendelea kuwashughulisha wafanyikazi wetu katika miradi mbalimbali, ikijumuisha suluhisho zilizo bunifu za kuboresha mazingira yao ya kazi na kuboresha huduma kwa wateja. Katika 2011, bado tunajitolea kuvutia na kuendeleza wafanyikazi wenye ujuzi, tukiwapatia maarifa na uwezo wanaohitaji kufaulu, na kuwatunukia fursa ya kufikia uwezo wao wakiwa humu katika benki.

Matarajio

Tunapotazama mbele, ni muhimu tuendelee kulenga kwa makini mkakati wetu na mambo yalo na umuhimu katika 2011: kuzigatia mwenendo wetu wa kuleta matokeo mazuri, tukiimarisha msukumo katika huduma za benki kwa mashirika na kukamilisha juhudi za kufanya mageuzi katika huduma za benki kwa watu binafsi. Tunahitaji kuendelea kuzidisha uhusiano baina yetu na wateja na makastoma wetu, na kuhakikisha kuwa na mtazamo imara kwa yaliyo ya msingi katika shughuli za benki – ukwasi, rasilimali, dhima na nidhamu katika kusimamia gharama. Vile vile ni muhimu zaidi tuwe tutaendelea kushadidi, na kupambanua, chapa yetu.
Kama shirika, sharti tuwe na lengo la kutekeleza mipango hii muhimu, na baada ya kufikia usawa baina ya kuhakikisha tunaendelea kuleta faida katika muda wa karibu na wakati huo huo pia kuwania fursa tele za ukuaji katika soko letu. Hii inamaanisha tunahitaji kusimamia kiini cha gharama kwa njia madhubuti, tukipatia kipaumbele uwekezaji na kuleta usitawi wa kudumu katika utendakazi wetu.

Baadhi ya changamoto inayotukabili kutoka nje ni hali ya kisiasa isiyotabirika, hasa kuhusu serikali ya muungano, bei ya juu ya mafuta na pembejeo zingine ambazo zinaendelea kukaza zaidi uchumi wetu na kupunguza kasi ya kupata afueni. Kurudisha matumaini ya waekezaji wa kibinafsi, ambalo ni jambo muhimu, kunategemea maendeleo katika nyanja ya kisiasa pamoja na juhudi za serikali za kuchochea kuamka kwa uchumi.

Kuwasilisha miaka mine mfululizo ya faida na ukuaji mkubwa, kudumisha msukumo wetu wakati huo wote, kumetokana na kazi ngumu, weledi na nidhamu. Ningependa kuchukua fursa hii kuwarudishia shukrani wafanyikazi wetu wote, kwa kuonyesha mara nyingine tena kuwa matokeo mazuri yaweza kupatikana tukifanya kazi kama timu moja.

Vile vile nafurahi sana uungwaji mkono na wateja na makastoma wetu, pamoja na waweka kanuni.

Tulianza 2011 kwa kishindi mizania yetu ya hesabu ikiwa katika hali nzuri, na msukumo uliyo sawa na ukuaji wa uzalishaji katika biashara zote mbili. Tumekuwa na mwanzo mzuri katika 2011, katika pande zote mbili za mapato na faida.

Baada ya kueleza haya, tunaendelea kuchunguza kwa makini mtazamo wetu, hatuwezi kuridhika na mazingira yaliopo ya dhima. Gharama ziko chini ya usimamizi mzuri vile vile kuharibika kwa mkopo katika biashara zote mbili. Tunaendelea kuwa na mtazamo usiokengeuka kwenye usimamizi wa utendakazi bora wa rasilimali, kudumisha viwango bora zaidi vya ukwasi, katika kuboresha zaidi dhima na katika kutekeleza mikakati yetu kwa nidhamu.

Kwa kutamatisha, benki inaingia katika mwaka wa 2011 ikiwa katika hali nzuri zaidi. Tuna mikakati iliyo wazi, ambayo tutaifuatilia. Tuko na chapa iliyo na nguvu. Tuko na mizania ya hesabu yenye udhabiti wa kipekee. Biashara zetu zote mbili zina msukumo mzuri na zilianza mwaka vizuri. Kwa ajili ya haya, nina matumaini makubwa kuwa katika 2011, tutaendelea kuwasilisha matokeo bora na ya kutegemewa ya kifedha, na kuwa tutaendelea safari yetu ya kujenga biashara imara na ya kudumu hapa nchini Kenya.

Richard Etemesi
Mkurugenzi Mkuu na Afisa Mkuu Mtendaji

7 Machi 2011

Sustainability Review

We believe that by doing things the right way, banks can be a powerful force for good

In 2010, the Bank launched its new brand promise, "Here for good". This was a bold statement for us especially being a financial institution and also coming on the back of the 2008/2009 financial crisis that was largely blamed on the financial sector.

However, at Standard Chartered "Here for good" is us at our best. It represents the promise that we have held for over 100 years of investing in the communities in which we operate to build long-term sustainable businesses wherever we have our footprint.

"Here for good" is a constant reminder of the enormous responsibility on us to conduct our business in a responsible manner that adds value to our communities.

"Here for good" is anchored under three key pillars that summarise our commitment.

Here for people: this is our genuine commitment to long term relationships with our clients, customers and our people. We have built our business by building relationships. By focusing on our clients' needs, we have served our own. So our strategy is simple: focus on what is important, not what is merely profitable. And nothing is more important than our people, and the people we work for. We have taken this approach around the world, for businesses as diverse as the markets in which we operate. Because it is not just a question of what we do, but who we are doing it for. We are Here for the people.

Here for progress: we know that the best investments are those that can benefit everyone. That is why we are committed to setting the highest standards for our partners and ourselves. It is not an obligation. It is an opportunity to do the right thing for the people we have come to know. From community programmes to our choice of corporate clients, the only way to proceed is to move forward, together. We are Here for progress.

Here for the long run: this embodies all that Standard Chartered is and will be. It is our commitment to our footprint. For over 150 years, we have been making sure the world's rising markets continue to rise. We are connecting the world by using new techniques to create new possibilities. We have aimed to lead the way without leaving anyone behind. And what is more important than our global reach is the local knowledge it is built on. We are Here for the long run.

For Standard Chartered, sustainability means conducting our business in a way that enhances performance both today and over the long-term, and that which contributes to the economic and social development of the countries in which we operate, while contributing to good governance.

We believe that building a sustainable business will, and must, drive shareholder value. To achieve our goal we must concentrate on the basics of banking – capital, liquidity, risk management, operational control and cost discipline; but we must also anticipate and respond to the likely impacts of socio-economic, environmental and governance trends. We must minimise risks while maximising commercial opportunities. And we must create environments that allow our business to grow and our clients and customers to flourish.

Sustainability Review (Continued)

Our highlights and achievements in 2010

- our investment in the community through various initiatives and sponsorships aimed at enriching and empowering the community as well as deepening our relationships with customers and key stakeholders was KShs 116 million up from KShs 98 million in 2009;

- we continue to make a difference to thousands of Kenyans through our sight restoration initiative “Seeing is Believing”. We invested all the proceeds from the 2009 Nairobi Marathon totaling KShs 14.2 million by funding over 771 cataract, glaucoma, and trauma related pediatric surgeries in Kenya;

- protecting the environment is a key agenda in our sustainability efforts. We continued to integrate our environment mitigation efforts into our business as well as enhancing energy use in our day-to-day operations. We partnered with the Kenya Wildlife Service for the third year running to sponsor the annual “Cycle-with-the-Rhino” event whose proceeds go towards rehabilitating Lake Nakuru National Park; and

- we increased our financing to microfinance institutions from USD 22 million in 2009 to USD 25 million in our endeavour to open up access to finance to this sector;

- we remained focused in building a sustainable business in Kenya through robust risk management procedures and strict governance ethics. This is evidenced in our sustained growth in 2009 through to 2010 during a period when the financial sector in Kenya was still recuperating from the financial downturn;

- we continued to enhance our commitment to make the Bank an employer of choice through high quality training for our staff, employee engagement and creating an inclusive culture among other initiatives especially in gender empowerment.

Our approach

Our sustainability objectives are:

- contributing to the real economy;

- promoting sustainable finance to contribute to the challenges and opportunities presented by social and environmental risks;

- leading the way in communities.

We are executing our objectives through the following key pillars:

- protecting the environment;

- community investment;

- great place to work;

- access to financial services;

- sustainable finance;

- tackling financial crime; and

- responsible selling and marketing.

Our sustainable business priorities

Protecting the environment

StandardChartered@Chiromo is a 'green' building.

Environmental challenges are getting more and more urgent as the threat of climate change becomes clearer and the demands of the world's population increasingly strain the earth's ability to provide water, clean air and other essential resources.

In the last two years, we have witnessed some of the devastating effects of climate change which have had serious impacts on our economy. The frequent power cuts, extreme weather conditions and the frequent and extensive droughts have been a clear indication that we need to take urgent steps to conserve the environment.

These negative effects also challenge companies like Standard Chartered Bank to reduce the use of natural resources and provide products and services that will stimulate a shift to a low-carbon, low resource world.

Our strategy on the environment in Africa is based on the following:

- **Operational impact:** leading by example through reducing the environmental impact of the Bank's own activities;

- **Sustainable lending:** our lending policies are in line with our agenda of contributing towards economic development. We ensure that the organisations we lend to and do business with also make a reasonable contribution to economic development and exercise responsible business practices; and

- **Engagement:** raising awareness among employees and wider stakeholders about the consequences of poor environmental stewardship and the importance of environmental protection through partnerships with the media, government and Non-Governmental Organisations (NGOs). This is achieved through thought-leadership and specific environmental initiatives.

Operational impact

We reckon that our operations have little impact on the environment than many businesses but we have identified energy and paper consumption as the key areas in which we can make a difference internally.

We monitor energy consumption in our buildings using our Global Environmental Management System (GEMS), which is modeled on ISO 14001, the International Environment Management Standard. We internally verify GEMS data in our branches. In addition, GEMS requires specific plans for the buildings it covers, detailing how the use of resources will be reduced.

The move to our new headquarters - StandardChartered@Chiromo

As a Group, we use environmental certification for all new buildings by the recognised Leadership in Environment and Energy Design (LEED) in the United States. We look for high performance and will not accept less than the equivalent of the US LEED 'Gold' rating.

StandardChartered@Chiromo aims to achieve Gold LEED status and we have deliberately incorporated numerous mechanisms to ensure that we have an environmentally friendly building. These include solar heating for all our hot water needs, light level sensors in offices to turn off the lights when the natural light is adequate, zoned movement sensors to switch off lights when no one is around, rainwater harvesting, infrared sensors on hand wash basins and urinals and dual flush systems in our washrooms.

Our products

We have continued to promote on-line banking services to our retail customers. Electronic banking reduces paper consumption, as well as the energy needed to distribute hard copies of statements and other communications. We have launched and enhanced our on-line banking offering from 16 countries to 25 countries in 2010 with a 25 percent year-to-date increase in registered customers and 35 percent increase in activities.

Protecting the environment (Continued)

We are protecting the environment through internal and external interventions

In 2009, SCB Kenya launched on-line Banking, Mobile Banking and e-statements. In two years, the take up has risen to 58,000 for e-statements, 24,000 customers are transacting through our mobile banking platform and 12,500 customers are using our on-line banking facility.

Our target is to suppress 50 percent of paper statements across our markets in the world by the end of this year. We made significant progress towards this end in 2010.

External interventions

"Cycle-with-the-Rhino"

Kenya is currently facing a major environmental disaster as a result of the effects of climate change and extensive environmental degradation. Over the past several decades, we have witnessed the gradual encroachment of human settlement resulting in the degradation of the Mau Complex, an important water catchment area for most of the rivers in western Kenya. The destruction has significantly impacted water levels in many of the lakes and rivers within the Rift Valley.

Standard Chartered Bank got involved in "Cycle-with-the-Rhino" three years ago when we partnered with the Kenya Wildlife Service to raise money for the conservation of the Lake Nakuru ecosystem. In 2010, we were the platinum sponsor through our contribution of KShs 3 million.

Lake Nakuru is reputed to be home to 450 bird species, 300 plant species and 50 species of mammals, and is an internationally acclaimed bird-watcher's paradise. It is therefore absolutely critical that such a valuable national treasure is conserved not only for the sake of enhancing tourist attractions within the area, but also for future generations to appreciate and enjoy.

The conservation efforts being promoted through "Cycle-with-the-Rhino" will go a long way in achieving this goal. So far, the proceeds are being used to put up a perimeter fence around the lake to reduce human wildlife conflict.

Employee engagement

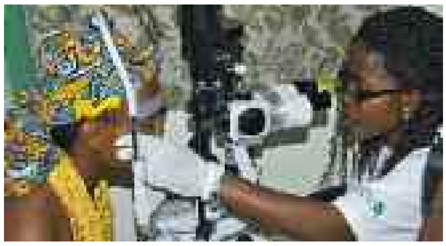
Enthusiastic involvement of employees is essential to achieve our targets and our employees are the heart and soul of our brand, bringing to life our commitment to the community. We need their commitment and welcome the fact that people increasingly expect their companies to promote high environmental standards. We encourage employees to take action at work, at home and in their communities.

Communicating with staff on the environment includes specific training on new initiatives such as our position statements on sensitive sectors and issues. We also use a range of interactive tools to engage and inspire staff.

Our website also features a 'carbon calculator' that is unique in covering 70 countries. People use it to estimate their personal carbon footprint and it helps them understand how to reduce their contribution to climate change, as well as stimulating them to change their behaviour.

Our staff have also taken the initiative through the identification and support of projects which contribute towards protecting the environment.

Community investment (Continued)



Over 700 operations were conducted in 2010 under "Seeing is Believing"

As an international bank working in some of the world's most challenging markets, we believe that we have both a duty and a responsibility to be a force for good in the communities in which we operate. We achieve this in partnership with our employees. Their support and enthusiasm are at the heart of our community investment programmes. We draw on their expertise and skills to benefit local communities, and with 75,000 talented individuals working for Standard Chartered across the globe, we have access to a wide pool of people keen to use their strengths for the good of others.

We try to maximise the impact of our investment by carefully targeting the issues we address and by using our core business skills and infrastructure to engage with communities to encourage wider involvement.

"Run for Sight"!

On 31 October 2010, thousands of Kenyans thronged the streets of Nairobi to participate in the eighth edition of the Standard Chartered Nairobi Marathon.

Themed "Run for Sight", the event attracted 14,500 participants and reinforced our commitment in achieving our objectives of:

- raising money to support "Seeing is Believing", an initiative aimed at combating avoidable blindness;
- identifying and providing new opportunities for Kenyan athletic talent;
- raising the international profile of Kenya; and
- creating a fun event for everyone's enjoyment.

2010 took the awareness of avoidable blindness to new levels. A combination of media support, goodwill from friends of the marathon and participants saw the contributions to "Seeing is Believing" rise to KShs 16.5 million compared to KShs 14.2 million raised the previous year. The funds will facilitate over 700 cataract, glaucoma and trauma related surgeries to children under the age of nine as well as the purchase of eye care surgical equipment at the five projects sponsored by Standard Chartered Bank.

Key achievements in 2010:

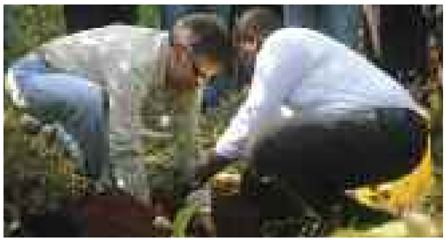
- number of participants increased by 7 percent with 63 corporate organisations participating;
- contribution to "Seeing is Believing" rose to KShs16.5 million;
- media and publicity value increased from USD 3.2 million to USD 3.75 million achieving high event awareness and hype;
- improved efficiency in the registration process with one stop registration throughout the country and introduction of new registration points;
- introduction of the Tri-cycle race and the 12km wheelchair race raising the number of participants in these two categories; and
- increased contributions in kind by sponsors with new sponsors coming on board.

"Seeing is Believing"

The challenges of preventable blindness also threaten lives and economic prospects across our markets. In October 2009, under the banner of "Seeing is Believing – A New Vision", we made a commitment to provide eye-care services to 20 million people in 20 cities by 2015. Kenya is a major beneficiary of "Seeing is Believing".

"Seeing is Believing" is our initiative to tackle avoidable blindness across our markets. The Group funds leading eye care NGOs to help prevent and treat blindness, with all funds going directly to delivering projects on the ground. In nine years, the programme has gone from a simple staff-led initiative to a USD 37 million global funding initiative reaching out to over 30 million people.

Community investment (Continued)



The Technology and Operations team at a tree planting day out at Ngong Forest

Under "A New Vision", our latest commitment to "Seeing is Believing", we will invested a further USD 20 million to provide sustainable eye-care services.

In Kenya, "Seeing is Believing" has restored sight to over 4,000 children. From the proceeds of the 2009 Nairobi Marathon, a total of 771 eye surgeries were carried out in 2010 compared to 665 surgeries in 2009. These operations were carried out in five hospitals namely, Kikuyu, Sabatia, Tenwek, Kwale and Lighthouse Eye Hospitals.

Girl child education

Only 30 percent of women in Kenya get the chance to go to college. As most employment opportunities require a college degree, this leaves many women disadvantaged, and more prone to exploitation and a lifetime of poverty.

In 2010, we entered into a partnership with Starehe Girls High School in collaboration with the Global Give Back Circle to empower more girls to realise their potential. The objective of this partnership is to provide a home-like, supportive environment within which girls from disadvantaged backgrounds can grow toward their full potential in terms of academic, career and personal development.

The Global Give Back Circle was created to ensure an impoverished girl, with the will and desire to succeed, is able to keep on walking in her shoes. Whereby, walking in her shoes becomes a movement; a movement powered by her never ending 'Give Back' capacity.

Global Give Back Circle has therefore partnered with like minded partners to:

- provide opportunities and role models to help girls achieve their full potential;
- empower women to improve social and economic development in our markets; and
- offer disadvantaged girls economic development, knowledge and a safe place to work.

Through this programme, the Bank has committed to change the lives of five girls by assisting them fund their university education.

This unique model will see five girls every year work for the Bank for two years prior to joining the university and during campus holidays. The girls are expected to save part of their earnings to cater for their university expenses.

Expansion of Iten, Kapsabet and Kapenguria District hospitals

One of the main objectives of "Seeing is Believing" - "A New Vision" is to invest in the sustainability of all "Seeing is Believing" projects in the world.

In 2008, the Group invested in the expansion and capacity building of the eye units in three hospitals in the Rift Valley. These are Iten, Kapsabet and Kapenguria district hospitals. Work on the expansion of the three eye units was completed in 2010. From the original one roomed eye units where registration, consultation, screening and minor surgeries were carried out to fully fledged clinics with reception areas, consultation rooms, theatres for surgeries, kitchens, clinical staff changing rooms and washrooms, the three eye units are now fully operational.

Staff projects and volunteering

Our employees are the DNA of our brand and with the launch of "Here for good" we have a big responsibility of bringing this promise alive especially with the contributions we make to the communities in which we operate.

Volunteering gives employees the opportunity to use their skills to make a unique contribution to the organisations and causes they support. Our community interventions are a key area through which we can justify our bold new brand promise. Under the Bank's Employee Volunteering programme, we provide employees with an extra two days paid leave a year to volunteer to projects aligned with our community and

Community investment (Continued)

Employee volunteering is an excellent way for staff to contribute to the community

environmental programmes. In 2010, we increased this to three days per employee to celebrate “Here for good”. Volunteering is now a core part of our employee engagement initiatives and last year we had a very successful year with 1,300 days logged in as volunteering leave.

Although, the Bank does encourage employees to undertake volunteering placements that are aligned to the Group’s Sustainability strategy, the Bank also gives leeway for staff to explore personal passions that may be outside our policy but beneficial to the community.

The shilling-for-shilling programme continued to give our staff the freedom to own and drive projects that fall well into the Bank’s sustainability approach. In 2010, we saw maturity in the projects that our staff contributed to with sustainability being a priority in the selection of all the projects. For instance, our Technology and Operations department is now a key partner to the Green Belt Movement. They completed a three year project to rehabilitate Ngong Forest. This project will be renewed for another three years in 2011.

Beneficiary	Project	Participating department
Mater Hospital	Mater Heart Run	Shared Services Centre Reconciliation unit
Ngong Forest	Tree Planting	Technology and Operations
Dreams Children’s Home	Construction of dormitories	Consumer Banking Risk

Responsible selling and marketing

Our Customer Charter is our promise to treat our customers fairly.

At Standard Chartered we have always believed that treating customers fairly and adopting a responsible approach to selling our products or marketing our services is the key to an enduring customer relationship. Not only is such an approach in line with our core values and culture, but it is also critical to developing a sustainable business.

Our customers are at the heart of everything we do. Over the past year, we have worked hard to transform our offering to better address customer needs while making sure that, at all times, we treat our customers fairly. We have launched several initiatives to achieve this.

Customer Charter

Our Customer Charter is our Consumer Bank's promise to our customers that they will always be treated fairly and will receive excellent service, appropriate financing solutions and an enduring relationship. It may be what they already expect of us, but this Charter offers customers our assurance that their needs come first.

The Charter is built around three core undertakings, namely:

- **Service:** We aspire to be 'The World's Best Consumer Bank in each of our chosen markets and segments'. To do so, we will provide friendly, fast and accurate service;
- **Solutions:** We will develop appropriate solutions to meet or even anticipate their needs to help create sustainable long-term relationships. We will also ensure all advice is suitable for the customer's circumstances;
- **Relationship:** We must recognise and reward customers for additional business and allowing us to serve them.

Our goal is to become the Bank our customers recommend to their friends and colleagues. If we delight our customers with service, we earn the right to ask them for more business as they are our invisible sales force. We measure our customers' loyalty and recommendation through the Net Promoter Score (NPS).

Our average NPS in 2010 was 44% against a 25% target. The Branch NPS led the way at 53% and the Call Centre at 35% against a 35% target. Priority Banking was at 65% and SME Banking exceeded its 25% target and closed the year at 40%.These results continue the strong turnaround momentum we have been driving since the launch of the Customer Charter.

Training

Consumer Banking launched the CB Academy to ensure that all staff receive adequate technical training around the core capabilities required for their roles. All new Personal Finance Officers are required to attend a Day One Readiness program which ensures they are fully trained on Customer Engagement.

With the re-launch of Priority Banking all priority relationship managers are required to complete a certification on Wealth Management and Investment/ Advisory Services to ensure that they are well equipped with the right capabilities as regards product knowledge as well as customer risk profiling. In 2010, 62 Consumer Banking staff received certification in Wealth Management.

Our branch managers have also commenced on "Power to Perform", a branch managers' specific certification programme which aims at building four core capabilities of a branch manager namely Customer Experience, Financials and Strategy, Risk Management and People/Community.

Additionally, in the first quarter of 2010, over 600 branch staff, were trained on the customer charter during a full day customer experience workshop co-facilitated by senior management.

Tackling financial crime

You speak out on wrongdoing we'll act in confidence

We are continuosly working towards reducing fraud and avoiding being used for criminal activity.

In a volatile market where crime trends keep changing and focus on Anti-Money Laundering and terrorist financing receives more and more limelight, we have a moral responsibility to play our part in helping the world minimise the effects of fraud.

The risks and challenges are constantly changing - the controls used by banks have to be dynamic and responsive. Fraud levels can be affected by an economic downturn, money launderers developing new schemes to disguise the proceeds of crime and government lists of suspect terrorists changing on a regular basis.

The Financial Crime Risk (FCR) Unit under Compliance and Assurance is tasked with the responsibility for all financial crimes. FCR is the risk that we incur - financial, reputational or regulatory damage through money laundering, market abuse, fraud or breach of international sanctions.

As a Bank, we reckon that it is in our interest to reduce fraud and avoid being used for criminal activity. We have made great strides in this area and we continue to invest in order to strengthen our controls.

Anti-Money Laundering (AML) and Counter Terrorism Financing (CTF)

In 2010, we trained more than 1,000 members of staff (including new joiners) in Consumer Banking, Wholesale Banking, Africa Shared Services Centre and other Support Functions on the Group's AML and CTF Policies and Procedures, identification of suspicious activities on customer transactions and filing of Suspicious Activity Reports (SARs). Members of staff understand the AML risk and appreciate different business and product risk types and thus monitor account transactions effectively. Training on sanctions was also conducted to create awareness and actions to be taken in cases of alerts.

Consumer Banking staff were trained on Real Time Gross Settlement (RTGS) mode of payment and published a report of findings with recommendations that have now been adopted. There is now an assurance that staff can easily identify fraudulent customers' payments instructions.

Re-launched Speak Up Policy

The new Group's Speak Up Policy and guidelines was re-launched in 2010. All staff were sensitised on the new policy and awareness posters were displayed at conspicuous places. Broadcasts encouraging staff to speak up (whistle blowing) on any issues of or suspected cases of fraud, breaches of Group Policies and Procedures and against the local laws were issued.

Kenya is now a centre of excellence for the African region.

Fraud Awareness Training

The Bank conducted fraud awareness trainings (African Operations Certification Courses) for staff in Consumer Banking (i.e. sales representatives, tellers etc) and Africa Shared Services Centre. As a result, there was a significant decline in the number of successful frauds against the Bank and its customers as these were identified early. We also trained some of our customers and provided support and guidance on investigation of frauds and advised them of precautionary measures to be taken.

Access to finance

We have adopted a wholesale microfinance approach in financing MFIs.

More than three billion people worldwide currently lack access to basic banking services. Many of those deprived of access live within communities in the countries in which we operate, and their inability to take up even the smallest loan has a direct impact on economic activity both nationally and regionally. At Standard Chartered, we believe that our long term financial performance is dependent on the prevailing social and environmental conditions. We also recognise that we are in a position to make positive social impact in these markets.

We use our products and services, our global network and our core skills to provide greater access to financial services. In doing so, we create a competitive advantage for the Bank and in the longer-term, stimulate demand for our financial services. This is sustainability at work.

A key element of our focus on building a sustainable business is to increase access to those sectors of the population that are either un-banked or under-banked by the mainstream financial sector. Through provision of basic financial services, the population at the bottom of the pyramid has an opportunity to build their lives, fund education and healthcare provision and engage in economic activity, thereby achieving a better quality of life.

Last year, we fulfilled our Clinton Global Initiative pledge to provide credit and financing worth USD 500 million to our microfinance partners. The five year pledge was signed in 2006, but was met two years ahead of schedule. These funds have impacted the lives of more than 3.6 million people in 14 countries.

Our approach and offering

The Bank's microfinance portfolio has grown from three MFIs in three markets in 2005 to 120 customers in 22 markets by the end of December 2010. Our offering focuses on the three areas outlined below.

MicroFinance Institutions (MFIs): Adopting a Wholesale Microfinance approach, we provide the full range of banking products and services to MFIs across Asia, Africa and the Middle East, supporting them to multiply their outreach and impact.

In 2010, we remained open for business and supported our clients out of the global financial crisis. Our goal was to expand our microfinance business in order to reach more people and provide finances as well as provide technical support to this critical sector of our economy.

Our portfolio in Kenya also grew in 2010 as we on boarded more relationships that provided us with more opportunities to make a difference in this sector. We also provided banking products, services and technical assistance to microfinance institutions which allows them to build capacity and become financially sustainable.

Development Organisations (DOs) and Social Investors (SRIs): We work with DOs and SRIs to increase the flow of funds to the microfinance sector.

Standard Chartered Bank will continue to work closely with multilateral and bilateral lending institutions supporting microfinance in order to ensure affordable facilities are availed to the institutions in this industry. The Bank will endeavor to structure facilities that will also reduce the FX exposures that key players in the microfinance industry face.

We have positioned ourselves as the Clearing and Settlement bank for MFIs as they transform into DTMs (Deposit Taking Microfinance Institutions) through our award winning Transaction Banking capabilities.

Technical Assistance: We invest in technical assistance initiatives to increase the capacity of MFIs and influence regulatory policy. In addition, we support research and innovation, promote industry events, and foster employee engagement.

In March 2010, we hosted a microfinance workshop for East Africa to support microfinance institutions given the changing regulatory landscape in the region. We have also played a significant role in providing technical assistance to our microfinance clients who have turned into deposit taking institutions after the Central Bank of Kenya issued the green light. These include Faulu Kenya and Kenya Women's Finance Trust.

Great place to work

We invest in training our staff to equip them to serve our customers better.

Great place to work means creating an engaging, inclusive and safe environment that rewards success and encourages employees to take control of their personal development.

Our drivers are around the Bank's five key values – Courageous, Responsive, International, Creative and Trustworthy. Our behaviours and culture are a source of competitive advantage. They are why our customers bank with us and why our employees stay with us.

Gallup Great Workplace Award

At the core of our focus on people is employee engagement. We encourage and focus on the behaviours that bring out the very best from every employee, assessing their performance not just on results but on how those results were achieved.

Standard Chartered Kenya emerged amongst the top 25 distinguished companies worldwide that received the **Gallup Great Workplace Award** in 2010. We believe that employee engagement is a force that drives real business outcomes. Therefore, we deliberately strive to create an environment that truly engages people every day as they go about their work.

Most companies have talent development programmes in place but very few make it known to their employees that they are considered as high potential. It is mainly left to the employees to figure out if they are high potential based on whether they are invited for high profile events to meet senior people in the organisation.

In 2010, Kenya implemented talent transparency by training high potential employees as well as equipping over 90 line managers on career and development conversations they need to have with the talent. Our talented people have been through learning interventions to enhance their capabilities and build their networks through meetings with senior managers.

Leadership Development

Massively multiplying leadership capability of our senior staff was facilitated through the running of the 'Re-Thinking Leadership' programme. This programme includes an interactive session with the senior management team to allow the participants to hold candid discussions on their careers in the Bank and what the future presents for them.

Coaching for Individual Performance (Training of Strengths Coaches)

The Bank is truly a strengths based organisation, and is continuously striving to ensure that the employees identify their strengths, and apply them at work in order to attain their greatest potential. Everybody has got their unique set of raw talents, which with coaching and mentorship become their strengths. In a bid to build the bench strength of its people, the Bank invested in the training of 3 Strengths Coaches in 2010. Since their training, over 40 staff have been taken through one-on-one strengths awareness sessions in 2010.

To be a coach one has to be certified by Gallup International and only those who have done a commendable job are allowed to continue coaching.

Employee Wellness

The Employee Wellness Programme (EWP) remains a key investment in our most valuable asset, our people.

Wellness is a continuous process of making lifestyle choices that maintain or improve our physical and mental wellbeing. The EWP aims to motivate employees to pursue healthy lifestyles, educate employees about health risk factors and how reducing these factors can improve their health, and facilitate employees taking actions that improve their physical and mental well-being. In 2010, the first quarter was dedicated to awareness around Tuberculosis. In partnership with the Kenya Association for the Prevention of Tuberculosis and Lung Diseases (KAPTLD), sessions were conducted in all branches addressing the risk factors, linkage with HIV and AIDS, and management of the disease.

Cancer is also increasingly becoming a disease of our times. Whereas most cancers are hereditary, there is a lot that one can do to delay the onset and even increase the chances of survival. In June 2010, we launched a countrywide Cervical Cancer awareness and voluntary vaccination programme. Over 900 women, comprising of staff, spouses and daughters were vaccinated against cervical cancer.

December 2010 took the crown of "Wellness Month". A series of "Know Your Numbers" activities were availed to staff including HIV testing, BMI calculations, blood sugar testing, nutritional counseling and blood donation drive.

As a thought leader in HIV & AIDS Awareness, we extended HIV education to the community. Our Champions traversed the country throughout the year, interacting with secondary schools to discuss the threat of HIV to their vision and how they can avoid getting infected. We educated over 18,000 people in 2010.

Board of Directors

1. Wilfred Kiboro
Chairman

Appointed to the Board on 2 April 2007 and became Chairman on 28 May 2009. He is a vastly experienced manager who is highly regarded due to his enviable track record in the Kenyan corporate scene. He is the Chairman of the Board of Nation Media Group. Previous appointments include Managing Director of Rank Xerox Kenya, Managing Director of Nation Newspapers and Group Chief Executive Officer of Nation Media Group. Age 66.

2. Richard Etemesi
Managing Director & Chief Executive Officer

Appointed to the Board on 19 February 2004. Appointed as Managing Director & Chief Executive Officer on 1 November 2006. Immediately prior to this, he was the Executive Director in charge of Finance and Strategy. He previously held senior management positions in the Bank in Kenya and Zambia as well as being the Managing Director of Standard Chartered Bank Uganda Limited. Age 48.

3. Kariuki Ngari
Executive Director, Consumer Banking

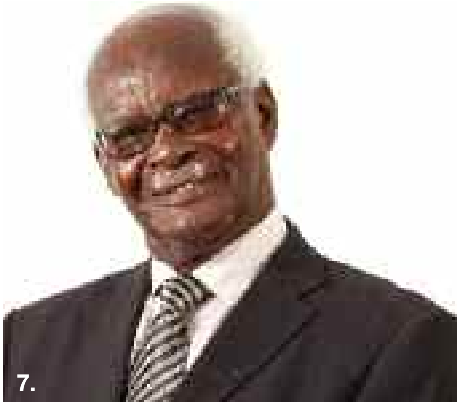
Appointed to the Board on 24 February 2009. He joined the Bank in January 2009 and is in charge of Consumer Banking. He has wide experience in Consumer Banking. Before his appointment to the Board of Standard Chartered Bank Kenya Limited, he was the Consumer Banking Director at Barclays Bank of Kenya Limited and prior to that the Head of Retail Performance. He also worked for Standard Chartered Bank Kenya Limited in various capacities before he left for Barclays in 2001. Age 44.

4. Segun Odusanya
Executive Director, Origination & Client Coverage

Appointed to the Board on 29 October 2009. He joined Standard Chartered Bank Kenya Limited as Head, Origination & Client Coverage in 2009. He has been with the Bank for 11 years where he has served in various capacities including Head of Origination & Client Coverage in Uganda and Head of Corporate Sales in Nigeria. Age 42.

5. Chemutai Murgor
Executive Director, Finance & Chief Finance Officer

Appointed to the Board on 1 March 2007. She has been with the Bank for 10 years. She was appointed as Finance Director in March 2007. She has wide experience in finance having worked previously as the Head of Finance as well as Head of Business Finance. She has also held senior positions at Deloitte & Touche both in Kenya and the United Kingdom. Age 41.



6. Michael Hart
Non-Executive Director

Appointed to the Board on 20 February 2003. He is the Chief Executive Officer for Standard Chartered Bank in Africa. His previous senior appointments include Managing Director, Standard Chartered Bank Kenya Limited, Group Head of Audit and Investigations, Group Head of Operations and Head of International Consumer Finance in Asia Pacific.
Age 59.

7. Harris Mule
Non-Executive Director

Appointed to the Board on 20 May 2004. He is an experienced development economist and policy analyst. Previous appointments include Permanent Secretary, Ministry of Finance and Economic Planning and Assistant President of the International Fund for Agricultural Development.
Age 74.

8. Anne Mutahi
Non-Executive Director

Appointed to the Board on 24 February 2009. She has vast experience in the financial sector having worked for various financial institutions including Middle East Bank, ABN AMRO Bank, Citibank and Jitegemee Trust Limited where she recently served as the Chief Executive Officer.
Age 50.

9. Les Baillie
Non-Executive Director

Appointed to the Board on 5 August 2010. He is a professional financial manager with over 20 years experience at director level with a broad range of companies within the mobile industry in the UK and Kenya. Previous senior appointments include Chief Financial Officer of Safaricom Limited and Finance Director of Vodafone Value Added and Data Services Ltd. He is currently the Chief Investor Relations Officer at Safaricom.
Age 56.

10. Nancy Oginde
Board Secretary

Appointed on 1 March 1999 as Secretary to the Board. She served the Bank in various capacities before her appointment. She is an Advocate of the High Court and served as a resident magistrate before joining the Bank.
Age 50.

11. Kaushik Shah
Non-Executive Director

Appointed to the Board on 19 February 2004. He is the Regional Chief Executive Officer, Horn of Africa for Safal Group and Chief Executive Officer of Mabati Rolling Mills Limited. He chairs the Kenya Association of Manufacturers Trade Promotion Committee. He sits on the Board of Bahari Insurance Brokers Limited and Mwanzi Road Development Limited, among others.
Age 58.

Management Committee

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1. Richard Etemesi
Chief Executive Officer

He has been with the Bank for 19 years. He was appointed Chief Executive Officer in November 2006 and Area General Manager for East Africa in February 2008. Before then he was the Executive Director, Finance & Strategy. He has previously worked in senior management positions in the Bank in Kenya and Zambia as well as being the Managing Director of Standard Chartered Bank Uganda Limited.

2. Segun Odusanya
Head, Origination & Client Coverage

He joined the Bank as Head, Origination & Client Coverage in October 2009. He has been with the Bank for 11 years where he has served in various capacities including Head of Origination & Client Coverage in Uganda and Head of Corporate Sales in Nigeria.

5.

3. Kariuki Ngari
Head, Consumer Banking

He joined the Bank in January 2009 and is in charge of Consumer Banking, East Africa. He has wide experience in Consumer Banking having worked with Barclays Bank of Kenya Limited as the Consumer Banking Director and prior to this the Head of Retail Performance. He also worked for Standard Chartered Bank Kenya Limited in various capacities before he left for Barclays in 2001.

4. Saloum Jobarteh
Head, Financial Markets

He has been with the Bank for 14 years. He has previously worked for the Bank in The Gambia and Zambia as Head of Financial Markets and has a wealth of experience in this area. He was appointed Area Head of Financial Markets for East Africa in January 2006. Previous positions held with other employers include Business Development Manager and Relationship Manager with Meridian Bank in the Gambia.

5. Chemutai Murgor
Chief Finance Officer

She has been with the Bank for 10 years. She has a wide experience in finance having worked previously as the Head of Finance as well as Head of Business Finance. She has also held various senior positions at Deloitte & Touche both in Kenya and the United Kingdom.


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6. Paul Sagnia
Chief Information Officer

He has been with the Bank for 31 years. He has held various positions within Consumer Banking, Operations and Information Technology. He has worked for the Bank in The Gambia, Uganda, Tanzania, Zimbabwe, Botswana, Ghana, Cote D'Ivore and Cameroon. He played a pivotal role as Executive Director, Business Technology during the setting up of the Bank's Cote D'Ivore franchise in 2000.

7. Annie Kigira-Kinuthia
Head, Corporate Affairs

She has been with the Bank for over three years. She was appointed Head of Corporate Affairs in August 2007. She has over 15 years of experience in corporate affairs having worked at Equity Bank, World Vision Kenya and Unga Group in senior positions.

8. Simon Burutu
Senior Credit Officer

He was appointed Senior Credit Officer in February 2009. He has been with the Bank for over 34 years. He has held various positions in the Bank including Senior Credit Officer, Zambia and Zimbabwe and Head of Credit & Service, Zimbabwe.

9. George Akello
Chief Risk Officer

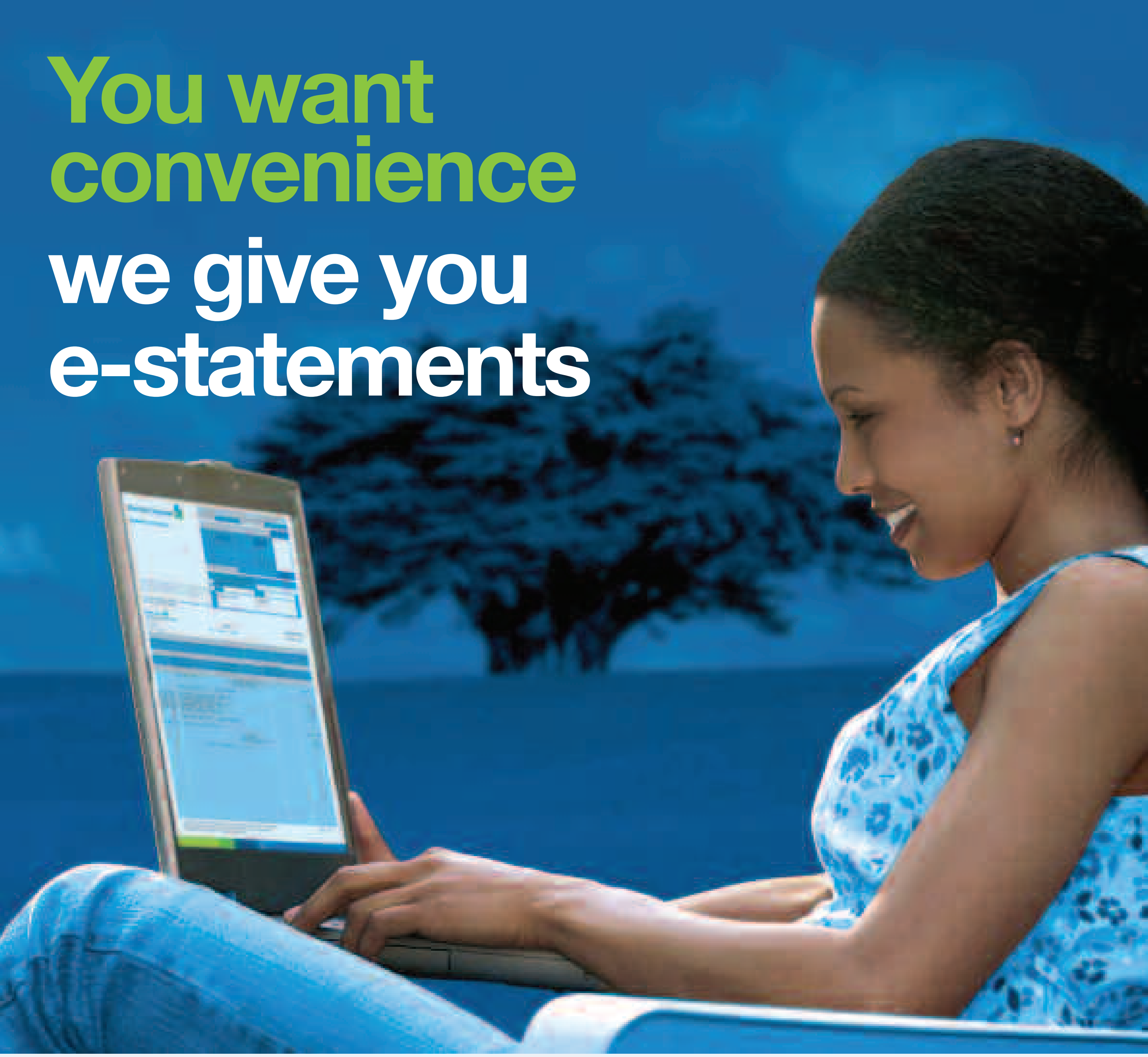
He has been with the Bank for 13 years. He has held several risk management roles including Group Audit, Credit Officer for Wholesale Banking and Regional Head of Consumer Banking Credit, East Africa where he was involved in the review of the Bank's business and operations across Africa and Asia.

10.Nancy Oginde
Head, Legal & Company Secretary

She has been with the Bank for 19 years. She was appointed Head of Legal and Compliance in 1999. She served the Bank in various capacities before her appointment. She is an advocate of the High Court and had served as a resident magistrate before joining the Bank.

11. Reuben Mbindu
Head, Human Resources

He has been with the Bank for over 15 years, holding management positions in Corporate Affairs and Human Resources. He has a wealth of experience and knowledge of the Bank having worked in London, Hong Kong, Zambia, Tanzania and South Africa. Prior to his current role, he was the Head of Corporate Affairs.



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The Board and Statutory Information

Directors

W. Kiboro	Chairman
R. Etemesi	Chief Executive Officer
M. Hart*	
K. Shah*	
H. Mule	
C. Murgor	
A. Mutahi	
K. Ngari	
S. Odusanya**	
L. Baillie*	(Appointed 5 August 2010)

* British
** Nigerian

Secretary

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

Custody & Registrars Services (CRS)
6th Floor, Bruce House
Standard Street
P.O. Box 8484
00100 Nairobi GPO.

Board Committees

Board Audit Committee

K. Shah	Chairman
H. Mule	
A. Mutahi	
L. Baillie	
N. Oginde	Secretary
C. Murgor*	
G. Wamwati*	
M. Ahmed*	
KPMG*	

*By invitation

Board Risk Committee

H. Mule	Chairman
A. Mutahi	
L. Baillie	
G. Akello*	
R. Etemesi*	
N. Oginde	Secretary
K. Ngari*	
S. Odusanya*	
C. Murgor*	
S. Burutu*	

*By invitation

Board Nomination, Evaluation and Remuneration Committee

W. Kiboro	Chairman
R. Etemesi	
R. Mbindu	
N. Oginde	Secretary

Asset and Liability Committee (ALCO)

R. Etemesi	Chairman
K. Ngari	
S. Odusanya	
S. Burutu	
C. Murgor	
G. Akello	
S. Jobarteh	Secretary

Management Committee

R. Etemesi	Chairman
K. Ngari	
S. Odusanya	
S. Burutu	
C. Murgor	
S. Jobarteh	
R. Mbindu	
P. Sagnia	
N. Oginde	
G. Akello	
A. Kigira-Kinuthia	

Report of the Directors

for the year ended 31 December 2010

The directors are happy to submit their report together with the audited financial statements for the year ended 31 December 2010 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan 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 in the attached financial statements on pages 49 to 109.

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 8.50 for every ordinary share of KShs 5.00. One interim dividend of KShs 5.00 was declared and paid in December 2010.

This will bring the total dividend for the year to KShs 13.50 (2009 – KShs 12.00).

The Board has also resolved to recommend to the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of KShs 84,690,411 on the non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares. An interim dividend of KShs 83,309,589 was declared and paid in December 2010. This will bring the total dividend for the year to KShs 168,000,000 (2009 – KShs 168,000,000).

Dividends on the preference shares are paid at the rate of 6% per annum on the issue price of KShs 50.00 per share.

The dividends will be payable to shareholders registered on the Company's Register at the close of business on 5 April 2011 and will be paid on or after 19 May 2011. The Register will remain closed on 6 April 2011 for the preparation of dividend warrants.

4. Directors

The directors who served during the year are set out on pages 34 and 35.

All directors are subject to periodic re-appointment and the following directors will be seeking re-election except as noted in (c):

(a) Messrs W. Kiboro and K. Shah retire from office by rotation and will offer themselves for re-election at the forthcoming Annual General Meeting in accordance with Section 96(1) of the Memorandum and Articles of Association;

(b) Mr. L. Baillie, a casual director retiring by rotation who being eligible offers himself for re-election in accordance with Section 98(1) of the Memorandum and Articles of Association; and

(c) Mr. H. Mule, who has attained the age of seventy years, retires and does not offer himself for re-election.

5. Auditors

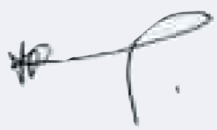
The auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to Section 24(1) of the Banking Act.

6. Approval of financial statements

The financial statements were approved by the Board of Directors on 7 March 2011.

BY ORDER OF THE BOARD

N. Oginde
Company Secretary



7 March 2011

Statement on Corporate Governance

for the year ended 31 December 2010

Corporate governance deals with the way companies are led and managed, the delineation of the role of the Board of Directors and management as well as the framework of internal controls. The Board of Standard Chartered Bank Kenya Limited is committed to upholding high standards of corporate governance.

Highlights

- internal and external training of non-executive directors on corporate governance;
- the chairman attended a conference in the United Kingdom to share ideas with other Standard Chartered global chairmen on best practices;
- established a network for the chairman of the Board Audit Committee to share best practice with Standard Chartered global Board Audit chairmen;
- refreshed the committees' terms of reference to align them to the current global standards;
- appointed an additional independent non-executive director to ensure effective balance between executive and non-executive directors;
- adopted a formalised approach to assessing individual director effectiveness;
- acquired the custody business from Barclays Bank of Kenya Limited having obtained the necessary regulatory and shareholder approvals; and
- undertook a successful rights issue to finance the acquisition of the custody business.

Our priorities

- enhanced focus on key strategic and risk issues; and
- link and train the independent non-executive directors on global trends and market best practice.

THE BOARD

Board composition

The Board currently has ten members – the Chairman, four executive directors and five non-executive directors. All the non-executive directors including the Chairman are independent. The Board has the right level of knowledge and technical understanding of our business.

Appointments to the Board

All directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, the directors receive an induction covering the Company's business and operations and an appreciation of the key risk areas. The directors are advised of the legal, regulatory and other obligations of a director of a listed company. The directors also receive both internal and external training on corporate governance.

Statement on Corporate Governance (Continued)

for the year ended 31 December 2010

Roles and responsibilities

The Board of Standard Chartered Bank Kenya Limited is responsible for ensuring that it has the right skills, knowledge and experience to perform its role effectively. The Board provides leadership through oversight, review and guidance whilst setting the strategic direction. It is the primary decision-making body for all matters considered as material to the Company.

There is a good working relationship between the non-executive and executive directors. There is a healthy level of challenge and debate between the executive and management. The non-executive directors have access to information and staff management at all levels.

Over the year, the Board reviewed liquidity, capital, cost, risk management, employee engagement and corporate governance matters amongst other things. The Board approves all the Audit, Compliance and Risk review policies and annual schedule of work. The internal auditor reports to the Board Audit Committee on all reviews and set areas of concern.

The Board has a rolling agenda to ensure that the right strategic areas are reviewed over the course of the year and is constantly mindful of acting in the best interest of the shareholders.

All the directors 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. The Board is entitled to seek independent professional advice at the Company's expense.

Chairman and Chief Executive Officer

The separate roles of the Chairman and the Chief Executive Officer are clearly defined in written role descriptions which have been approved by the Board.

Except for direction and guidance on general policy, the Board has delegated the authority for the conduct of the day-to-day business to the Chief Executive Officer and the Management Committee.

Independent non-executive directors

The Board considers all of the non-executive directors to be independent and free of any business relationship or other circumstances that could materially interfere with the exercise of objective or independent judgment. In determining their independence, the Board reviews all directors' interests which may give rise to a potential or perceived conflict.

Non-executive directors are appointed for an initial term of two years which is renewable.

The Board is aware of the other commitments of the individual non-executive directors and is satisfied that these do not conflict with their duties and time commitments as directors of the Company.

Succession planning

The Company has in place a succession plan for the executive directors, which is updated regularly to include high performers, and a plan to maintain a balance of critical skills on the board of directors.

Board effectiveness evaluation

To assess the performance of the Board, its committees and individual directors, the Board conducts a rigorous performance evaluation each year. The process is led by the Chairman and supported by the Company Secretary.

The directors have completed the annual evaluation for 2010 that covered a self-evaluation, evaluation of the Chairman and the overall Board. The conclusion of the evaluation was that the Board operated effectively. The results of the evaluation were submitted to the Central Bank of Kenya.

The nomination committee approved an evaluation process for non-executive directors, which entails conducting annual one to one meetings with the non-executive directors to discuss their performance and contribution. This process was approved in 2010 for implementation in 2011.

Induction and ongoing development

On appointment, each director receives a comprehensive and tailored induction covering the Company's business and operations as well as the legal, regulatory and other personal obligations of a director of a listed company. The programme includes specific sessions with the management across the units for clarity and better understanding of the Company's functional roles and accountabilities, business model and operations.

Board meetings and attendance

The full Board meets regularly, at least five times a year, and has a formal schedule of matters reserved for discussion. The directors receive appropriate and timely information to enable them maintain full and effective control over strategic, financial, operational, compliance and governance issues.

The directors have full access to corporate information and sufficient detail to enable a productive and open discussion. There is a diversity in the Board which ensures that the level of debate is both detailed and of a high technical standard.

Committees play a critical role in the smooth running of the Board. The committees submit reports to the Board at each scheduled board meeting. This ensures that the Board as a whole is aware of the significant issues discussed and actions taken.

The following table shows the number of Board meetings held during the year and the attendance by the directors:

	Scheduled 5	Adhoc 3
W. Kiboro (Chairman)	5/5	2/3
R. Etemesi	5/5	3/3
M. Hart	4/5	2/3
K. Shah	4/5	2/3
A. Mutahi	5/5	1/3
H. Mule	5/5	2/3
C. Murgor	5/5	3/3
K. Ngari	5/5	2/3
S. Odusanya	5/5	2/3
L. Baillie*	3/5	–

* Appointed to the Board on 5 August 2010.

Statement on Corporate Governance (Continued)

for the year ended 31 December 2010

Re-election of directors

At least one-third of directors retire by rotation and offer themselves as appropriate for re-election at each Annual General Meeting (AGM).

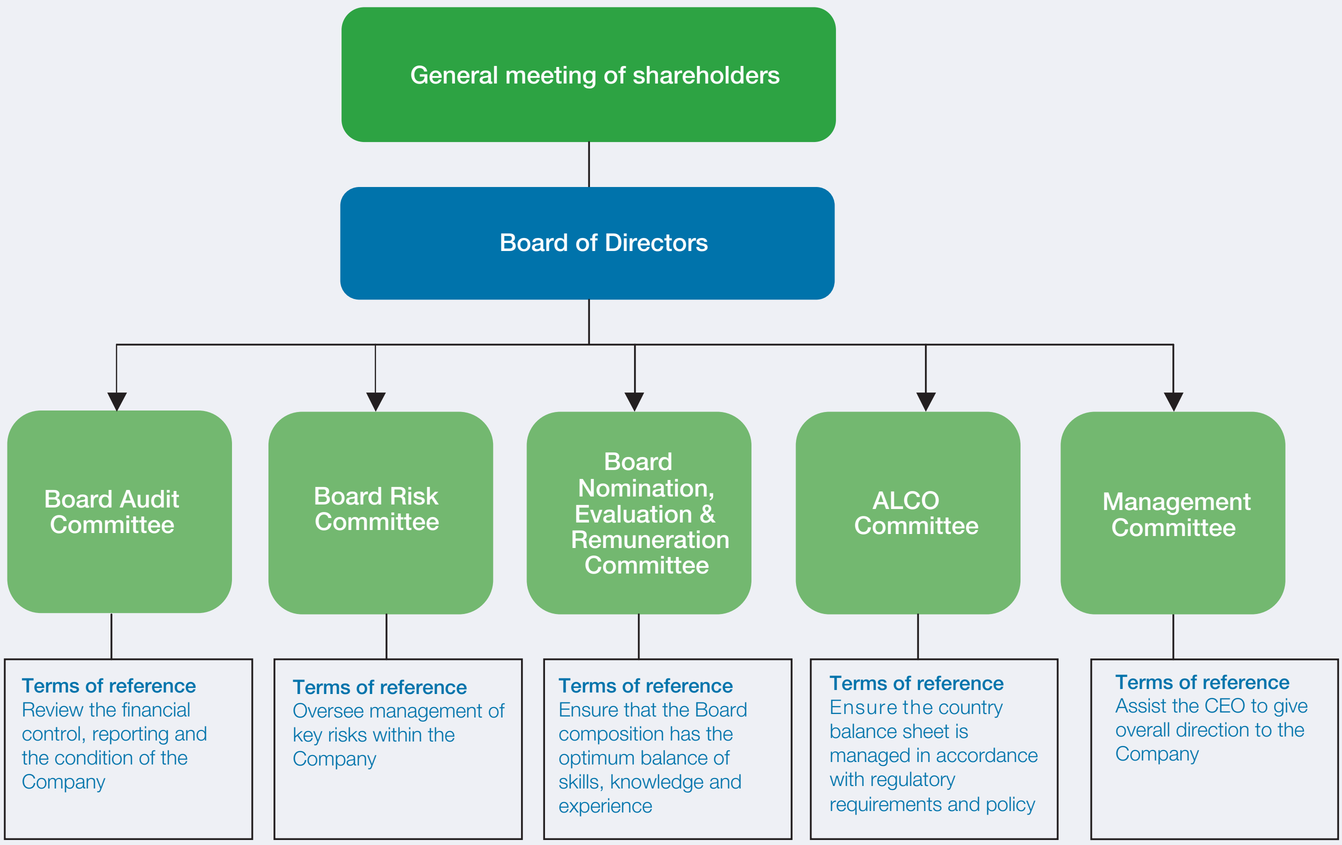
BOARD COMMITTEES

The Board has five Committees with specific delegated authorities. These are the Board Audit Committee, the Board Risk Committee, the Board Nomination, Evaluation and Remuneration Committee, the Asset and Liability Committee (ALCO) and the Management Committee. Each committee is responsible for the review and oversight of the activities within its defined terms of reference.

The Board committees assist the Board in discharging its responsibilities. The committees have clear defined roles and terms of references that have been approved by the Board. The committees are chaired by non-executive directors except for the operational committees. At the scheduled board meetings, the chairman of each committee provides the Board with a summary of key issues considered at the meetings of the committees.

In 2010, the terms of reference for the Board Audit and Board Risk Committees were refined following a comprehensive governance review.

Board governance structure



Details of these committees and membership are shown below.

Board Audit Committee Members

K. Shah	Chairman
H. Mule	
A. Mutahi	
L. Baillie	
N. Oginde	Secretary
C. Murgor*	
G. Wamwati*	Head of Internal Audit
M. Ahmed*	Head of Compliance
KPMG Kenya*	

* By invitation

Highlights

- continued to robustly monitor the capital and liquidity position, especially in line with the regulatory requirements;
- adopted the refined terms of reference;
- closely monitored audit findings from external auditors and internal auditors; and
- appointed an additional independent non-executive director to the Committee.

Role and function

The Committee reviews the integrity of and approves the financial statements of the Company. It also reviews the financial condition of the Company and receives reports on the findings of the internal and external audits. The Committee tracks the actions on audit findings. In addition, the Committee regularly reviews and reports to the Board on the effectiveness of the Company's system of internal control.

Other responsibilities of the Committee are:

- review the scope, authority and operations of the Audit function;
- nominate external auditors for appointment by shareholders; and
- review and approve audit plans and methodology.

All of the Committee members have relevant experience. The Board is satisfied that Mr. K. Shah as Chairman has relevant financial experience and that all other committee members have broad experience and knowledge of financial reporting.

The Committee receives regular reports from the Head of Internal Audit on internal audits, compliance and legal risks and on the assurance framework. The Director in charge of Finance, Head of Internal Audit, the External Auditors and the Business Heads are regularly invited to the meetings.

The Committee held four meetings in the year. Particular areas of focus in the year were:

- enhanced regulatory reporting; and
- monitoring of the Company's capital and liquidity position.

Attendance	Scheduled 4
K. Shah (Chairman)	4/4
A. Mutahi	3/4
H. Mule	4/4
L. Baillie*	1/4

* Appointed as director on 5 August 2010 and appointed to the Board Audit Committee on 1 October 2010.

Board Risk Committee Members

H. Mule	Chairman
A. Mutahi	
L. Baillie	
G. Akello*	Country Chief Risk Officer
R. Etemesi*	
N. Oginde	Secretary
K. Ngari*	
S. Odusanya*	
S. Burutu*	Senior Credit Officer

* By invitation

Role and function

The Board has delegated authority to the Board Risk Committee to oversee the management of all risks of the Company including operational risk, country risk, credit risk, liquidity risk, market risk, regulatory risk, legal risk, reputational risk and compliance risk.

The Committee is responsible for ensuring that there are written policies, procedures and processes for identifying and managing the risks.

The Committee receives reports on all aspects of risk management from the risk sub-committees and risk managers.

Attendance	Scheduled 4
H. Mule (Chairman)	4/4
A. Mutahi	4/4
L. Baillie*	1/4

* Appointed as director on 5 August 2010 and appointed to the Board Risk Committee on 1 October 2010.

Board Nomination, Evaluation and Remuneration Committee

Members

W. Kiboro	Chairman
R. Etemesi	
R. Mbindu	
N. Oginde	Secretary

Highlights

- reviewed the remuneration of non-executive directors; and
- approved the training programme for the non-executive directors.

Role and function

The Committee's mandate is to review regularly the structure, size and composition of the Board, make recommendations to the Board on suitable candidates to fill Board vacancies and review and recommend the remuneration levels for the non-executive directors.

The Committee considered the non-executive directors' remuneration against the market and in line with enhanced demands. The Committee was also involved in the selection process of Mr. L. Baillie as a member of the Board. In 2010, the Committee recommended to the Board a training programme for the non-executive directors on corporate governance, which was attended in July by half of the members with the rest scheduled to attend early in 2011.

Attendance	Scheduled 2
W. Kiboro (Chairman)	2/2
R. Etemesi	2/2
R. Mbindu	1/2
N. Oginde	2/2

Asset and Liability Committee (ALCO)

Members

R. Etemesi	Chairman
K.Ngari	
S. Odusanya	
S. Burutu	
C. Murgor	
G. Akello	
S. Jobarteh	Secretary

Role and function

The Committee is charged with the responsibility of ensuring the effective implementation of balance sheet management policies, receive and review reports on liquidity, market risk and capital management and to review the deposit and asset pricing strategies in line with market fundamentals and regulatory guidelines.

The Committee meets once a month.

Management Committee

Members

R. Etemesi	Chairman
K. Ngari	
S. Odusanya	
S. Burutu	
C. Murgor	
S. Jobarteh	
R. Mbindu	
P. Sagnia	
N. Oginde	
G. Akello	
A. Kigira-Kinuthia	

Role and function

The Management Committee is the link between the Board and management. The Committee assists the Chief Executive Officer in the day-to-day management of the Company. The Committee is responsible for the day-to-day running of the Company and the implementation of operational plans and the annual budgets. It is also responsible for the periodic review of operations, strategic plans, ALCO strategies, credit proposals, identification and management of key risks and opportunities. The Committee also reviews and approves guidelines for employees' remuneration.

The Committee meets at least twice a month.

DIRECTORS' REMUNERATION

The remuneration of all non-executive directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. The non-executive directors are paid annual fees and a sitting allowance for meetings attended. In 2010, the non-executive directors' remuneration was reviewed against market rates. Information on the aggregate amount of emoluments and fees paid to directors are disclosed in Note 14 of the financial statements.

Statement on Corporate Governance (Continued)

for the year ended 31 December 2010

DIRECTORS' SHAREHOLDING

One director holds 2,438 shares of the Company. The other directors do not hold any shares of the Company.

CONFLICTS OF INTEREST

All directors are under a duty to avoid conflicts of interest. This entails not engaging, directly or indirectly in any business that competes or conflicts with the Company's business. The Company has established a robust process requiring directors to disclose outside business interests before they are entered into. Any potential or actual conflicts of interest are reported to the Company Secretary.

INTERNAL CONTROLS

The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximise profitable business opportunities, manage, ensure compliance with applicable laws and regulations and enhance resilience to external events.

The effectiveness of the Company's internal control system is reviewed regularly by the Board through its committees, Management and the Internal Audit function.

The Internal Audit function monitors compliance with policies and standards and the effectiveness of internal control structures of the Company through its programme of business audits. The work of the Internal Audit function is focused on the areas of greatest risk as determined by a risk-based assessment methodology. The Internal Audit function reports to the Board Audit Committee and the Country Operational Risk Committee (CORC).

The Company's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk, including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management framework that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

The performance of the Company's businesses is reported to management and the Board. 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.

CODE OF CONDUCT

The Company has a Code of Conduct, relating to the lawful and ethical conduct of business which is supported by the Company's core values. All directors, management and employees are required to observe the Code and are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators.

The directors and management of the Company also comply with the Central Bank of Kenya Code of Conduct as set out in the Prudential Guidelines.

INSIDER TRADING

The Company has a policy on insider trading which is strictly observed. Directors, management and staff are aware that they ought not to trade in the Company's shares while in possession of any insider information not available to the public or during a closed period. The closed period is the period between 1 January until the publication of the full year results, and 1 July until the publication of the half year results. The Dealing Policy requires specific staff to declare any dealings with securities all year round.

GOING CONCERN

The Board confirms that it is satisfied that the Company 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.

RELATIONS WITH SHAREHOLDERS

The Board recognises the importance of good communications with all shareholders. The Annual General Meeting (AGM) as well as the published annual report is used as an opportunity to communicate with all shareholders. The Company always gives shareholders the 21 days notice of the AGM as provided for in the Kenyan Companies Act and shareholders are encouraged to submit questions and also appoint proxies to represent them where they are unable to attend. Ad hoc shareholder requests for information are handled on an on-going basis and also on the floor of the AGM.

In upholding and protecting shareholders' rights, the Board recognises that every shareholder has a right to participate and vote at the general shareholders meeting. The Board also invites shareholders to seek clarity on the Company's performance in general meetings.

The Board has engaged the services of a professional Registrar to allow for quick responses to all shareholder queries and smooth transfer of shares.

Statement of Directors' Responsibilities

The directors are responsible for the preparation and presentation of the financial statements of Standard Chartered Bank Kenya Limited set out on pages 49 to 109 which comprise the statement of financial position at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in a manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under the Kenyan Companies Act, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the operating results of the Company for that year. It also requires the directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments 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 Company and of its operating results.

The directors further accept responsibility for 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.

The directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 7 March 2011 and were signed on its behalf by:

Director: W. Kiboro

Director: R. Etemesi

Director: C. Murgor

7 March 2011

Report of the Independent Auditors

to the Members of Standard Chartered Bank Kenya Limited

We have audited the Group financial statements of Standard Chartered Bank Kenya Limited set out on pages 49 to 109 which comprise the statement of financial position of the Group and the Company at 31 December 2010, and the Group's statement of comprehensive income, statement of changes in equity of the Group and Company and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As stated on page 47, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, and as such internal control as the directors determine is necessary to enable preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company at 31 December 2010, and the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires us to expressly report to you, based on our audit, that:

(i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

(ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

(iii) the statement of financial position of the Company is in agreement with the books of account.

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

KPMG Kenya

7 March 2011

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	2010 KShs '000	2009 KShs '000
Interest income	8	9,777,689	9,347,475
Interest expense	9	(1,662,125)	(2,010,197)
Net interest income		8,115,564	7,337,278
Fee and commission income	10	2,687,887	2,424,706
Fee and commission expense	10	(57,131)	(42,492)
Net fee and commission income		2,630,756	2,382,214
Net trading income	11	1,973,690	2,128,392
Other operating income	12	1,182,719	398,548
OPERATING INCOME		13,902,729	12,246,432
Staff costs	13	(3,394,945)	(2,840,833)
Premises and equipment costs	13	(523,988)	(539,964)
General administrative expenses		(1,667,318)	(1,364,669)
Depreciation and amortisation	13	(302,273)	(297,583)
OPERATING EXPENSES		(5,888,524)	(5,043,049)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		8,014,205	7,203,383
Net impairment losses on loans and advances	22(b)	(332,321)	(474,936)
PROFIT BEFORE TAXATION	14	7,681,884	6,728,447
INCOME TAX EXPENSE	15	(2,305,693)	(1,995,693)
NET PROFIT FOR THE YEAR		5,376,191	4,732,754
OTHER COMPREHENSIVE INCOME			
Change in fair value of available-for-sale investments		355,953	838,732
Deferred tax on change in fair value of available-for-sale investments		(94,358)	(265,510)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		261,595	573,222
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		5,637,786	5,305,976
BASIC AND DILUTED EARNINGS PER SHARE (2009 Restated) - (KShs)	16	18.58	16.45
DIVIDEND PER SHARE - (KShs)	17	13.50	12.00

The notes set out on pages 57 to 109 form an integral part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2010

ASSETS	Note	2010 KShs '000	Restated 2009 KShs '000
Cash and balances with Central Bank of Kenya	18	8,210,822	7,728,872
Government and other securities held for trading	19	3,271,603	2,326,700
Derivative financial instruments	20	283,036	70,040
Loans and advances to banks	21	3,243,868	1,492,177
Loans and advances to customers	22 (a)	60,336,829	56,694,876
Investment securities	23	52,161,984	43,473,479
Amounts due from group companies	24	5,208,201	7,384,694
Non-current asset held for sale	27	334,770	-
Property and equipment	28	3,341,337	2,343,765
Intangible assets	29	4,739,681	3,302
Prepaid operating lease rentals	30	110,513	204,449
Deferred tax asset	31 (a)	-	80,616
Other assets	32	1,503,605	1,976,002
TOTAL ASSETS		142,746,249	123,778,972
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	33	4,212,680	10,532,297
Deposits from customers	34	100,504,065	86,773,652
Derivative financial instruments	20	285,491	242,930
Amounts due to group companies	24	10,397,957	7,846,663
Tax payable		36,247	309,423
Deferred tax liability	31(a)	1,098,526	-
Retirement benefit obligations	35	165,076	121,413
Other liabilities	36	5,715,085	3,960,439
TOTAL LIABILITIES		122,415,127	109,786,817
Shareholders' equity (Page 54)			
Share capital	37	1,715,386	1,639,839
Share premium	37	4,836,258	2,520,000
Capital contribution reserve	37	1,891,127	74,590
Revaluation reserve	37	304,363	316,641
Fair value reserve	37	927,891	666,296
Statutory credit risk reserve	37	259,155	179,070
Retained earnings		7,872,096	6,607,254
Proposed dividends		2,524,846	1,988,465
TOTAL SHAREHOLDERS' EQUITY		20,331,122	13,992,155
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		142,746,249	123,778,972

The financial statements set out on pages 49 to 109 were approved by the Board of Directors on 7 March 2011 and were signed on its behalf by:

Director	W. Kiboro	Director	C. Murgor
Director	R. Etemesi	Secretary	N. Oginde

The notes set out on pages 57 to 109 form an integral part of these financial statements.

Company Statement of Financial Position

at 31 December 2010

ASSETS	Note	2010 KShs '000	Restated 2009 KShs '000
Cash and balances with Central Bank of Kenya	18	8,210,822	7,728,872
Government and other securities held for trading	19	3,271,603	2,326,700
Derivative financial instruments	20	283,036	70,040
Loans and advances to banks	21	3,243,868	1,492,177
Loans and advances to customers	22 (a)	60,336,829	56,694,876
Investment securities	23	52,161,984	43,473,479
Amounts due from group companies	24	5,208,201	7,384,694
Investment in subsidiaries	25	140,243	140,243
Non-current asset held for sale	27	334,770	_
Property and equipment	28	3,341,337	2,343,765
Intangible assets	29	4,739,681	3,302
Prepaid operating lease rentals	30	110,513	204,449
Deferred tax asset	31 (b)	-	74,333
Other assets	32	1,497,142	1,972,189
TOTAL ASSETS		142,880,029	123,909,119
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	33	4,212,680	10,532,297
Deposits from customers	34	100,504,065	86,773,652
Derivative financial instruments	20	285,491	242,930
Amounts due to group companies	24	10,397,957	7,846,663
Amounts due to subsidiaries		262,043	247,985
Tax payable		44,918	320,632
Deferred tax liability	31(a)	1,103,634	_
Retirement benefit obligations	35	165,076	121,413
Other liabilities	36	5,693,678	3,942,024
TOTAL LIABILITIES		122,669,542	110,027,596
Shareholders' equity (Page 55)			
Share capital	37	1,715,386	1,639,839
Share premium	37	4,836,258	2,520,000
Capital contribution reserve	37	1,891,127	74,590
Revaluation reserve	37	304,363	316,641
Fair value reserve	37	927,891	666,296
Statutory credit risk reserve	37	259,155	179,070
Retained earnings		7,751,461	6,496,622
Proposed dividends		2,524,846	1,988,465
TOTAL SHAREHOLDERS' EQUITY		20,210,487	13,881,523
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		142,880,029	123,909,119

The financial statements set out on pages 49 to 109 were approved by the Board of Directors on 7 March 2011 and were signed on its behalf by:

Director	W. Kiboro	Director	C. Murgor
Director	R. Etemesi	Secretary	N. Oginde

The notes set out on pages 57 to 109 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2010

	Note	2010 KShs '000	Restated 2009 KShs '000
Net cash flows from/(used in) operating activities	38 (a)	**16,674,403**	(17,602,937)
Cash flows from investing activities			
Purchase of property and equipment	28	**(1,447,245)**	(1,120,922)
Proceeds from sale of property and equipment		**2,925**	_
Purchase of intangible assets	29	**(11,081)**	_
Purchase of custody business	26	**(1,883,365)**	_
Proceeds from sale of equity shares		**-**	183,081
Net cash used in investing activities		**(3,338,766)**	(937,841)
Cash flows from financing activities			
Ordinary shares issued, net of issue costs		**2,391,805**	_
Share based payments:			
– 2009/2008 settled		**(74,590)**	(65,910)
– 2010/2009 allocated during the year		**67,454**	74,590
Dividends paid on ordinary shares:			
– Final 2009/2008		**(1,903,775)**	(1,359,839)
– Interim 2010/2009		**(1,435,386)**	(1,359,839)
Dividends paid on preference shares:			
– Final 2009/2008		**(84,690)**	(84,230)
– Interim 2010/2009		**(83,310)**	(83,310)
Net cash used in financing activities		**(1,122,492)**	(2,878,538)
Increase/(decrease) in cash and cash equivalents		**12,213,145**	(21,419,316)
Cash and cash equivalents at 1 January		**(8,117,509)**	13,301,807
Cash and cash equivalents at 31 December	38 (b)	**4,095,636**	(8,117,509)

The notes set out on pages 57 to 109 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Share capital KShs '000	Share premium KShs '000	Capital contribution reserve KShs '000	Revaluation reserve KShs '000	Fair value reserve KShs '000	Statutory credit risk reserve KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
At 1 January 2010 - As previously stated	1,639,839	2,520,000	-	316,641	666,296	179,070	6,607,254	1,988,465	13,917,565
Change in accounting policy (Note 2(v))	–	–	74,590	–	–	–	–	–	74,590
At 1 January 2010 - As restated	**1,639,839**	**2,520,000**	**74,590**	**316,641**	**666,296**	**179,070**	**6,607,254**	**1,988,465**	**13,992,155**
Net profit for the year	–	–	–	–	–	–	5,376,191	–	5,376,191
Other comprehensive income									
Change in fair value of available-for-sale investments	–	–	–	–	355,953	–	–	–	355,953
Deferred tax on change in fair value of available-for-sale investments	–	–	–	–	(94,358)	–	–	–	(94,358)
Excess depreciation transfer	–	–	–	(17,540)	–	–	17,540	–	–
Deferred tax on excess depreciation transfer	–	–	–	5,262	–	–	(5,262)	–	–
Transfer to statutory credit risk reserve	–	–	–	–	–	80,085	(80,085)	–	–
Total other comprehensive income	**–**	**–**	**–**	**(12,278)**	**261,595**	**80,085**	**(67,807)**	**–**	**261,595**
Total comprehensive income for the year	**–**	**–**	**–**	**(12,278)**	**261,595**	**80,085**	**5,308,384**	**–**	**5,637,786**
Transactions with owners, recorded directly in equity									
Shares issued, net of issue costs	75,547	2,316,258	–	–	–	–	–	–	2,391,805
On acquisition of custody business (Note 26)	–	–	1,823,673	–	–	–	–	–	1,823,673
Share based payments:									
– 2009 paid	–	–	(74,590)	–	–	–	–	–	(74,590)
– 2010 accrual	–	–	67,454	–	–	–	–	–	67,454
Dividends paid:									
– Final 2009	–	–	–	–	–	–	–	(1,988,465)	(1,988,465)
– Interim 2010	–	–	–	–	–	–	(1,435,386)	–	(1,435,386)
– Preference shares	–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed final dividends:									
– Ordinary shares	–	–	–	–	–	–	(2,440,156)	2,440,156	–
– Preference shares	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners	**75,547**	**2,316,258**	**1,816,537**	**–**	**–**	**–**	**(4,043,542)**	**536,381**	**701,181**
At 31 December 2010	**1,715,386**	**4,836,258**	**1,891,127**	**304,363**	**927,891**	**259,155**	**7,872,096**	**2,524,846**	**20,331,122**

The notes set out on pages 57 to 109 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Share capital KShs '000	Share premium KShs '000	Capital contribution reserve KShs '000	Revaluation reserve KShs '000	Fair value reserve KShs '000	Statutory credit risk reserve KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
At 1 January 2009 - As previously stated	1,639,839	2,520,000	–	329,787	93,074	191,336	5,280,702	1,444,069	11,498,807
Change in accounting policy (Note 2(v))	–	–	65,910	–	–	–	–	–	65,910
At 1 January 2009 - As restated	**1,639,839**	**2,520,000**	**65,910**	**329,787**	**93,074**	**191,336**	**5,280,702**	**1,444,069**	**11,564,717**
Net profit for the year	–	–	–	–	–	–	4,732,754	–	4,732,754
Other comprehensive income									
Change in fair value of available-for-sale investments	–	–	–	–	838,732	–	–	–	838,732
Deferred tax on change in fair value of available-for-sale investments	–	–	–	–	(265,510)	–	–	–	(265,510)
Excess depreciation transfer	–	–	–	(18,781)	–	–	18,781	–	–
Deferred tax on excess depreciation transfer	–	–	–	5,635	–	–	(5,635)	–	–
Transfer from statutory credit risk reserve	–	–	–	–	–	(12,266)	12,266	–	–
Total other comprehensive income	**–**	**–**	**–**	**(13,146)**	**573,222**	**(12,266)**	**25,412**	**–**	**573,222**
Total comprehensive income for the year	**–**	**–**	**–**	**(13,146)**	**573,222**	**(12,266)**	**4,758,166**	**–**	**5,305,976**
Transactions with owners, recorded directly in equity									
Share based payments:									
– 2008 paid	–	–	(65,910)	–	–	–	–	–	(65,910)
– 2009 accrual	–	–	74,590	–	–	–	–	–	74,590
Dividends paid:									
– Final 2008	–	–	–	–	–	–	–	(1,444,069)	(1,444,069)
– Interim 2009	–	–	–	–	–	–	(1,359,839)	–	(1,359,839)
– Preference shares	–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed final dividends:									
– Ordinary shares	–	–	–	–	–	–	(1,903,775)	1,903,775	–
– Preference shares	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners	**–**	**–**	**8,680**	**–**	**–**	**–**	**(3,431,614)**	**544,396**	**(2,878,538)**
At 31 December 2009 - As restated	**1,639,839**	**2,520,000**	**74,590**	**316,641**	**666,296**	**179,070**	**6,607,254**	**1,988,465**	**13,992,155**

The notes set out on pages 57 to 109 form an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2010

	Share capital KShs '000	Share premium KShs '000	Capital contribution reserve KShs '000	Revaluation reserve KShs '000	Fair value reserve KShs '000	Statutory credit risk reserve KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
At 1 January 2010 - As previously stated	1,639,839	2,520,000	-	316,641	666,296	179,070	6,496,622	1,988,465	13,806,933
Change in accounting policy (Note 2(v))	–	–	74,590	–	–	–	–	–	74,590
At 1 January 2010 - As restated	**1,639,839**	**2,520,000**	**74,590**	**316,641**	**666,296**	**179,070**	**6,496,622**	**1,988,465**	**13,881,523**
Net profit for the year	–	–	–	–	–	–	5,366,188	–	5,366,188
Other comprehensive income									
Change in fair value of available-for-sale investments	–	–	–	–	355,953	–	–	–	355,953
Deferred tax on change in fair value of available-for-sale investments	–	–	–	–	(94,358)	–	–	–	(94,358)
Excess depreciation transfer	–	–	–	(17,540)	–	–	17,540	–	–
Deferred tax on excess depreciation transfer	–	–	–	5,262	–	–	(5,262)	–	–
Transfer to statutory credit risk reserve	–	–	–	–	–	80,085	(80,085)	–	–
Total other comprehensive income	**–**	**–**	**–**	**(12,278)**	**261,595**	**80,085**	**(67,807)**	**–**	**261,595**
Total comprehensive income for the year	**–**	**–**	**–**	**(12,278)**	**261,595**	**80,085**	**5,298,381**	**–**	**5,627,783**
Transactions with owners, recorded directly in equity									
Shares issued, net of issue costs	75,547	2,316,258	–	–	–	–	–	–	2,391,805
On acquisition of custody business (Note 26)	–	–	1,823,673	–	–	–	–	–	1,823,673
Share based payments:									
– 2009 paid	–	–	(74,590)	–	–	–	–	–	(74,590)
– 2010 accrual	–	–	67,454	–	–	–	–	–	67,454
Dividends paid:									
– Final 2009	–	–	–	–	–	–	–	(1,988,465)	(1,988,465)
– Interim 2010	–	–	–	–	–	–	(1,435,386)	–	(1,435,386)
– Preference shares	–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed final dividends:									
– Ordinary shares	–	–	–	–	–	–	(2,440,156)	2,440,156	–
– Preference shares	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners	**75,547**	**2,316,258**	**1,816,537**	**–**	**–**	**–**	**(4,043,542)**	**536,381**	**701,181**
At 31 December 2010	**1,715,386**	**4,836,258**	**1,891,127**	**304,363**	**927,891**	**259,155**	**7,751,461**	**2,524,846**	**20,210,487**

The notes set out on pages 57 to 109 form an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2010

	Share capital KShs '000	Share premium KShs '000	Capital contribution reserve KShs '000	Revaluation reserve KShs '000	Fair value reserve KShs '000	Statutory credit risk reserve KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
At 1 January 2009 - As previously stated	1,639,839	2,520,000	–	329,787	93,074	191,336	5,171,714	1,444,069	11,389,819
Change in accounting policy (Note 2(v))	–	–	65,910	–	–	–	–	–	65,910
At 1 January 2009 - As restated	**1,639,839**	**2,520,000**	**65,910**	**329,787**	**93,074**	**191,336**	**5,171,714**	**1,444,069**	**11,455,729**
Net profit for the year	–	–	–	–	–	–	4,731,110	–	4,731,110
Other comprehensive income									
Change in fair value of available-for-sale investments	–	–	–	–	838,732	–	–	–	838,732
Deferred tax on change in fair value of available-for-sale investments	–	–	–	–	(265,510)	–	–	–	(265,510)
Excess depreciation transfer	–	–	–	(18,781)	–	–	18,781	–	–
Deferred tax on excess depreciation transfer	–	–	–	5,635	–	–	(5,635)	–	–
Transfer from statutory credit risk reserve	–	–	–	–	–	(12,266)	12,266	–	–
Total other comprehensive income	**–**	**–**	**–**	**(13,146)**	**573,222**	**(12,266)**	**25,412**	**–**	**573,222**
Total comprehensive income for the year	**–**	**–**	**–**	**(13,146)**	**573,222**	**(12,266)**	**4,756,522**	**–**	**5,304,332**
Transactions with owners, recorded directly in equity									
Share based payments:									
– 2008 paid	–	–	(65,910)	–	–	–	–	–	(65,910)
– 2009 accrual	–	–	74,590	–	–	–	–	–	74,590
Dividends paid:									
– Final 2008	–	–	–	–	–	–	–	(1,444,069)	(1,444,069)
– Interim 2009	–	–	–	–	–	–	(1,359,839)	–	(1,359,839)
– Preference shares	–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed final dividends:									
– Ordinary shares	–	–	–	–	–	–	(1,903,775)	1,903,775	–
– Preference shares	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners	**–**	**–**	**8,680**	**–**	**–**	**–**	**(3,431,614)**	**544,396**	**(2,878,538)**
At 31 December 2009 - As restated	**1,639,839**	**2,520,000**	**74,590**	**316,641**	**666,296**	**179,070**	**6,496,622**	**1,988,465**	**13,881,523**

The notes set out on pages 57 to 109 form an integral part of these financial statements.

1 REPORTING ENTITY

The Bank is incorporated as a limited company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The address of its registered office is as follows:

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

The consolidated financial statements of the Bank as at and for the year ended 31 December 2010 comprise the Bank and its subsidiaries (together referred to as the "Group" or individually as "Company").

2 BASIS OF PREPARATION

(i) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the Kenyan Companies Act.

(ii) *Basis of measurement*

The consolidated financial statements set out on pages 57 to 109 have been prepared on the historical cost basis of accounting except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- the liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service costs and unrecognised actuarial losses;
- certain property and equipment are measured at revalued amounts; and
- the acquired intangible asset (customer relationships) arising from the business combination is measured at fair value.

(iii) *Functional and presentation currency*

These consolidated financial statements are presented in Kenya shillings (KShs), which is the Bank's functional currency, the currency of primary economic environment in which the entity operates. Except as otherwise indicated, financial information presented in Kenya shillings has been rounded to the nearest thousand.

(iv) *Use of estimates and judgments*

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 5.

(v) *Change in accounting policy*

Accounting for share based payments

In June 2009, the International Accounting Standards Board (IASB) issued an amendment to *IFRS 2 Share Based Payments (2009)* to clarify requirements for classification, recognition and measurement of group share based payment transactions.The amendments are applicable retrospectively to annual periods beginning on or after 1 January 2010.

As indicated in Note 3(r) (ii), the Group's employees participate in a number of share based payment schemes operated by Standard Chartered PLC, the ultimate holding company of Standard Chartered Bank Kenya Limited and its subsidiaries.

In 2010, the Group has applied the amendments to IFRS 2. As a result of the amendments, the Group measures all share based payment transactions as equity-settled (previously these were accounted for as cash-settled) and has recognised the contribution as an increase in equity from Standard Chartered PLC. The change in accounting policy has been applied retrospectively and has no impact on earnings per share.

The rationale is that the structure for any share options granted within the Standard Chartered Group is that employees of a subsidiary or branch of Standard Chartered PLC are granted shares of the equivalent value of shares in Standard Chartered PLC. Therefore, the obligation to the employees of the subsidiary rests with Standard Chartered PLC and not with the subsidiary. However, the subsidiary continues to receive the service from the employee with no corresponding obligation. Therefore, the service received is recognised as an expense with a corresponding increase in equity.

IAS 1 *Presentation of Financial Statements* requires an additional statement of financial position to be presented as at the beginning of the earliest comparative period following a retrospective change in accounting policy. In our opinion, a third statement of financial position has not been presented on the basis that this change in accounting policy is not material.

Details of the impact of the prior year adjustment are disclosed in Note 39 to the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies

adopted in the preparation of these consolidated financial statements have been applied consistently across the Group entities and to all periods presented in these financial statements, as set out below, except as explained in note 2 (v) above, which addresses changes in accounting policies.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. These subsidiaries are shown in Note 25.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating activities of the subsidiaries so as to obtain benefits from the activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(b) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the profit and loss account.

The accounting policy on recognition of goodwill is as disclosed in Note 3n(ii).

(c) Transactions in foreign currencies

Transactions in foreign currencies during the year are converted into the respective functional currencies at rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rates ruling at the reporting date. The resulting differences from conversion are recognised in the profit and loss account in the year in which they arise.

Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the transaction date.

(d) Income recognition

Income is derived substantially, from banking business and related activities and comprises net interest income, net fee and commission income and net trading income.

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised in the profit and loss account using the effective interest rate method.

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, as well as any interest receivable or payable, is included in the profit and loss account in the year in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains or losses from monetary items, are recognised in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit and loss account.

The detailed policies on the specific categories of income recognised in the Group's financial statements are as further described below;

(i) Net interest income

Interest income and expense on available-for-sale assets and financial assets or liabilities held at amortised cost is recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the carrying amount of the financial asset or financial liability.

The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received, between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other discounts and premiums. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(ii) Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, sales commissions, custody fees and syndication fees are generally recognised on an accrual basis when the service has been provided. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself, or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionable basis.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(iv) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, or other operating income based on the underlying classification of the equity instrument.

(e) Income tax expense

Income tax expense comprises current and change in deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity, or in other comprehensive income.

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

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affect neither accounting nor taxable profit.

Deferred tax is calculated on the basis of the tax rates currently enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

(f) Financial assets and financial liabilities

(i) Recognition

The Group initially recognises cash, amounts due from/due to group companies, loans and advances, deposits, debt securities and subordinated liabilities on the date they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

If, as result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the Group obtaining a new financial asset or assuming a new financial liability, the Group recognises the new financial asset or financial liability at fair value.

Where a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received together with any gain or loss previously recognised in other comprehensive income, are recognised in the profit and loss account.

(iii) Offsetting of financial assets and liabilities

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

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(iv) ***Fair value of financial instruments***
Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction on the measurement date.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like options, interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

For more complex instruments, the Group uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions.

When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price.

This initial difference, usually an increase, in fair value indicated by valuation techniques is recognised in the profit and loss account depending on the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation techniques is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors.

Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the statement of financial position.

(v) ***Amortised cost measurement***
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) ***Identification and measurement of impairment of financial assets***
At each reporting date, the Group assesses whether there is objective evidence that a financial asset not carried at fair value through profit or loss is impaired.

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the assets that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in the profit and loss account and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the profit and loss account. Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of other comprehensive income to the profit and loss account. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the profit and loss account.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(g) Cash and cash equivalents
Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: notes and coins on hand, unrestricted balances deposited with the Central Bank of Kenya and highly liquid assets, subject to insignificant changes in their fair value.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(h) Trading assets and trading liabilities
Trading assets and liabilities are those that the Group principally holds for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs recognised in the profit and loss account. All changes in fair value are recognised as part of net trading income in the profit and loss account. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. They arise when the Group provides money directly to borrowers, other than those created with the intention of short-term profit taking. They are recognised at the date they are transferred to the Group.

Subsequent to initial recognition, 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.

Amortised cost is calculated using the effective interest method. The amortisation and accretion of premiums and discounts is included in interest income.

(j) Investment securities
Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

The various categories that the Group classifies as financial assets are as further described below:

(i) Held-to-maturity
These are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The sale of a significant amount of held-to-maturity assets not close to their maturity would taint the entire category leading to reclassification as available-for-sale and prevent the Group from reclassifying investment securities as held-to-maturity for the current and the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Held-to-maturity investments are carried at amortised cost using the effective interest method.

(ii) Available-for-sale
Financial assets that are not classified as another category of financial assets, held by the Group are classified as available-for-sale and are initially recognised at fair value, including transaction costs.

Subsequent to initial recognition, available-for-sale financial assets are stated at fair value based on quoted bid prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income and presented in equity in the fair value reserve, net of deferred tax. When these investments are derecognised, the cumulative gain or loss previously directly recognised in other comprehensive income is recognised in the profit and loss account.

(k) Derivative financial instruments
Derivative financial instruments are initially recognised at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. The gain or loss on re-measurement to fair value is recognised immediately in the profit and loss account.

The Group uses the following derivative instruments:

Currency forwards and interest rate futures
Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or to buy or sell foreign currency or a financial instrument at a future date at a specified price, established in an organised financial market.

The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps
Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate or floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. The risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency and interest rate options
Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer i.e over-the-counter (OTC). The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

(l) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, defered tax assets and employee benefit assets which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in the profit and loss account. Gains are not recognised in excess of any cumulative impairment loss.

(m) Property and equipment

(i) Recognition, measurement and subsequent costs
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 less accumulated depreciation and accumulated impairment losses.

Other categories of property and equipment are included in the financial statements at their historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the costs of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of the property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property and equipment are recognised in the profit and loss account.

(ii) Depreciation
Depreciation is calculated on a straight line basis to allocate the cost or revalued amount to their residual values over their estimated useful lives. The estimated useful lives for the current and comparative year are as follows:

Fixtures and fittings	10%
Equipment	10%
Computers	30 – 33%
Motor vehicles	25%

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

Freehold land is not depreciated.

The depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

Freehold land and buildings are revalued every three years. The book values are adjusted to the revaluations and the resulting surplus, net of deferred tax is recognised in other comprehensive income and presented in the revaluation reserve within equity.

Revaluation decreases that offset previous increases of the same asset are charged or recognised in other comprehensive income with all other decreases being charged to the profit and loss account.

Revaluation surpluses are not distributable.

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. On an annual basis, the amount relating to the excess depreciation net of deferred tax is transferred from revaluation reserves to retained earnings to recognise the use of the property and equipment.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised in the profit and loss account in the year in which they arise.

(n) Intangible assets

(i) Acquired intangible
At the date of acquisition of a subsidiary or business, intangible assets which are deemed separable and that arise from contractual or legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives. At each balance sheet date, these assets are assessed for indications of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

During the year, the Group acquired the custody business from Barclays Bank of Kenya Limited which gave rise to an intangible primarily arising out of the purchase of customer relationships which is being amortised over 11 years on the basis of expected useful life of the customer relationships that we acquired.

(ii) Goodwill
Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired business at the date of acquisition.

Goodwill on acquisition of the custody business is assessed at each reporting date for impairment and carried at cost less any accumulated impairment losses.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments (as set out in Note 6) as the Group views its reportable segments on a global basis. Note 29 sets out the cash generating units to which goodwill has been allocated.

(iii) Capitalised software
The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the cost to complete the development. Internally developed software is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding 3 years.

Amortisation methods, useful lives and residual values are reviewed and adjusted if appropriate, at each reporting date.

(o) 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 profit and loss account 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.

(p) Impairment for non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. However, for goodwill, this review is carried out each year irrespective of whether there is an indication of impairment or not. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(q) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to that liability.

(r) Employee benefits

(i) Pension obligations

Pensioners and deferred pensioners existing at 31December 1998 are eligible for retirement benefits under a defined benefits scheme.

For the defined benefit scheme, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account 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 3 years. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates on government securities, that have maturity dates approximating the terms of the Group's obligations.

All the actuarial gains and losses have been recognised as there are no remaining working lives for the pensioners and deferred pensioners participating in the scheme.

The Group's employees are also eligible for retirement benefits under a defined contribution scheme under which it pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further amounts. Obligations for contributions to the defined contribution plans are recognised as an expense in the profit and loss account when they are due in respect of service rendered before the end of the reporting period.

The employees and Group also contribute to the National Social Security Fund, a national retirement scheme. Contributions are determined by local statutes and the Group's contributions are charged to the profit and loss account in the year to which they relate.

(ii) Share based payments

The Group's employees participate in a number of share based payment schemes operated by Standard Chartered PLC, the ultimate holding company of Standard Chartered Bank Kenya Limited and its subsidiaries. Participating employees are awarded ordinary shares in Standard Chartered PLC in accordance with the terms and conditions of the relevant scheme.

In addition, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares of Standard Chartered PLC. The price at which they may purchase shares is at a discount of upto twenty per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under all employee share save schemes.

On the grant date, the fair value of equity-settled share based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on a number of share awards that do meet the related service and non-market performance conditions at the vesting date.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date then they are discounted to their present value.

(s) **Preference share capital**

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if the dividend payments are not discretionary. Dividends thereon are recognised in the profit and loss account as interest expense.

(t) **Earnings per share**

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares if any.

(u) **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.

(v) **Contingent liabilities**

Letters of credit, acceptances, guarantees and performance bonds are 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 that the financial statements are approved for issue by the directors.

(w) **Fiduciary activities**

Assets held for clients in an agency or fiduciary capacity by the Group are not assets of the Company and are not included in the statement of financial position.

(x) **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 resell (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(y) **Related parties**

In the normal course of business, the Bank has entered into transactions with related parties. The related party transactions are at arm's length.

(z) **Operating segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(aa) **New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements as follows:

- IFRS 9 *'Financial Instruments'* (effective 1 January 2013) is a new standard on financial instruments that will eventually replace IAS 39. The published standard introduces changes to the current IAS 39 rules for classification and measurement of financial assets. Under IFRS 9 there will be two measurement bases for financial assets: amortised cost and fair value. Financial assets at fair value will be recorded at fair value through profit and loss account with a limited opportunity to record changes in fair value of certain equity instruments through other comprehensive income. Financial liabilities are excluded from the scope of the standard.

  The standard also differs from existing requirements for accounting for financial assets in various other areas, such as embedded derivatives and the recognition of fair value adjustments in other comprehensive income.

  The standard will be applied retrospectively (subject to the standard's transitional provisions).

  The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

- Revised IAS 24 *Related Party Disclosures* amends the definition of a related party and modifies certain related party disclosure requirements for government related entities. The amendments to IAS 24 will become mandatory for the Group's 2011 financial statements and are not expected to have an impact on the presentation of related party information in the Group's financial statements.

- Amendments to IFRIC 14 IAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.* The amendment to IFRIC 14 is itself an interpretation of IAS 19 Employee Benefits. The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. The amendments to IFRIC 14 IAS 19 will become mandatory for the Group's 2011 financial statements and are not expected to have a significant impact on the financial statements.

4 FINANCIAL RISK MANAGEMENT

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk in respect of financial instruments. The most significant types of financial risk to which the Group is exposed to are credit risk, liquidity risk, market risk and operational risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Through its risk management structure, the Group seeks to manage efficiently the core risks; credit, liquidity and market risk, which arise directly through the Group's commercial activities. Compliance and regulatory risk, operational risk and reputational risk are normal consequences of any business undertaking.

The Board has established the Asset and Liability Committee (ALCO) and the Country Operational Risk Committee (CORC), which are responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

The Board Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the robustness of the risk management framework in relation to the risks faced by the Group. The Board Audit Committee is supported in these functions by the Internal Audit Department, who undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are then reported to the Board Audit Committee.

Stress testing

Stress testing and scenario analysis are important components of the Group's risk assessment processes, and are used to assess the financial management capability of the Group to continue operating effectively under extreme but plausible trading conditions.

Such conditions may arise from economic, legal, political, environmental and social factors which define the context within which the Group operates. It is intended that stress testing and scenario analysis will help to inform management:

- the nature and dynamics of the risk profile;
- the identification of potential future risks;
- the robustness of risk management systems and controls;
- adequacy of contingency planning; and
- the effectiveness of risk mitigants.

Details of how the various risks are managed are outlined below:

(a) Credit risk

The Group takes on exposure to credit risk which is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral against loans and advances in the form of mortgage interests over property, other registered securities over assets and guarantees.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Wholesale Banking

Within the Wholesale Banking business, a numerical grading system is used for quantifying the risk associated with a counterparty. The grading is based on a probability of default measure with customers analysed against a range of quantitative and qualitative measures. The numeric grades run from 1 to 14.

Counterparties with lower credit grades are assessed as being less likely to default. An A to C scale is assigned to the original numeric rating scale, to enable more granular mapping of the probability to default, which results in more refined risk assessment, risk control and pricing.

A counterparty with an A suffix has a lower probability of default than a counterparty with a C suffix. Credit grades 1A to credit grade 12C are assigned to performing customers while credit grades 13 and 14 are assigned to non-performing (or defaulted) customers.

Origination and approval roles are segregated.

There is no direct relationship between the Group's internal credit grades and those used by external rating agencies. The Group's credit grades are not intended to replicate external credit grades, although as the factors used to grade a borrower are often similar, a borrower rated poorly by an external rating agency is typically rated in the lower rank of the Group's internal credit grades.

In addition to nominal aggregate exposure, expected loss is used in the assessment of individual exposures and for portfolio analysis. Expected loss is the long-run average credit loss across a range of typical economic conditions. It is used in the delegation of credit approval authority and must be calculated for every transaction to determine the appropriate level of approval. To assist risk officers in monitoring the portfolio, various internal risk management reports are available on a regular basis, providing individual counterparty, counterparty group and portfolio exposure information, the status of accounts showing signs of weakness or financial deterioration and updates on credit markets.

Consumer Banking

Credit risk in Consumer Banking, is also managed through a framework of policies and procedures. Origination and approval roles are segregated. To aid credit managers in portfolio management, regular internal risk management reports contain information on key environmental and economic trends across major portfolios, portfolio delinquency and loan impairment performance as well as information on migration across credit grades and other trends.

Credit grades within Consumer Banking are based on a probability of default. An alphanumeric grading system identical to that of Wholesale Banking business is used as an index of portfolio quality.

Problem credit management and provisioning

(i) Wholesale Banking

In Wholesale Banking, accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example where there is a rapid decline in the client's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management.

Such accounts and portfolios are subject to a dedicated process with oversight involving the Senior Risk Officer and Group Special Asset Management ("GSAM"). Account plans are re-evaluated and remedial actions are agreed and monitored until complete. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account or immediate movement of the account into the control of GSAM, the specialist recovery unit.

Loans are designated as impaired and considered non-performing where analysis and review indicates that full payment of either interest or principal becomes questionable or as soon as payment of interest or principal is 90 days or more overdue. Impaired accounts are managed by GSAM, which is independent of the main businesses of the Group.

Where any amount is considered uncollectable, an individual impairment provision is raised, being the difference between the loan carrying amount and the present value of estimated future cash flows. In any decision relating to the raising of provisions, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

A portfolio impairment provision is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in any loan portfolio. In Wholesale Banking, the portfolio impairment provision is set with reference to past experience using loss rates, and judgmental factors such as the economic environment and the trends in key portfolio indicators.

(ii) Consumer Banking

In Consumer Banking, where there are large numbers of small value loans, a primary indicator of potential impairment is delinquency. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired.

Within Consumer Banking, an account is considered to be delinquent when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. For delinquency reporting purposes, the Group follows industry standards, measuring delinquency as of 1, 30, 60, 90, 120 and 150 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to specific collection processes.

Provisioning within Consumer Banking reflects the fact that the product portfolios (excluding medium enterprises among SME customers) consist of a large number of comparatively small exposures. As a result, much of the provisioning is initially done at an account level for each product and a Portfolio Impairment Provision ("PIP") is raised on a portfolio basis.

A Portfolio Impairment Provision ("PIP") is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in the loan portfolio. PIP covers both performing loans and loans overdue for less than 150 days. The provision is set with reference to proxy data from Internal Ratings Based ('IRB') portfolios based on Expected Loss ('EL') of a product after applying judgmental overlays based on regulatory environment and business cycle adjustments based on macro-environment, portfolio loss severity, collections and recovery performance trends.

The process used for raising provisions is dependent on the product. For mortgages, individual impairment provisions ("IIP") are generally raised at 150 days past due based on the difference between the outstanding amount of the loan and the present value of the estimated future cash flows which includes the realisation of collateral. For other secured loans (where the collateral value is typically realised in less than 12 months), loan impairment is calculated using the forced sale value of the collateral without further discounting.

For unsecured products, individual provisions are raised for the entire outstanding amount at 150 days past due. For all products, there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

Non-performing loans are past due by more than 90 days or have an individual impairment provision raised against them.

The procedures for managing problem credits for the medium enterprises in the SME segment of Consumer Banking are similar to those adopted for Wholesale Banking described above.

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The Group exposure to credit risk is analysed as follows:

(iii) **Loans and advances to customers**

Group and Company	2010	2009
	KShs '000	KShs '000
Individually impaired		
Grade 13: Impaired	240,544	504,500
Grade 14: Impaired	965,012	969,250
	1,205,556	1,473,750
Allowance for impairment	(734,536)	(754,156)
	471,020	719,594
Loans past due but not impaired		
Past due upto 30 days	1,455,362	1,251,877
Past due 31 – 60 days	284,731	107,443
Past due 61 – 90 days	225,818	26,896
	1,965,911	1,386,216
Loans neither past due nor impaired		
Grade 1	6	55,825
Grade 2	-	–
Grade 3	-	6,305,802
Grade 4	1,222,336	21
Grade 5	2,536,071	238,701
Grade 6	2,846,962	6,543,270
Grade 7	11,335,052	7,686,852
Grade 8	5,998,619	2,492,032
Grade 9	7,876,329	8,004,194
Grade 10	4,440,094	4,380,767
Grade 11	21,548,543	17,540,569
Grade 12 – watch	623,926	1,908,011
	58,427,938	55,156,044
Portfolio impairment provision	(528,040)	(566,978)
	57,899,898	54,589,066
Net loans and advances	60,336,829	56,694,876

(iv) **Fair value of collateral held**

Group and Company		
Against impaired loans	515,171	1,366,758
Against past due but not impaired loans	3,528,248	436,934

The Group holds collateral against loans and advances to customers in the form of cash, residential, commercial and industrial property, fixed assets such as plant and machinery, marketable securities, bank guarantees and letters of credit.

The Group also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral.

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Fair value of collateral held (Continued)

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is backtested at least annually.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2010 or 2009.

(v) Loans and advances concentration by sector	2010 KShs '000	2009 KShs '000
Group and Company		
Business services	2,429,748	2,884,390
Manufacturing	8,557,466	6,546,930
Wholesale and retail trade	6,722,955	4,173,314
Transport and communication	9,113,974	4,298,880
Real estate	6,417,843	4,529,449
Others	28,357,419	35,583,047
	61,599,405	58,016,010

Credit concentration risk in Wholesale Banking is managed through the use of various concentration dimensions that include industry sector, geographic spread, credit rating, customer segment and exposure to single counterparties or groups of related counterparties.

Credit concentration risk in Consumer Banking is managed within exposure limits set for each product segment. These limits are reviewed at least annually and are approved by the responsible business and risk officer in accordance with their delegated authority level.

(vi) Loans and advances concentration by business	2010 KShs '000	2009 KShs '000
Group and Company		
Consumer Banking	24,293,566	18,886,678
Wholesale Banking	37,305,839	39,129,332
	61,599,405	58,016,010

(vii) Other financial assets

	2010	2009
Group		
Neither past due nor impaired:		
Cash and balances with Central Bank of Kenya	8,210,822	7,728,872
Government and other securities held for trading	3,271,603	2,326,700
Derivative financial instruments	283,036	70,040
Loans and advances to banks	3,243,868	1,492,177
Investment securities	52,161,984	43,473,479
Amounts due from group companies	5,208,201	7,384,694
Other assets - uncleared effects	765,044	605,106

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group Risk.

Derivatives

The credit risk arising from derivatives is managed as part of the overall lending limits to banks and customers. The amount of credit risk is the current positive fair value of the underlying contract together with potential exposures from future market movements. The Group further limits its exposures to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are not presented net in the financial statements as in the ordinary course of business they are not intended to be settled net.

Where appropriate, derivatives are used to reduce credit risks in the portfolio. Due to their potential impact on income volatility, derivatives are only used in a controlled manner and within a pre-defined volatility expectation.

Loans with renegotiated terms

Loans renegotiated which would otherwise be past due or impaired, continue to be accounted for as non performing until a minimum number of payments have been received under the new terms, after which they are considered to be performing loans. Loans which are renegotiated to include concessions that the Group would not ordinarily make will usually be impaired.

Write-off policy

Where it is considered that there is no realistic prospect of recovering an element of an account against which an impairment provision has been raised, then that amount will be written off. The determination is reached after considering information such as the occurrence of significant changes in the borrower's/issuer's position such that the borrower/issuer can no longer pay the obligation, or that proceeds from the collateral will not be sufficient to pay back the entire exposure.

(b) Liquidity risk

Liquidity risk is the risk that the Group either does not have sufficient resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at excessive cost. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk both on a short-term and medium-term basis. In the short-term, the focus is on ensuring that the cash flow demands can be met through asset maturities, customer deposits and wholesale funding where required. In the medium-term, the focus is on ensuring the statement of financial position remains structurally sound.

ALCO is responsible for ensuring that the Group is self-sufficient and is able to meet all its obligations to make payments as they fall due by operating within the set liquidity limits. It also has primary responsibility for compliance with regulations and Group policy and maintaining a liquidity crisis contingency plan.

The Group liquidity risk management framework requires limits to be set for prudent liquidity management. These limits are on:

- the mismatch in local and foreign currency behavioural cash flows;
- the level of wholesale borrowing to ensure that the size of this funding is proportional to the local market and the Group's operations;

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

- commitments, both on and off-balance sheet, to ensure there are sufficient funds available in the event of drawdown on these commitments;
- the advances to deposits ratio to ensure that commercial advances are funded by stable sources;
- the amount of medium-term funding to support the asset portfolio; and
- the amount of local currency funding sourced from foreign currency sources.

In addition, the Group prescribes a liquidity stress scenario that assumes accelerated withdrawal of deposits over a period of time. The Group has to ensure that cash flows exceed outflows under such a scenario.

All limits are reviewed at least annually, and more frequently if required, to ensure that they are relevant given market conditions and business strategy. Compliance with limits is monitored independently by Group Market Risk. Limit excesses are escalated and approved under a delegated authority structure and reviewed by ALCO.

In addition, regular reports to the ALCO include the following:

- information on the concentration and profile of debt maturities; and
- depositor concentration report to monitor reliance on large individual depositors.

The Group maintains a portfolio of short-term liquid assets, principally government securities, which can be realised, repurchased or used as collateral in the event that there is a need for liquidity in a crisis. In addition, liquidity crisis management plans are maintained by the Group and are reviewed and approved annually. The liquidity crisis management plan lays out trigger points and actions in the event of a liquidity crisis to ensure that there is an effective response by senior management.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of liquidity risk.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

A substantial portion of the Group's assets are funded by customer deposits made up of current and savings accounts and other deposits. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. Lending is normally funded by liabilities in the same currency. ALCO monitors trends in the statement of financial position and ensures that any concerns that might impact the stability of these deposits are addressed effectively. ALCO also reviews balance sheet plans to ensure that asset growth plans are matched by growth in the stable funding base.

The Group also maintains significant levels of marketable securities either for compliance with statutory requirements or as prudential investments of surplus funds.

A key measure of liquidity risk is the ratio of net liquid assets to deposit liabilities. The Central Bank of Kenya requires banks to maintain a statutory minimum ratio of 20% of liquid assets to all its deposit liabilities.

For this purpose, liquid assets comprise cash and balances with Central Bank of Kenya, net loans and advances with banks, treasury bonds and bills and net balances with banks abroad.

Deposit liabilities comprise deposits from customers and other liabilities that have matured or maturing within 91 days.

The liquidity ratios at the reporting date and during the reporting period (based on month end ratios) were as follows:

Company	2010	2009
	%	%
At 31 December	55	45
Average for the period	59	60
Highest for the period	63	69
Lowest for the period	53	45

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The Group also monitors on a regular basis the advances to deposit ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposit ratio demonstrates that customer deposits exceed customer loans resulting from the emphasis placed on generating a high level of stable funding from customers.

Group and Company

The advances to deposits ratio at 31 December 2010 was as follows:

	2010 KShs '000	2009 KShs '000
Loans and advances to customers	60,336,829	56,694,876
Deposits from customers	100,504,065	86,773,652
	%	%
Advances to deposits ratio	60	65

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2010 to the contractual maturity date.

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

Group

31 December 2010: **LIABILITIES**	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Deposits from banks	4,200,660	10,000	–	2,020	–	4,212,680
Deposits from customers	91,654,539	3,182,443	3,693,278	1,973,650	155	100,504,065
Derivative financial instruments	285,491	–	–	–	–	285,491
Amounts due to group companies	4,343,915	2,272,883	2,001,374	1,779,785	–	10,397,957
Other liabilities	1,755,709	–	–	–	–	1,755,709
At 31 December 2010	102,240,314	5,465,326	5,694,652	3,755,455	155	117,155,902

31 December 2009: **LIABILITIES**	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Deposits from banks	10,289,777	242,520	–	–	–	10,532,297
Deposits from customers	73,532,061	15,147	298,626	12,637,598	290,220	86,773,652
Derivative financial instruments	242,930	–	–	–	–	242,930
Amounts due to group companies	5,719,499	78,791	2,048,373	–	–	7,846,663
Other liabilities	291,013	–	–	–	–	291,013
At 31 December 2009	90,075,280	336,458	2,346,999	12,637,598	290,220	105,686,555

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

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.

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk

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.

The Group recognises market risk as the risk of loss arising from changes in market prices and rates. The Group's exposure to market risk arises principally from customer-driven transactions. The objective of the Group's market risk policies and processes is to obtain the best balance between risk and return whilst meeting customers' requirements.

The primary categories of market risk for the Group are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;
- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options; and
- Commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; covering energy, precious metals, base metals e.t.c.

Overall responsibility for market risk is vested in ALCO, who approve the Group's market risk appetite taking into account the market volatility, the range of traded products and asset classes, business volumes and transaction sizes. Market risk appetite has remained broadly stable in 2010.

Group Market Risk (GMR) is responsible for setting Value at Risk (VaR) and stress loss limits for market risk within the Group's risk appetite. It is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both the trading and non-trading books of the Group.

GMR approves the limits within delegated authorities and monitors exposures against these limits and reports to ALCO. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to one basis point increase in yields, whereas foreign exchange, commodity and equity sensitivities are measured in terms of underlying values or amounts involved.

Sensitivity analysis

The Group measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology. VaR, in general, is a quantitative measure of market risk that applies recent historic market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit or loss outcomes.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

The Group applies two VaR methodologies:

- Historic simulation: involves the revaluation of all unmatured contracts to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors; and
- Monte Carlo simulation: this methodology is similar to historic simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for credit spread VaR.

In both methods a historical observation period of one year is chosen and applied.

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

VaR is calculated as the Group's exposure as at the close of business. Intra-day risk levels may vary from those reported at the end of the day.

The Group recognises that there are limitations to the VaR methodology. These limitations include the fact that the historic data may not be the best proxy for future price movements, either because the observation period does not include representative price movements or, in some cases, because of incomplete market data.

The Group performs regular backtesting, where actual profits and losses are compared with VaR estimates to track the statistical validity of the VaR model.

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. To manage the risk arising from such events, which the VaR methodology does not fully capture, the Group regularly stress tests its main market risk exposures. Stress testing involves valuing portfolios at prices, which assume extreme changes in risk factors beyond the range of normal experience.

An analysis of the Group sensitivity to changes in market interest and exchange rates is as follows:

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

Company				
31 December 2010:				
Daily value at risk:	**At 31 December**	**Average**	**High**	**Low**
Foreign exchange risk	5,010	4,753	13,784	712
Interest rate risk	116,029	97,282	181,097	57,751
	121,039	**102,035**	**194,881**	**58,463**
31 December 2009:				
Daily value at risk:				
Foreign exchange risk	2,125	3,719	7,590	1,366
Interest rate risk	86,981	81,365	88,196	72,409
	89,106	**85,084**	**95,786**	**73,775**

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk

The Group is exposed to various risks associated with the effects 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. Included in the table below are the Group'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)

Group

31 December 2010:

ASSETS	Weighted average effective interest rate (%)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non interest bearing	Total
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	8,210,822	8,210,822
Government and other securities held for trading	3.23	–	2,714,400	_	200,000	300,000	57,203	3,271,603
Derivative financial instruments	–	283,036	–	–	–	–	–	283,036
Deposits and advances to banks	4.84	1,493,868	–	200,000	1,550,000	–	–	3,243,868
Loans and advances to customers	9.92	56,164,839	359	25,842	1,005,497	2,669,271	471,021	60,336,829
Investment securities	7.25	2,451,250	7,654,300	14,718,150	22,256,250	1,903,450	3,178,584	52,161,984
Amounts due from group companies	0.85	–	–	2,911,537	808,809	–	1,487,855	5,208,201
Other assets - uncleared effects	–	–	–	–	–	–	765,044	765,044
At 31 December 2010	–	60,392,993	10,369,059	17,855,529	25,820,556	4,872,721	14,170,529	133,481,387
LIABILITIES								
Deposits from banks	1.41	3,760,531	10,000	2,020	–	–	440,129	4,212,680
Deposits from customers	1.49	27,017,369	3,182,443	3,693,278	1,973,650	155	64,637,170	100,504,065
Derivative financial instruments	–	285,491	–	–	–	–	–	285,491
Amounts due to group companies	1.34	3,636,025	2,435,506	2,001,374	1,779,785	–	545,267	10,397,957
Other liabilities – bills payable	–	–	–	–	–	–	1,755,709	1,755,709
At 31 December 2010	–	34,699,416	5,627,949	5,696,672	3,753,435	155	67,378,275	117,155,902

4 FINANCIAL RISK MANAGEMENT (Continued)
(c) Market risk (Continued)

(i) Interest rate risk (Continued)
All figures are in thousands of Kenya Shillings (KShs '000)

Group
31 December 2009:

ASSETS	Weighted average effective interest rate (%)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non interest bearing	Total
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	7,728,872	7,728,872
Government and other securities held for trading	11.59	–	–	_	655,480	1,604,282	66,938	2,326,700
Derivative financial instruments	–	70,040	–	–	–	–	–	70,040
Deposits and advances to banks	9.48	–	–	–	1,450,000	–	42,177	1,492,177
Loans and advances to customers	11.59	54,347,388	1,119	10,380	206,457	1,358,704	770,828	56,694,876
Investment securities	9.27	2,950,000	2,637,550	11,930,482	20,875,800	3,905,800	1,173,847	43,473,479
Amounts due from group companies	3.30	3,139,160	1,749,929	1,518,000	–	–	977,605	7,384,694
Other assets- uncleared effects	–	–	–	–	–	–	605,106	605,106
At 31 December 2009	–	60,506,588	4,388,598	13,458,862	23,187,737	6,868,786	11,365,373	119,775,944
LIABILITIES								
Deposits from banks	3.93	10,289,777	242,520	–	–	–	_	10,532,297
Deposits from customers	3.28	27,955,084	12,062	298,623	12,737,117	288,474	45,482,292	86,773,652
Derivative financial instruments	–	242,930	–	–	–	–	–	242,930
Amounts due to group companies	2.49	5,363,071	–	2,000,000	–	–	483,592	7,846,663
Other liabilities - bills payable	–	–	–	–	–	–	291,013	291,013
At 31 December 2009	–	43,850,862	254,582	2,298,623	12,737,117	288,474	46,256,897	105,686,555

4 FINANCIAL RISK MANAGEMENT (Continued)
(c) Market risk (Continued)

(ii) Currency rate risk

The Group operates wholly within Kenya and its assets and liabilities are translated to the local currency. The Group maintains trade with the main shareholder and other correspondent banks.

The various foreign currencies to which the Group is exposed to are summarised below:-

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

Group

31 December 2010:	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	656,667	512,802	91,581	168,689	1,429,739
Loans and advances to customers	17,180,053	633,375	724,896	114,559	18,652,883
Amounts due from group companies	2,781,018	876,463	82,121	24,970	3,764,572
Other assets	8,618,407	76,928	37,058	48,587	8,780,980
At 31 December 2010	29,236,145	2,099,568	935,656	356,805	32,628,174
LIABILITIES					
Deposits from banks	589,489	–	–	–	589,489
Deposits from customers	18,146,666	1,977,360	950,438	134,512	21,208,976
Amounts due to group companies	5,613,175	–	–	55	5,613,230
Other liabilities	5,372,385	83,675	101,047	79,556	5,636,663
At 31 December 2010	29,721,715	2,061,035	1,051,485	214,123	33,048,358
Net balance sheet position	(485,570)	38,533	(115,829)	142,682	(420,184)

31 December 2009:	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	1,042,659	453,114	68,749	72,525	1,637,047
Loans and advances to customers	14,459,757	278,979	1,213,054	203,328	16,155,118
Amounts due from group companies	2,277,124	1,828,484	156	801,307	4,907,071
Other assets	4,892,277	660,182	1,405	2,860	5,556,724
At 31 December 2009	22,671,817	3,220,759	1,283,364	1,080,020	28,255,960
LIABILITIES					
Deposits from banks	–	–	–	23,101	23,101
Deposits from customers	16,521,502	2,268,201	876,586	803,305	20,469,594
Amounts due to group companies	5,573,240	–	141,941	110,655	5,825,836
Other liabilities	1,707,271	674,171	16,922	29,688	2,428,052
At 31 December 2009	23,802,013	2,942,372	1,035,449	966,749	28,746,583
Net balance sheet position	(1,130,196)	278,387	247,915	113,271	(490,623)

4 FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

Compliance with operational risk policies and procedures is the responsibility of all managers. CORC has the governance responsibility for ensuring that an appropriate and robust risk management framework is in place to monitor and manage operational risk.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This is supported by the development of overall Group standards for the management of operational risk in areas such as compliance with regulatory requirements, ethical and business standards, training and professional development, documentation of controls and procedures and requirements for the reconciliation and monitoring of transactions amongst others.

(e) Capital management

The Central Bank of Kenya sets and monitors capital requirements for all banks.

The objective of the Central Bank of Kenya is to ensure that a bank maintains a level of capital which:
- is adequate to protect its depositors and creditors;
- is commensurate with the risks associated with its activities and profile; and
- promotes public confidence in the bank.

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets.

Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

The Central Bank of Kenya requires a bank to maintain at all times:
- a core capital of not less than 8% of total risk weighted assets, plus risk weighted off-balance sheet items;
- a core capital of not less than 8% of its total deposit liabilities; and
- a total capital of not less than 12% of its total risk weighted assets, plus risk weighted off-balance sheet items.

In addition, a bank must maintain a minimum core capital of KShs 500 million.

However, the Central Bank of Kenya amended the Banking Act in 2009 to require banks to increase their core capital as follows:

Compliance date	Minimum core capital
31 December 2011	700 million
31 December 2012	1,000 million

The Bank is already compliant with this new requirement.

Capital is segregated into core capital (Tier 1) and supplementary capital (Tier 2).

Core capital includes ordinary share capital, irredeemable preference shares, share premium, capital contribution reserve and retained earnings after deductions for goodwill and intangible assets.

Supplementary capital on the other hand includes 25% of revaluation reserves of property and equipment and the statutory loan loss reserve.

Risk weighted assets are arrived at using a framework of four weights applied to both on-balance sheet assets and off-balance sheet items to reflect the relative risk of each asset and counterparty.

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

The Bank's regulatory capital position at 31 December 2010 was as follows:

Company	2010 KShs '000	2009 KShs '000
Core capital (Tier 1)		
Share capital	1,715,386	1,639,839
Share premium	4,836,258	2,520,000
Retained earnings	7,751,461	6,496,622
Capital contribution reserve	1,823,673	-
	16,126,778	10,656,461
Less deductions from capital:		
Goodwill on acquired intangible (Note 29)	(1,112,111)	-
Acquired intangible (Note 29)	(3,620,686)	-
	11,393,981	10,656,461
Supplementary capital (Tier 2)		
Revaluation reserves (25%)	76,091	79,160
Statutory credit risk reserve	259,155	179,070
	335,246	258,230
Total capital	11,729,227	10,914,691
Risk weighted assets		
On-balance sheet	71,000,305	63,703,727
Off-balance sheet	10,935,706	11,758,734
Total risk weighted assets	81,936,011	75,462,461
Deposits from customers	100,504,065	86,773,652
Capital ratios		
Core capital/total deposit liabilities (CBK minimum 8%)	11%	12%
Core capital/total risk weighted assets (CBK minimum 8%)	14%	14%
Total capital/total risk weighted assets (CBK minimum 12%)	14%	14%

Capital allocation

The Bank's capital management approach is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic business and capital plans are drawn up annually. The plan ensures that adequate levels of capital and optimum mix of the different components of capital are maintained by the Group to support the strategy. This is integrated with the Group's annual planning process that takes into consideration business growth assumptions across products and the related impact on capital resources.

The capital plan takes the following into account:

- regulatory capital requirements;
- forecast demand for capital to maintain credit ratings;
- increases in demand for capital due to business growth, market shocks or stresses;
- available supply of capital and capital raising options; and
- internal controls and governance for managing the Bank's risk, performance and capital.

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

Capital allocation (Continued)

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Group Market Risk and Group Credit, and is subject to review by the ALCO.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board.

(f) Compliance and regulatory risk

Compliance and regulatory risk includes the risk of non-compliance with regulatory requirements. The Compliance function is responsible for establishing and maintaining an appropriate framework of Group compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

(g) Legal risk

Legal risk is the risk of unexpected loss, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or other loss for the Group, failure to protect the title to and ability to control the rights to assets of the Group (including intellectual property rights), changes in the law, or jurisdictional risk. The Group manages legal risk through the legal function, Legal Risk policies and procedures and effective use of its internal and external lawyers.

(h) Reputational risk

Reputational risk is the risk of failing to meet the standards of performance or behaviour required or expected by stakeholders in commercial activities or the way in which business is conducted. Reputational risks arise as a result of poor management of problems occurring in one or more of the primary banking risk areas (Credit, Market, Operational risk areas) and/or from social, ethical or environmental risk issues. All members of staff have a responsibility for maintaining the Group's reputation.

The Group manages reputational risk through the Reputational Risk Committee.

(i) Independent monitoring

Internal Audit is an independent function that reports to the Board Audit Committee and provides an independent check that Group and business standards, policies and procedures are being complied with. Where necessary, corrective action is recommended.

5 USE OF ESTIMATES AND JUDGMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the reporting date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgments in respect of measuring financial instruments. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty are set out in the notes.

(a) Loan loss provisioning

(i) Consumer Banking

An account is considered to be in default when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. These accounts are closely monitored and subject to a collection process.

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

(a) Loan loss provisioning (Continued)

(i) Consumer Banking (Continued)

The process used for raising provisions is dependent on the product. For mortgages, individual impairment provisions ("IIP") are generally raised at 150 days past due based on the difference between the outstanding amount on the loan and the present value of the estimated future cash flows. Loan impairment for other secured loans utilises the forced sale value of the collateral without discounting. For unsecured products, individual provisions are raised for the entire outstanding amount at 150 days past due. For all products there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

A portfolio impairment provision ("PIP") is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in the loan portfolio. PIP covers both performing loans and loans overdue for less than 150 days. The provision is computed using proxy data from Internal Ratings Based ('IRB') portfolios. This proxy is based on Expected Loss ("EL") of a product after applying judgemental overlays based on regulatory environment and business cycle adjustments based on macro-environment.

(ii) Wholesale Banking

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

(b) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value, with changes in fair value either reported within the profit and loss account or in other comprehensive income until the instrument is sold or becomes impaired. Details of the type and classification of the Group's financial instruments are set out in note 7 and the accounting policy set out in note 3, to the financial statements.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

(b) Fair value of financial instruments (Continued)

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters.

Equity investments that do not have observable market prices are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

(c) Pensions

Actuarial assumptions are made in valuing future defined benefit obligations and are updated periodically. The principal assumption relates to the discount rate. The discount rate is equal to the yield on government securities which have a term to maturity approximating that of the related liability, and is potentially subject to significant variation. As a result, there is uncertainty that this assumption will continue in the future.

(d) Useful life of assets

Property and equipment

Critical estimates are made by the directors in determining the useful life for property and equipment.

Acquired intangible

Critical estimates are made by the directors in determining the useful life of the acquired customer relationships.

Capitalised software

Critical estimates are made by the directors in determining the useful life of capitalised software.

(e) Revaluation of property and equipment

Certain property and equipment are measured at revalued amounts. The fair value is determined based on the market and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(f) Taxes

Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax assets are recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgments as to the probability of tax losses being available for offset at a later date.

(g) Share based payments

The Group's employees participate in a number of share based payment schemes operated by Standard Chartered PLC, the ultimate holding company of Standard Chartered Bank Kenya Limited and its subsidiaries. Participating employees are awarded ordinary shares in Standard Chartered PLC in accordance with the terms and conditions of the relevant scheme.

Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models; which require inputs such as risk-free interest rate, expected dividends, expected volatility and the expected option life and is expensed over the vesting period. Some of the inputs used, such as the expected option life, are not market observable and are based on estimates derived from available data, such as employee exercise bevahiour. The models utilised, such as the binomial option pricing model, are intended to value options traded in active markets. The share options issued by Standard Chartered PLC, however have a number of features that make them incomparable to such trade options. Using different input estimates or models could produce different option values, which would result in the recognition of higher or lower expense.

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

(h) Valuation of acquired intangible

At the date of acquisition of a subsidiary or associate or business, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired.

Management has determined the fair value of customer relationships acquired by discounting the future cash flows expected to be generated over the useful life determined to be 11 years.

6 OPERATING SEGMENTS

The Group is organised for management and reporting purposes into two main business segments: Consumer Banking and Wholesale Banking. Wholesale Banking comprises Financial Markets and Origination & Client Coverage.

The Group evaluates segmental performance on the basis of profit or loss before taxation.

The segment results were as follows:

Group

Statement of comprehensive income for year ended 31 December 2010	Consumer Banking KShs '000	Wholesale Banking KShs '000	Total KShs '000
Net interest income	4,343,587	3,771,977	8,115,564
Non funded income	2,068,776	3,718,389	5,787,165
Operating income	**6,412,363**	**7,490,366**	13,902,729
Operating expenses	(3,370,930)	(2,517,594)	(5,888,524)
Net impairment losses on loans and advances	(439,812)	107,491	(332,321)
Profit before taxation	**2,601,621**	**5,080,263**	7,681,884
Statement of comprehensive income for year ended 31 December 2009			
Net interest income	3,900,446	3,436,832	7,337,278
Non funded income	1,825,658	3,083,496	4,909,154
Operating income	**5,726,104**	**6,520,328**	12,246,432
Operating expenses	(2,855,791)	(2,187,258)	(5,043,049)
Net impairment losses on loans and advances	(404,969)	(69,967)	(474,936)
Profit before taxation	**2,465,344**	**4,263,103**	6,728,447

6 SEGMENT REPORTING (Continued)

Group

Statement of financial position as at 31 December 2010	Consumer Banking KShs '000	Wholesale Banking KShs '000	Unallocated KShs '000	Total KShs '000
Assets				
Segment assets	23,727,471	105,510,847	–	129,238,318
Unallocated assets	–	–	13,507,931	13,507,931
Total assets	23,727,471	105,510,847	13,507,931	142,746,249
Liabilities and shareholders' equity				
Segment liabilities	64,063,845	52,422,554	–	116,486,399
Unallocated liabilities	–	–	26,259,850	26,259,850
Inter-segment lending	(40,336,374)	53,088,293	(12,751,919)	–
Total liabilities and shareholders' equity	23,727,471	105,510,847	13,507,931	142,746,249
Other segment items				
Depreciation and amortisation	109,085	97,760	95,428	302,273
Redundancy provision	–	–	15	15
Goodwill	–	1,112,111	–	1,112,111
Acquired intangible	–	3,707,038	–	3,707,038
Capital expenditure	98,094	984	1,359,248	1,458,326
Statement of financial position as at 31 December 2009				
Assets				
Segment assets	18,418,449	93,023,517	–	111,441,966
Unallocated assets	–	–	12,337,006	12,337,006
Total assets	18,418,449	93,023,517	12,337,006	123,778,972
Liabilities and shareholders' equity				
Segment liabilities	55,006,669	50,388,873	–	105,395,542
Unallocated liabilities	–	–	18,383,430	18,383,430
Inter-segment lending	(36,588,220)	42,634,644	(6,046,424)	–
Total liabilities and shareholders' equity	18,418,449	93,023,517	12,337,006	123,778,972
Other segment items:				
Depreciation and amortisation	112,468	21,526	163,589	297,583
Redundancy provision	(27,916)	–	–	(27,916)
Goodwill	–	–	–	–
Acquired intangible	–	–	–	–
Capital expenditure	163,741	3,543	953,638	1,120,922

7. FINANCIAL ASSETS AND LIABILITIES
Accounting classifications and fair values

The table below sets out the carrying amounts of each class of financial assets and liabilities, and their fair values.

Group
31 December 2010:

	Held for trading KShs '000	Held-to -maturity KShs '000	Loans and receivables KShs '000	Available-for-sale KShs '000	Other amortised cost KShs '000	Total carrying amount KShs '000	Fair value KShs '000
Assets							
Cash and balances with Central Bank of Kenya	–	–	8,210,822	–	–	8,210,822	8,210,822
Government and other securities held for trading	3,271,603	–	–	–	–	3,271,603	3,271,603
Derivative financial instruments	283,036	–	–	–	–	283,036	283,036
Deposits and advances to banks	–	–	3,243,868	–	–	3,243,868	3,243,868
Loans and advances to customers	–	–	60,336,829	–	–	60,336,829	60,336,829
Investment securities	–	2,035,171	–	50,126,813	–	52,161,984	52,262,355
Amounts due from group companies	–	–	5,208,201	–	–	5,208,201	5,208,201
Other assets - uncleared effects	–	–	765,044	–	–	765,044	765,044
Total assets	3,554,639	2,035,171	77,764,764	50,126,813	–	133,481,387	133,581,758
Liabilities							
Deposits from banks	–	–	–	–	4,212,680	4,212,680	4,212,680
Deposits from customers	–	–	–	–	100,504,065	100,504,065	100,504,065
Derivative financial instruments	285,491	–	–	–	–	285,491	285,491
Amounts due to group companies	–	–	–	–	10,397,957	10,397,957	10,397,957
Other liabilities - bills payable	–	–	–	–	1,755,709	1,755,709	1,755,709
Total liabilities	285,491	–	–	–	116,870,411	117,155,902	117,155,902

31 December 2009:

	Held for trading KShs '000	Held-to -maturity KShs '000	Loans and receivables KShs '000	Available-for-sale KShs '000	Other amortised cost KShs '000	Total carrying amount KShs '000	Fair value KShs '000
Assets							
Cash and balances with Central Bank of Kenya	–	–	7,728,872	–	–	7,728,872	7,728,872
Government and other securities held for trading	2,326,700	–	–	–	–	2,326,700	2,326,700
Derivative financial instruments	70,040	–	–	–	–	70,040	70,040
Deposits and advances to banks	–	–	1,492,177	–	–	1,492,177	1,492,177
Loans and advances to customers	–	–	56,694,876	–	–	56,694,876	56,694,876
Investment securities	–	2,280,585	–	41,192,894	–	43,473,479	43,461,733
Amounts due from group companies	–	–	7,384,694	–	–	7,384,694	7,384,694
Other assets - uncleared effects	–	–	605,106	–	–	605,106	605,106
Total assets	2,396,740	2,280,585	73,905,725	41,192,894	–	119,775,944	119,764,198
Liabilities							
Deposits from banks	–	–	–	–	10,532,297	10,532,297	10,532,297
Deposits from customers	–	–	–	–	86,773,652	86,773,652	86,773,652
Derivative financial instruments	242,930	–	–	–	–	242,930	242,930
Amounts due to group companies	–	–	–	–	7,846,663	7,846,663	7,846,663
Other liabilities - bills payable	–	–	–	–	291,013	291,013	291,013
Total liabilities	242,930	–	–	–	105,443,625	105,686,555	105,686,555

7. **FINANCIAL ASSETS AND LIABILITIES (Continued)**
Accounting classifications and fair values (Continued)

The following sets out the Group's basis of establishing fair value of the financial instruments:

Derivative financial instruments and government securities held for trading

Derivative financial instruments and government securities held for trading are measured at fair value as set out in notes 20 and 3(h) respectively.

Cash and balances with Central Bank of Kenya

Cash and bank balances are measured at amortised cost.
The fair value of cash and bank balances with the Central Bank of Kenya approximates their carrying amounts.

Deposits and advances to banks

The fair value of floating rate placements and overnight deposits approximates their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances reprice within 12 months and hence the fair value approximates their carrying amounts.

Investment securities

Investment securities with observable market prices, including debt and equity securities , are fair valued using that information. Debt securities that do not have observable market data are fair valued by either discounting cash flows using prevailing market rates for debts with a similar credit risk and remaining maturity or using quoted market prices for securities with similar credit risk maturity and yield characteristics.

Deposits from banks and customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

A substantial proportion of deposits are within 6 months and hence the fair value approximates their carrying amounts.

7. FINANCIAL ASSETS AND LIABILITIES (Continued)
(b) Valuation hierarchy

The valuation hierarchy, and types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities.	Valuation models with directly or indirectly market observable inputs.	Valuation models using significant non-market observable inputs.
Types of financial assets:	Actively traded government and other agency securities. Listed derivative instruments. Listed equities.	Corporate and other government bonds and loans. Over-the-counter (OTC) derivatives.	Corporate bonds in illiquid markets. Highly structured OTC derivatives with unobservable parameters.
Types of financial liabilities:	Listed derivative instruments.	Over-the-counter (OTC) derivatives.	Highly structured OTC derivatives with unobservable parameters.

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below as at 31 December 2010 and 2009:

Group 31 December 2010:	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Assets				
Government and other securities held for trading	–	3,187,030	84,573	3,271,603
Derivative financial instruments	–	283,036	–	283,036
Investment securities	–	52,161,984	–	52,161,984
Amounts due from group companies	16,148	130,617	–	146,765
Total assets	16,148	55,762,667	84,573	55,863,388
Liabilities				
Derivative financial instruments	–	285,491	–	285,491
Amounts due to group companies	85,024	193,577	–	278,601
Total liabilities	85,024	479,068	–	564,092
31 December 2009:				
Assets				
Government and other securities held for trading	–	2,326,700	–	2,326,700
Derivative financial instruments	–	70,040	–	70,040
Investment securities	–	41,192,894	–	41,192,894
Amounts due from group companies	32,708	371,944	–	404,652
Total assets	32,708	43,961,578	–	43,994,286
Liabilities				
Derivative financial instruments	–	242,930	–	242,930
Amounts due to group companies	37,443	318,957	–	356,400
Total liabilities	37,443	561,887	–	599,330

		2010 KShs '000	2009 KShs '000
8	**INTEREST INCOME**		
	Loans and advances to customers	5,953,424	5,733,069
	Loans and advances to banks	130,846	595,089
	Investment securities:		
	Held-to-maturity	171,003	196,616
	Available-for-sale	3,480,221	2,766,261
	Accrued on impaired assets (Discount unwind)	42,195	56,440
		9,777,689	9,347,475
9	**INTEREST EXPENSE**		
	Deposits from customers	1,277,871	1,774,474
	Deposits from banks	384,254	235,723
		1,662,125	2,010,197
10	**NET FEE AND COMMISSION INCOME**		
	Fee and commission income		
	Commissions	1,341,439	1,200,148
	Service fees	1,346,448	1,224,558
		2,687,887	2,424,706
	Fee and commission expense		
	Inter-bank transaction fees	57,131	42,492
11	**NET TRADING INCOME**		
	Gains less losses on foreign currency	1,622,154	1,752,797
	Interest income on held-for-trading securities	134,746	271,365
	Other trading profits	216,790	104,230
		1,973,690	2,128,392
12	**OTHER OPERATING INCOME**		
	Gains less losses on disposal of available-for-sale securities:		
	– Government treasury bonds	1,163,130	118,528
	– Government treasury bills	-	2,603
	– Equity shares	-	68,197
	Rental income	16,955	13,830
	Profit/(loss) on sale of property and equipment	2,508	(107)
	Loss on sale of prepaid operating lease rentals	-	(15)
	Dividend income on equity shares	-	230
	Other	126	195,282
		1,182,719	398,548

	2010 KShs '000	2009 KShs '000
13 OPERATING EXPENSES		
Staff costs		
Salaries and wages	2,545,884	2,165,034
Contributions to defined contribution plan	276,459	218,507
Increase in retirement benefit obligations (Note 35)	70,063	12,806
Redundancy charge/(release)	15	(27,916)
Charge for employee share based payments	67,744	61,556
Other staff costs	434,780	410,846
	3,394,945	2,840,833

	2010 No.	2009 No.
The number of employees at the year end was:		
Management	913	830
Unionisable	420	426
Other	221	186
	1,554	1,442

Premises and equipment costs	2010 KShs '000	2009 KShs '000
Rental of premises	205,750	190,383
Rental of computers and equipment	72,938	77,107
Electricity	94,459	97,693
Other premises and equipment costs	150,841	174,781
	523,988	539,964
Depreciation and amortisation		
Premises	24,217	29,217
Fixtures, fittings and equipment	177,583	257,316
Motor vehicles	3,706	3,133
Depreciation on property and equipment (Note 28)	205,506	289,666
Amortisation of intangible assets (Note 29)	93,851	3,302
Amortisation of prepaid operating lease rentals (Note 30)	2,916	4,615
	302,273	297,583

	2010 KShs '000	2009 KShs '000
14 PROFIT BEFORE TAXATION		
Profit before taxation is arrived at after charging:		
Depreciation	205,506	289,666
Amortisation of intangible assets	93,851	3,302
Directors' emoluments - Fees	7,882	6,782
- Other	80,148	100,348
Auditors' remuneration	12,800	9,800
Loss on sale of property and equipment	-	107
Loss on sale of prepaid operating lease rentals	-	15
Amortisation of prepaid operating lease rentals	2,916	4,615
And after crediting:		
Profit on sale of property and equipment	2,508	-

	2010 KShs '000	2009 KShs '000
15 INCOME TAX EXPENSE		
Current year's tax at 30%	2,328,378	2,063,638
Current tax under-provision (prior year)	4,642	3,323
	2,333,020	2,066,961
Deferred tax credit - Note 31(a)	(27,327)	(71,268)
Income tax expense	2,305,693	1,995,693

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

	2010 KShs '000	2009 KShs '000
Accounting profit before taxation	7,681,884	6,728,447
Computed tax using the applicable corporation tax rate at 30%	2,304,565	2,018,534
Non-deductible costs and non-taxable income	(3,514)	(26,164)
Current tax under-provision (prior year)	4,642	3,323
Income tax expense	2,305,693	1,995,693

16 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to ordinary shareholders of KShs 5,208,191,000 (2009 - KShs 4,564,754,000) and a weighted average number of ordinary shares outstanding during the year restated, to include the effects of the rights issue, of 280,299,401 (2009 - 277,488,481).

Profit attributable to ordinary shareholders:	2010 KShs '000	2009 Restated KShs '000
Net profit for the year	5,376,191	4,732,754
Dividends on non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares	(168,000)	(168,000)
	5,208,191	4,564,754
Basic earnings per share (KShs)	18.58	16.45

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding during the year to assume conversion of dilutive potential ordinary shares. There were no potentially dilutive shares outstanding at 31 December 2010 and 2009.

17 DIVIDEND PER SHARE

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

At the Annual General Meeting to be held on 19 May 2011, a final dividend in respect of the year ended 31 December 2010 of KShs 8.50 (2009 - KShs 7.00) for every ordinary share of KShs 5.00 is to be proposed. One interim dividend of KShs 5.00 each for every ordinary share of KShs 5.00 was declared and paid during the year. This will bring the total dividend for the year to KShs 13.50 (2009 - KShs 12.00).

At the Annual General Meeting to be held on 19 May 2011, a final dividend in respect of the year ended 31 December 2010 of KShs 84,690,411(2009 - KShs 84,690,411) for the preference shares is to be proposed. An interim dividend of KShs 83,309,589 (2009 - KShs 83,309, 589) was declared and paid during the year. This will bring the total dividend for the year to KShs 168,000,000 (2009 - KShs 168,000,000).

Dividends on the preference shares are paid at the rate of 6% per annum on the issue price of KShs 50.00 per share.

Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

18 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

Group and Company	2010 KShs '000	2009 KShs '000
Cash on hand	2,663,148	2,909,461
Balances with Central Bank of Kenya:		
-Restricted balances (Cash Reserve Ratio)	5,088,713	4,006,415
-Unrestricted balances	458,961	812,996
	8,210,822	7,728,872

The Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the Central Bank of Kenya requirements. At 31 December 2010, the Cash Reserve Ratio requirement was 4.50% of all deposits (2009 - 4.50%). These funds are not available for use by the Group in its day-to-day operations.

19 GOVERNMENT AND OTHER SECURITIES HELD FOR TRADING

Group and Company	2010 KShs '000	2009 KShs '000
Treasury bonds	566,839	2,197,508
Treasury bills	2,620,191	_
Money market bonds	84,573	129,192
Government and other securities held for trading	3,271,603	2,326,700

The change in the carrying amount of government and other securities held for trading is as shown below:

	2010				2009		
	Treasury bonds KShs '000	Treasury bills KShs '000	Money market bonds KShs '000	Total KShs '000	Treasury bonds KShs '000	Money market bonds KShs '000	Total KShs '000
At 1 January	2,197,508	-	129,192	2,326,700	1,443,217	172,344	1,615,561
Additions	7,248,900	2,630,000	-	9,878,900	9,083,100	_	9,083,100
Disposals and maturities	(8,763,200)	-	(42,200)	(8,805,400)	(8,430,800)	(42,200)	(8,473,000)
Changes in fair value	(116,369)	(9,809)	(2,419)	(128,597)	101,991	(952)	101,039
At 31 December	**566,839**	**2,620,191**	**84,573**	**3,271,603**	**2,197,508**	**129,192**	**2,326,700**

The weighted average effective interest rate on government and other securities held for trading at 31 December 2010 was 3.23% (2009 - 11.59%).

20 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The types of derivatives used by the Group are set out below.

All derivatives are recognised and subsequently measured at fair value, with all revaluation gains and losses recognised in the profit and loss account. This table analyses the notional principal amounts and the positive (assets) and negative (liabilities) fair values of the Group's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

Group and Company	2010			2009		
	Notional principal amounts KShs '000	Assets KShs '000	Liabilities KShs '000	Notional principal amounts KShs '000	Assets KShs '000	Liabilities KShs '000
Interest rate and cross currency derivative contracts	9,178,284	280,278	182,311	5,291,654	70,040	146,470
Forward exchange contracts	19,830,006	2,758	2,099	19,148,390	_	_
Commodity derivative contracts	_	_	101,081	_	_	96,460
	29,008,290	283,036	285,491	24,440,044	70,040	242,930

21 LOANS AND ADVANCES TO BANKS

Group and Company	2010 KShs '000	2009 KShs '000
Loans and advances to local banks	3,111,053	1,450,000
Loans and advances to foreign banks	132,815	42,177
	3,243,868	1,492,177

The weighted average effective interest rate on loans and advances to banks at 31 December 2010 was 4.84% (2009 - 9.48%).

22 LOANS AND ADVANCES TO CUSTOMERS

Group and Company	2010 KShs '000	2009 KShs '000
(a) Classification		
Overdrafts	11,029,710	11,869,893
Loans	49,797,484	46,143,271
Bills discounted	772,211	2,846
Gross loans and advances	61,599,405	58,016,010
Less: Impairment losses on loans and advances	(1,262,576)	(1,321,134)
Net loans and advances	60,336,829	56,694,876
Repayable on demand	11,756,242	12,121,930
Less than 3 months	13,061,573	267,267
3 months to 1 year	4,428,760	4,544,041
1 to 5 years	26,503,355	37,022,393
5 to 10 years	2,363,115	1,470,420
Over 10 years	3,486,360	2,589,959
Gross loans and advances	61,599,405	58,016,010

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

Group and Company

(b) Impairment losses on loans and advances

31 December 2010:	Specific impairment losses KShs '000	Portfolio impairment provision KShs '000	Total KShs '000
At 1 January	754,156	566,978	1,321,134
Provisions during the year	565,671	(38,938)	526,733
Amounts written off during the year	(543,096)	–	(543,096)
Amounts released to interest income	(42,195)	–	(42,195)
At 31 December	**734,536**	**528,040**	**1,262,576**
Provisions during the year	565,671	(38,938)	526,733
Amounts recovered during the year	(194,412)	–	(194,412)
Net charge to the profit and loss account	**371,259**	**(38,938)**	**332,321**
31 December 2009:			
At 1 January	1,134,808	424,145	1,558,953
Provisions during the year	497,185	142,833	640,018
Amounts written off during the year	(821,397)	–	(821,397)
Amounts released to interest income	(56,440)	–	(56,440)
At 31 December	**754,156**	**566,978**	**1,321,134**
Provisions during the year	497,185	142,833	640,018
Amounts recovered during the year	(165,082)	–	(165,082)
Net charge to the profit and loss account	**332,103**	**142,833**	**474,936**

The weighted average effective interest rate on loans and advances to customers at 31December 2010 was 9.92% (2009 –11.59%).

23 INVESTMENT SECURITIES

Group and Company	2010 KShs '000	2009 KShs '000
Available-for-sale		
Treasury bonds	35,258,634	26,395,460
Treasury bills	14,059,982	12,483,804
Money market bonds	808,197	2,313,630
	50,126,813	41,192,894
Held-to-maturity		
Treasury bonds	2,035,171	2,280,585
Total investment securities	52,161,984	43,473,479

The change in the carrying amount of investment securities is as shown below:

	2010				2009			
	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Equity shares KShs '000	Total KShs '000	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Equity shares KShs '000	Total KShs '000
At 1 January	41,159,849	2,313,630	_	43,473,479	21,808,713	303,807	161,188	22,273,708
Additions	46,426,982	500,000	_	46,926,982	36,137,526	1,832,500	_	37,970,026
Disposals and maturities	(38,362,464)	(1,880,750)	_	(40,243,214)	(18,380,172)	(30,000)	(114,884)	(18,525,056)
Changes in fair value	622,683	(124,683)	_	498,000	1,034,437	207,323	(46,304)	1,195,456
Amortisation of discounts and premiums	1,506,737	_	_	1,506,737	559,345	_	_	559,345
At 31 December	**51,353,787**	**808,197**	–	**52,161,984**	41,159,849	2,313,630	–	43,473,479

The weighted average effective interest rate on treasury bonds at 31 December 2010 was 8.72% (2009 – 9.80%) and on treasury bills was 3.63% (2009 – 7.70%). There were no treasury bills under repurchase agreements outstanding at 31 December 2010 and 2009.

The weighted average effective interest rate on money market bonds at 31 December 2010 was 8.89% (2009 –12.30%).

At 31 December 2010, unamortised premiums on investment securities amounted to KShs 1,217,154,000 (2009 – KShs 348,153,000) and unamortised discounts amounted to KShs 160,078,000 (2009 – KShs 772,908,000).

The investment in equity shares related to ownership of Class CEMEA common stock in Visa Inc which were listed. The shares were sold in 2009.

24 GROUP COMPANY BALANCES

Group and Company	2010 KShs '000	2009 KShs '000
Amounts due from group companies	5,208,201	7,384,694
Amounts due to group companies	10,397,957	7,846,663

The weighted average effective interest rate at 31 December 2010 on amounts due from group companies was 0.85% (2009 – 3.30%) and on amounts due to group companies was 1.34% (2009 – 2.49%).

25 INVESTMENT IN SUBSIDIARIES

The following subsidiaries are wholly owned by the Company:

Company	Status	**2010** **KShs '000**	2009 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

Standard Chartered Financial Services Limited owns 100% of Standard Chartered Management Services Limited which is also dormant.

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

26 BUSINESS COMBINATION

On 31 October 2010, Standard Chartered Bank Kenya Limited (SCBKL) acquired the custody business of Barclays Bank of Kenya Limited (BBKL). The business was acquired for KShs 1,883,365,000 representing the value of revenue streams of the local customer relationships acquired. No other assets and liabilities other than customer relationships were acquired.

In addition to the purchase price paid by SCBKL, Standard Chartered PLC paid GBP £14,133,404 (KShs 1,823,673,000) in respect of the value that BBK's custody clients provide across the Pan-African network covered by the Barclays Bank PLC's Africa custody business as a whole. This represents the value deemed to arise as a result of revenue streams from regional and global customer relationships acquired. In effect the purchase price paid for by Standard Chartered PLC is deemed to be a capital contribution.

The revenue streams from all the customer relationships, both local and global, will therefore accrue to the SCBKL and as such the value of the intangible is significantly higher than the purchase price paid locally.

The fair value of the customer relationships acquired has been determined by discounting the future cash flows expected to be generated over the useful life determined to be 11 years.

The calculation of the acquired intangible was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and budgets and forecasts approved by management upto 2014. Management forecasts projected revenue growth rates greater than long-term GDP growth rates but which are in line with past performance as adjusted to reflect current economic climate and any known business cycles. Cash flow projections were extrapolated forward for another 7 years upto 2021 using steady long-term estimated GDP growth rates.

- The cash flows are discounted using a pre-tax discount rate of 17.50% which reflects current market rates appropriate for this business.

26 BUSINESS COMBINATION (Continued)

The key assumptions described above may change as economic and market conditions change. Management believes that reasonable possible change in any of the key assumptions on which the fair value of the intangible has been based will not cause the carrying amounts to exceed their recoverable amount.

The fair value amounts contain some provisional balances which will be finalised within 12 months of the acquisition date.

If the acquisitions had occurred on 1 January 2010, the contribution to the operating income of the Group would have been approximately KShs 884 million and profit before taxation would have been approximately KShs 309 million. In determining these amounts management has assumed that the fair value adjustments determined provisionally that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

The intangible asset arising from the acquisition is as follows:

Group and Company	KShs '000
Purchase consideration:	
Cash paid by SCBKL	1,883,365
Cash paid by Standard Chartered PLC (Capital contribution)	1,823,673
Total purchase consideration	**3,707,038**
Less: Fair value of identifiable assets acquired	-
Intangible assets acquired: Customer relationships	3,707,038
Deferred tax liability recognised on business combination	(1,112,111)
Total identifiable net assets	**2,594,927**
Goodwill on acquisition	**1,112,111**
Contribution from the acquisition to 31 December 2010:	
Operating income	**163,958**
Loss before taxation	**64,398**

Acquisition related costs of KShs 120 million are included within operating expenses in the Groups' consolidated statement of comprehensive income.

The goodwill is attributable mainly to the customer relationships acquired, value of the acquired workforce and leveraged synergies within the Pan-African businesses and geographies. None of the goodwill recognised is expected to be deductible for income tax purposes.

The goodwill is wholly attributable to the Securities Services department of the Bank.

27 NON-CURRENT ASSET HELD FOR SALE

Group and Company	**2010** **KShs '000**	2009 KShs '000
Property and equipment	**243,750**	-
Prepaid operating lease rentals	**91,020**	-
	334,770	-

The non-current asset held for sale relates to the current head office building which is being sold as the Group is in the process of moving to a new head office. The details relating to this are shown in Notes 28 and 30. The property has been placed on the market with the sale expected within the 2011 financial year. The asset is classified under the unallocated portion of the operating segment report in Note 6.

28 PROPERTY AND EQUIPMENT

Group and Company

31 December 2010:	Freehold land and buildings KShs '000	Buildings on leasehold land KShs '000	Fixtures, fittings and equipment KShs '000	Motor vehicles KShs '000	Capital work in progress KShs '000	Total KShs '000
Cost or valuation:						
At 1 January 2010	100,000	713,250	2,585,228	13,522	1,092,100	4,504,100
Transfer to non-current asset held for sale (Note 27)	–	(250,000)	–	–	–	(250,000)
Additions	–	–	69,668	6,970	1,370,607	1,447,245
Disposals	–	–	(160,127)	(4,122)	-	(164,249)
At 31 December 2010	**100,000**	**463,250**	**2,494,769**	**16,370**	**2,462,707**	**5,537,096**
Depreciation:						
At 1 January 2010	1,125	35,397	2,112,642	11,171	–	2,160,335
Transfer to non-current asset held for sale (Note 27)	–	(6,250)	–	–	–	(6,250)
Charge for the year	900	23,317	177,583	3,706	–	205,506
On disposals	–	–	(159,710)	(4,122)	–	(163,832)
At 31 December 2010	**2,025**	**52,464**	**2,130,515**	**10,755**	**–**	**2,195,759**
Net book value:						
At 31 December 2010	**97,975**	**410,786**	**364,254**	**5,615**	**2,462,707**	**3,341,337**

31 December 2009:	Freehold land and buildings KShs '000	Buildings on leasehold land KShs '000	Fixtures, fittings and equipment KShs '000	Motor vehicles KShs '000	Capital work in progress KShs '000	Total KShs '000
Cost or valuation:						
At 1 January 2009	100,000	713,250	2,478,028	13,522	286,261	3,591,061
Additions	–	–	300,449	-	820,473	1,120,922
Transfers	–	–	14,634	-	(14,634)	–
Disposals	–	–	(207,883)	-	-	(207,883)
At 31 December 2009	**100,000**	**713,250**	**2,585,228**	**13,522**	**1,092,100**	**4,504,100**
Depreciation:						
At 1 January 2009	225	7,080	2,063,102	8,038	–	2,078,445
Charge for the year	900	28,317	257,316	3,133	–	289,666
On disposals	–	–	(207,776)	-	–	(207,776)
At 31 December 2009	**1,125**	**35,397**	**2,112,642**	**11,171**	**–**	**2,160,335**
Net book value:						
At 31 December 2009	**98,875**	**677,853**	**472,586**	**2,351**	**1,092,100**	**2,343,765**

Included in property and equipment at 31 December 2010 are assets with a gross value of KShs 1,761,845,755 (2009 – KShs 1,547,892,762) which are fully depreciated but still in use. The notional depreciation charge on these assets would have been KShs 649,162,455 (2009 – KShs 549,790,095).

28 PROPERTY AND EQUIPMENT (Continued)

Group and Company

There were no idle assets as at 31 December 2010 and 2009.

Capital work in progress relates to the construction of the new head office and branch expansion and refurbishment that was ongoing during the year. Subsequent to the year end and as of the date of approval of these financial statements, the construction was substantially complete.

Freehold land and buildings were revalued on an open market basis by Lloyd Masika Limited, a firm of professional valuers as at 30 September 2008. The book values of the properties were adjusted to the revaluations, and the resulting surplus, net of deferred tax, was credited to the revaluation reserve.

Freehold land and buildings are revalued every 3 years.

In the opinion of the directors, the fair value of the freehold land and buildings has not changed significantly since the revaluation at 30 September 2008.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year ended 31 December 2010 (2009:Nil)

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2010	2009
Group and Company	KShs '000	KShs '000
Cost	494,654	494,654
Accumulated depreciation	(197,007)	(190,308)
Net book value	297,647	304,346

29 INTANGIBLE ASSETS

Group and Company

	2010				2009			
	Acquired intangible KShs '000	Goodwill KShs '000	Capitalised software KShs '000	Total KShs '000	Acquired intangible KShs '000	Goodwill KShs '000	Capitalised software KShs '000	Total KShs '000
Cost								
At 1 January	-	-	185,812	185,812	-	-	610,368	610,368
Additions (Note 26)	3,707,038	1,112,111	11,081	4,830,230	-	-	-	-
Disposals	-	-	-	-	-	-	(424,556)	(424,556)
At 31 December	3,707,038	1,112,111	196,893	5,016,042	-	-	185,812	185,812
Amortisation								
At 1 January	-	-	182,510	182,510	-	-	603,764	603,764
Charge for the year	86,352	-	7,499	93,851	-	-	3,302	3,302
Disposals	-	-	-	-	-	-	(424,556)	(424,556)
At 31 December	86,352	-	190,009	276,361	-	-	182,510	182,510
Net carrying amount:								
At 31 December	3,620,686	1,112,111	6,884	4,739,681	-	-	3,302	3,302

As at 31 December 2010 assets with a gross value of KShs 185,811,490 (2009 – KShs 175,906,875) are fully amortised but still in use. The notional amortisation charge for the year on these assets would have been KShs 62,300,426 (2009 – KShs 58,635,533). There were no idle assets as at 31 December 2010 and 2009.

The goodwill is wholly attributable to the Securities Services department of the Bank. The directors having assessed the goodwill are of the opinion that the goodwill was not impaired at the reporting date.

30 PREPAID OPERATING LEASE RENTALS

Group and Company

	2010 KShs '000	2009 KShs '000
Cost		
At 1 January	245,408	245,437
Transfer to non-current asset held for sale (Note 27)	(106,867)	–
Disposals	-	(29)
At 31 December	138,541	245,408
Amortisation		
At 1 January	40,959	36,358
Transfer to non-current asset held for sale (Note 27)	(15,847)	–
Charge for the year	2,916	4,615
Disposals	-	(14)
At 31 December	28,028	40,959
Net carrying amount at 31 December	110,513	204,449

31 DEFERRED TAX ASSET/(LIABILITY)

The net deferred tax assets/(liabilities) at 31 December 2010 and 2009 are attributable to the following:

2010

(a) Group

Asset/(liability)	At 1 January KShs '000	Profit and loss current year KShs '000	Recognised on business combination (Note 26) KShs '000	Other comprehensive income KShs '000	At 31 December KShs '000
Tax losses in subsidiaries	3,826	(1,172)	–	–	2,654
Property and equipment	191,134	12,918	–	–	204,052
Acquired intangible asset	–	25,905	(1,112,111)	–	(1,086,206)
Portfolio impairment provision	170,093	(11,681)	–	–	158,412
Revaluation surplus	(112,974)	5,262	–	–	(107,712)
Fair value reserve	(285,555)	–	–	(94,358)	(379,913)
Accrued interest	68,171	(19,556)	–	–	48,615
Redundancy provision	2,086	(2,086)	–	–	–
Other provisions	7,411	4,638	–	–	12,049
Retirement benefit obligations	36,424	13,099	–	–	49,523
	80,616	**27,327**	**(1,112,111)**	**(94,358)**	**(1,098,526)**

(b) Company

Asset/(liability)	At 1 January KShs '000	Profit and loss current year KShs '000	Recognised on business combination (Note 26) KShs '000	Other comprehensive income KShs '000	At 31 December KShs '000
Property and equipment	191,126	12,921	–	–	204,047
Acquired intangible asset	–	25,905	(1,112,111)	–	(1,086,206)
Portfolio impairment provision	170,093	(11,681)	–	–	158,412
Revaluation surplus	(112,974)	5,262	–	–	(107,712)
Fair value reserve	(285,555)	–	–	(94,358)	(379,913)
Accrued interest	68,171	(19,556)	–	–	48,615
Redundancy provision	2,086	(2,086)	–	–	–
Other provisions	4,962	4,638	–	–	9,600
Retirement benefit obligations	36,424	13,099	–	–	49,523
	74,333	**28,502**	**(1,112,111)**	**(94,358)**	**1,103,634**

31 DEFERRED TAX ASSET/(LIABILITY) (Continued)

(a) 2009 Group Asset/(liability)

	At 1 January KShs '000	Profit and loss current year KShs '000	Recognised on business combination (Note 26) KShs '000	Other comprehensive income KShs '000	At 31 December KShs '000
Tax losses in subsidiaries	7,122	(3,296)	–	–	3,826
Property and equipment	153,459	37,675	–	–	191,134
Portfolio impairment provision	127,244	42,849	–	–	170,093
Revaluation surplus	(118,608)	5,634	–	–	(112,974)
Fair value reserve	(20,045)	–	–	(265,510)	(285,555)
Accrued interest	54,206	13,965	–	–	68,171
Redundancy provision	30,978	(28,892)	–	–	2,086
Other provisions	–	7,411	–	–	7,411
Retirement benefit obligations	40,502	(4,078)	–	–	36,424
	274,858	**71,268**	**-**	**(265,510)**	**80,616**

(b) 2009 Company Asset/(liability)

	At 1 January KShs '000	Profit and loss current year KShs '000	Recognised on business combination (Note 26) KShs '000	Other comprehensive income KShs '000	At 31 December KShs '000
Property and equipment	153,449	37,677	–	–	191,126
Portfolio impairment provision	127,244	42,849	–	–	170,093
Revaluation surplus	(118,608)	5,634	–	–	(112,974)
Fair value reserve	(20,045)	–	–	(265,510)	(285,555)
Accrued interest	54,206	13,965	–	–	68,171
Redundancy provision	30,978	(28,892)	–	–	2,086
Other provisions	–	4,962	–	–	4,962
Retirement benefit obligations	40,502	(4,078)	–	–	36,424
	267,726	**72,117**	**-**	**(265,510)**	**74,333**

32 OTHER ASSETS

	2010		2009	
	Group KShs '000	**Company KShs '000**	Group KShs '000	Company KShs '000
Uncleared effects	**765,044**	**763,877**	605,106	603,778
Prepayments	**322,115**	**322,115**	297,139	297,139
Other receivables	**416,446**	**411,150**	1,073,757	1,071,272
	1,503,605	**1,497,142**	1,976,002	1,972,189

33 DEPOSITS FROM BANKS

Group and Company

	2010 KShs '000	2009 KShs '000
Balances due from local banks	**3,565,307**	10,194,083
Balances due from foreign banks	**647,373**	338,214
	4,212,680	10,532,297

The weighted average effective interest rate on deposits from banks at 31 December 2010 was 1.41% (2009 – 3.93%).

34 DEPOSITS FROM CUSTOMERS

Group and Company

	2010 KShs '000	2009 KShs '000
From government and parastatals		
Payable on demand	5,023,015	6,031,166
From private sector and individuals		
Payable on demand	84,823,777	67,500,895
Payable within 3 months or less	5,067,738	15,147
Payable after 3 months	5,589,535	13,226,444
	100,504,065	86,773,652
Current and demand accounts	69,999,682	55,454,333
Savings deposits	14,931,142	11,199,812
Time deposits	14,677,186	19,251,435
Other	896,055	868,072
	100,504,065	86,773,652

The weighted average effective interest rate on interest bearing deposits from customers at 31 December 2010 was 1.49% (2009 –3.28%).

35 RETIREMENT BENEFIT OBLIGATIONS

Group and Company

Standard Chartered Bank Kenya Limited operates a defined contribution scheme for all full-time permanent employees and a defined benefit scheme for pensioners and deferred pensioners who existed as at 31 December 1998.

The benefits provided by the defined benefit scheme are based on a formula taking into account years of service and remuneration levels, whilst the benefits provided by the defined contribution scheme are determined by accumulated contributions and returns on investments.

Both schemes are governed by the *Retirement Benefits Act, 1997.* This requires that an actuarial valuation be carried out at least every 3 years for the defined benefit scheme. The most recent actuarial valuation of the defined benefit scheme was carried out as at 31 December 2009 by an independent qualified actuary.

However, the Group's actuary did a review for the year ended 31 December 2010. The review was consistent with previous valuations performed using the projected unit credit method.

The amount included in the statement of financial position arising from the Group's obligation in respect of the defined benefit scheme is as follows:

	2010 KShs '000	2009 KShs '000
Fair value of plan assets	810,624	710,587
Present value of funded obligations	(975,700)	(832,000)
Retirement benefit obligations as at 31 December	(165,076)	(121,413)

35 RETIREMENT BENEFIT OBLIGATIONS (Continued)

Plan assets consist of the following:

	2010 KShs '000	2009 KShs '000
Offshore investments	131,081	53,316
Government bonds	316,639	414,810
Corporate bonds	125,355	66,073
Other	237,549	176,388
	810,624	710,587

Movement in plan assets		
Fair value of plan assets at 1 January	710,587	727,893
Expected return on plan assets	79,397	82,204
Benefits paid by the plan	(108,787)	(113,398)
Employer contributions	26,400	26,400
Recognised actuarial gains/(losses)	103,027	(12,512)
Fair value of plan assets at 31 December	810,624	710,587

Movement in the present value of the retirement benefit obligations		
Retirement benefit obligations at 1 January	832,000	862,900
Interest cost	92,800	96,905
Benefits paid by the plan	(108,787)	(113,398)
Recognised actuarial losses/(gains)	159,687	(14,407)
Retirement benefit obligations at 31 December	975,700	832,000

The net charge recognised in the profit and loss account is as follows:

Interest cost	92,800	96,905
Expected return on plan assets	(79,397)	(82,204)
Recognised actuarial losses/(gains)	56,660	(1,895)
Total included in staff costs	70,063	12,806

The principal actuarial assumptions at the reporting date are as follows:

	2010 % pa	2009 % pa
Discount rate	9	12
Expected return on plan assets	9	12
Future pension increases	3	3

The overall expected long-term rate of return on the assets is 9% is based on the portfolio as a whole and not on the sum of the returns on the individual assets.

35 RETIREMENT BENEFIT OBLIGATIONS (Continued)

The movement in the retirement benefit obligations in the statement of financial position is as follows:

	2010 KShs '000	2009 KShs '000
At 1 January	(121,413)	(135,007)
Employer contributions	26,400	26,400
Charge to the profit and loss account	(70,063)	(12,806)
At 31 December	(165,076)	(121,413)

Historical information

	2010 KShs '000	2009 KShs '000	2008 KShs '000	2007 KShs '000	2006 KShs '000
Fair value of plan assets	810,624	710,587	727,893	785,700	847,000
Present value of funded obligations	(975,700)	(832,000)	(862,900)	(831,000)	(700,000)
Retirement benefit obligations	(165,076)	(121,413)	(135,007)	(45,300)	147,000

36 OTHER LIABILITIES

	2010		2009 (Restated)	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Bills payable	1,755,709	1,755,709	291,013	291,013
Other accounts payable	3,959,376	3,937,969	3,669,426	3,651,011
	5,715,085	5,693,678	3,960,439	3,942,024

37 SHARE CAPITAL AND RESERVES

Company

(a) **Share capital**

Authorised

The authorised share capital of the Company at 31 December 2010 was KShs 1,780 million (2009 – KShs 1,645 million) made up of 300 million (2009 – 273 million) ordinary shares of KShs 5.00 each and 56 million (2009 – 56 million) non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares of KShs 5.00 each.

	Number of ordinary shares	Number of preference shares	Authorised share capital KShs'000
At 1 January and 31 December 2009	273,000,000	56,000,000	1,645,000
Increase during the year	27,000,000	-	135,000
At 31 December 2010	**300,000,000**	**56,000,000**	**1,780,000**

37 SHARE CAPITAL AND RESERVES (Continued)

Company

Issued and fully paid

	Number of ordinary shares	Number of preference shares	Issued share capital KShs'000
At 1 January and 31 December 2009	271,967,811	56,000,000	1,639,839
Rights issue during the year	15,109,323	-	75,547
At 31 December 2010	**287,077,134**	**56,000,000**	**1,715,386**

The shareholders at 31 December 2010 that had large holdings were as follows:

Name	Number of shares	%
1. Standard Chartered Holdings (Africa) BV	212,070,025	73.87
2. Kabarak Limited	2,949,748	1.03
3. National Social Security Fund - Board of Trustees – A/C 71098	1,987,123	0.69
4. National Social Security Fund A/C 71258	1,535,697	0.53
5. Standard Chartered Africa Holdings Limited	1,306,800	0.46
6. Kenya Commercial Bank Nominees Limited – A/C 769G	1,167,243	0.41
7. Barclays (Kenya) Nominees Limited – A/C 9230	1,025,997	0.36
8. Barclays (Kenya) Nominees Limited – A/C 9389	1,008,041	0.35
9. Old Mutual Insurance Company Limited	827,803	0.29
10. Kenya Commercial Bank Nominees Limited – A/C 744D	580,190	0.20
11. Others	62,618,467	21.81
	287,077,134	**100.00**

The distribution of shareholders as at 31 December 2010 and 2009 was as follows:

	2010			2009		
Share range	Number of shareholders	Shares held	%	Number of shareholders	Shares held	%
Less than 500	9,258	1,926,048	0.67	9,412	1,946,474	0.72
501 to 5,000	22,017	27,035,172	9.42	22,324	26,873,362	9.88
5,001 to 10,000	377	2,646,787	0.92	351	2,504,275	0.92
10,001 to 100,000	454	12,704,649	4.43	420	11,536,369	4.24
100,001 to 1,000,000	82	19,713,804	6.87	79	19,463,679	7.16
Above 1,000,000	8	223,050,674	77.69	6	209,643,652	77.08
Total	**32,196**	**287,077,134**	**100.00**	32,592	271,967,811	100.00

37 SHARE CAPITAL AND RESERVES (Continued)

Company

(b) Share premium

These reserves arose when the shares of the company were issued at a price higher than the nominal (par) value. These will be applied towards capital in future.

	Share premium KShs '000
At 1 January and 31 December 2009	2,520,000
Rights issue during the year	2,424,291
Issue costs	(108,033)
At 31 December 2010	**4,836,258**

On 28 May 2010, during the Annual General Meeting, the shareholders approved the purchase of the custody services business from Barclays Bank of Kenya Limited (BBKL) as part of the wider acquisition by Standard Chartered PLC of Barclays Bank PLC custody business in Africa. The Bank offered by way of a rights issue additional shares (15,109,323) at KShs 165.45 per share at a ratio of entitlement of one (1) new share for every eighteen (18) existing shares held. This was used in financing this purchase and to further shore up the capital base in anticipation of continued growth.

(c) Revaluation reserve

Revaluation reserves arose from the periodic revaluation of freehold land and buildings. The book values of these assets are adjusted to the revaluations. Revaluation surpluses are not distributable.

(d) Statutory credit risk reserve

Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory credit risk reserve and accounted for as an appropriation of retained profits. These reserves are not distributable.

(e) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the net investment is derecognised.

(f) Capital contribution reserve

Capital contribution reserve comprises capital contributions provided to the Group by shareholders that are not intended by either party to be repaid and includes capital contribution on the acquisition of the custody business and increases in equity arising from share-based payment awards granted to the Group's employees.

38 NOTES TO THE STATEMENT OF CASH FLOWS

Group

(a) Reconciliation of profit before taxation to net cash flows from/(used in) operating activities

	2010 KShs '000	Restated 2009 KShs '000
Profit before taxation	7,681,884	6,728,447
Depreciation	205,506	289,666
Amortisation of intangible assets	93,851	3,302
(Profit)/loss on sale of property and equipment	(2,508)	107
Loss on sale of prepaid operating lease rentals	-	15
Amortisation of prepaid operating lease rentals	2,916	4,615
Retirement benefit obligations	70,063	12,806
Profit on disposal of equity shares	-	(68,197)
(Increase)/decrease in operating assets		
Balances with Central Bank of Kenya		
– Cash Reserve Ratio	(1,082,298)	(36,347)
Government and other securities held for trading	1,675,288	(711,139)
Derivative financial instruments	(212,996)	1,943,877
Loans and advances to banks	(300,000)	(1,450,000)
Loans and advances to customers	(3,641,953)	(13,396,057)
Investment securities	(6,087,111)	(18,327,707)
Amounts due from group companies	548,528	(579,787)
Other assets	472,397	1,353,412
Increase/(decrease) in operating liabilities		
Deposits from banks	152,936	-
Deposits from customers	13,730,413	9,875,196
Derivative financial instruments	42,561	(3,453,186)
Amounts due to group companies	4,202,876	1,770,466
Defined benefit obligations	(26,400)	(26,400)
Other liabilities	1,754,646	179,761
Cash flows from/(used in) operating activities	19,280,599	(15,887,150)
Income taxes paid	(2,606,196)	(1,715,787)
Net cash flows from/(used in) operating activities	16,674,403	(17,602,937)

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

	2010	2009
Cash on hand	2,663,148	2,909,461
Unrestricted cash balances with Central Bank of Kenya	458,961	812,996
Treasury bills	7,508,604	2,642,972
Loans and advances to banks	1,493,868	42,177
Deposits from banks	(4,059,744)	(10,532,297)
Amounts due from group companies	455,414	2,083,379
Amounts due to group companies	(4,424,615)	(6,076,197)
	4,095,636	(8,117,509)

39 PRIOR YEAR ADJUSTMENT

The prior year adjustment relates to the change in accounting policy in regard to share based payments. Details of the change in accounting policy are disclosed in Note 2(v) and affects the following:

Effects on statement of financial position:	Amounts initially reported at 31 December 2009 KShs '000	Change arising from prior year adjustment KShs '000	Restated balance at 31 December 2009 KShs '000
Group:			
Other liabilities (Note 36)	4,035,029	(74,590)	3,960,439
Company:			
Other liabilities (Note 36)	4,016,614	(74,590)	3,942,024

40 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:

	2010 KShs '000	2009 KShs '000
Guarantees and standby letters of credit	16,166,650	10,714,512
Letters of credit, acceptances and other documentary credits	8,199,403	12,659,789
	24,366,053	23,374,301

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.

41 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, 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.

In June 2006, management withdrew the case from the COMESA Court of Justice and filed for review at the Court of Appeal of the Republic of Kenya with an expectation that the Court of Appeal of the Republic of Kenya will review its earlier decision.

A second claim relates to a pensions matter where the Bank was sued by over 629 ex-employees. The claimants filed a lawsuit against the trustees of the pension fund and the Bank for a claim of KShs14.6 billion on grounds that the lump sum benefits paid to them, over 10 years ago following their retrenchment, were miscalculated.

41 OTHER CONTINGENT LIABILITIES (Continued)

In addition, the Bank has some on-going matters with the Kenya Revenue Authority. As at 31 December 2010, the directors have not made provisions for tax demand letters amounting to KShs 221 million (2009 - KShs 223 million) as they are of the view, based on advice received, that these amounts are not payable.

42 ASSETS PLEDGED AS SECURITY

As at 31 December 2010, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities.

43 FIDUCIARY ACTIVITIES

During the year, the Bank acquired the custody business from Barclays Bank of Kenya Limited. The Bank holds asset security documents on behalf of customers with a value of KShs 256,460,864,699 (2009 – Nil). Most of these securities are held by the Security Services department of the Bank. The assets held comprise of deposits, government securities, debentures, title deeds, quoted and unquoted shares.

44 RELATED PARTY TRANSACTIONS

Group and company

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 24. 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 has also entered into transactions at arm's length with Standard Chartered Kenya Pension Fund (SCKPF) and Standard Chartered Staff Retirement Benefits Scheme 2006 (SCKSRBS 2006). At 31 December 2010, deposits from SCKPF and SCKSRBS 2006 amounted to KShs 12,643,784 (2009 – KShs 32,494,250).

At 31 December 2010, balances relating to deposits from directors, employees and associates amounted to KShs 669,620,108 (2009 – KShs 603,559,557).

The interest expense paid on deposits from directors, employees and associates amounted to KShs 4,703,867 (2009 – KShs 7,042,853).

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

	2010	2009
Loans and advances to directors, employees and their associates	**KShs '000**	KShs '000
At start of the year	**1,901,323**	1,437,791
Amounts advanced during the year	**1,711,039**	1,371,569
Amounts repaid during the year	**(1,175,114)**	(908,037)
At end of the year	**2,437,248**	1,901,323
Loans and advances to directors or companies controlled by directors or their families	**32,384**	19,914
Loans and advances to employees	**2,404,864**	1,881,409
	2,437,248	1,901,323

The interest income earned during the year on loans and advances to directors, employees and associates amounted to KShs 137,834,681 (2009 – KShs114,696,337). The above loans and advances were given on commercial terms and conditions.

None of the loans and advances above are impaired at 31 December 2010 (2009 – Nil).

	2010	2009
Key management compensation	**KShs '000**	KShs '000
Salaries and other employee benefits	**279,774**	293,925

Salaries and other employee benefits include those relating to the executive directors which are disclosed in Note 14.

45 CAPITAL COMMITMENTS

Group and company

	2010 KShs '000	2009 KShs '000
Authorised	495,067	1,377,330

46 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

Group and Company

The Group's commitments under non cancellable operating leases expiring:

	2010		2009	
	Premises KShs '000	Equipment KShs '000	Premises KShs '000	Equipment KShs '000
Within 1 year	126,290	38,217	129,434	36,137
After 1 year but less than 5 years	201,215	102,993	284,739	87,831
After 5 years	4,566	36,235	327	–
	332,071	177,445	414,500	123,968

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

47 HOLDING COMPANY

The ultimate holding company of Standard Chartered Bank Kenya Limited is Standard Chartered PLC, which is a limited liability company incorporated and domiciled in Great Britain.

Notice of the Annual General Meeting

to the members of Standard Chartered Bank Kenya Limited

Notice is hereby given that the twenty fifth Annual General Meeting of the Company will be held at Kenyatta International Conference Centre (KICC) Nairobi on Thursday, 19 May 2011 at 11:30 a.m. for the following purposes:

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 2010 with the Auditors' report thereon.

2. To confirm the payment of one interim dividend of KShs 5.00 paid in December 2010 and to approve the payment of a final dividend of KShs 8.50 for each ordinary share of KShs 5.00 on the issued share capital of the Company in respect of the year ended 31 December 2010.

3. To elect the following directors:

   (a) Mr. W. Kiboro, a director retiring by rotation who being eligible offers himself for re-election in accordance with Article 96(1) of the Memorandum and Articles of Association.

   (b) Mr. K. Shah, a director retiring by rotation who being eligible offers himself for re-election in accordance with Article 96(1) of the Memorandum and Articles of Association.

   (c) Mr. L. Baillie, a casual director retiring by rotation who being eligible offers himself for re-election in accordance with Article 98(1) of the Memorandum and Articles of Association.

4. To note the retirement of Mr. H. Mule, who retires from office and does not offer himself for re-election.

5. SPECIAL RESOLUTIONS:

   To consider and if thought appropriate to pass the following resolutions as special resolutions;

   (a) THAT the Articles of Association of the Company be amended by inserting the following definitions in Article 1 in the proper alphabetical order and where necessary in place of the existing definitions :

"Address	A physical, postal or electronic address or a number used for the purposes of sending or receiving documents or information by facsimile.
Delivery	Physical and/or electronic delivery;
The Act	The Companies Act (Cap.486) as amended or re-enacted from time to time;
The Register	The Register of Members of the Company whether physical or electronic;
In writing	Written or produced by any substitute for writing including by electronic and other means, or partly written and partly produced."

   (b) THAT the Articles of Association of the Company be amended by inserting the words '(including the manner of attending such meetings)' after the word 'meetings' of Article 9 so that Article 9 reads as follows:

   " If, at any time, the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of Three-Fourths of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class. To every such separate general meeting the provisions of these Articles relating to general meetings (including the manner of attending such meetings) shall mutatis mutandis apply, but so that the necessary quorum shall be two persons holding at least, or representing by proxy, one-third of the issued shares of the class and that any holder of shares in that class present in person or by proxy may demand a poll and if at an adjourned meeting of such holders a quorum is not present, the holders present shall form a quorum."

(c) THAT the Articles of Association of the Company be amended by inserting the words '(except where such shares are to be issued in an immobilized or dematerialized form as such terms are defined under the Central Depositories Act, 2000 or its reenactment or modification)' after the word 'receive' and inserting the word "electronic" after the word "bear" of Article 11 so that Article 11 reads as follows:

"Every person whose name is entered as a member in the Register shall be entitled without payment to receive (except where such shares are to be issued in an immobilized or dematerialized form as such terms are defined under the Central Depositories Act, 2000 or its reenactment or modification) within two months of allotment or lodging of share transfers (or within such other period as the conditions of issue shall provide) one certificate in respect of each class of shares held by him or, upon payment of such sum (if any) not exceeding Kenya Shillings 10/- for every certificate after the first as the Directors shall from time to time determine, to several certificates, each for one or more of his shares, except that shares of different classes may not be included within the same certificate. Every certificate shall be under the Seal, may bear electronic signatures of a Director and the Secretary, and shall specify the shares to which it relates and the amount paid up thereon: PROVIDED that in respect of a share or shares jointly held by several persons the Company shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one of several joint holders shall be sufficient delivery to all such holders"

(d) THAT the Articles of Association of the Company be amended by inserting the words 'PROVIDED THAT no requisition by a shareholder for a meeting of the Company shall be by electronic means' after the word 'Statutes' of Article 50 so that Article 50 reads as follows:

"The Directors may, whenever they think fit, convene an extraordinary general meeting, and they shall do so upon a requisition in writing deposited and completed in accordance with the Statutes PROVIDED THAT no requisition by a shareholder for a meeting of the Company shall be by electronic means."

(e) THAT the Articles of Association of the Company be amended by deleting the current Article 51 and adopting a new article 51 to read as follows:

"A general meeting shall be called by twenty-one days' notice in writing. To the extent permissible by law, the Company may serve any notice to be given to members by publishing such notice in two daily newspapers with nation-wide circulation; or by sending such notice through the post addressed to such member at their registered postal address; or by facsimile transmission to such member at their registered facsimile address; or by electronic mail or by other electronic means not prohibited by law including the publication thereof on the website of the Company. The notice shall specify the place, the day and the hour of meeting, the physical, postal or electronic addresses to which communications may be relayed, and, in case of special business, the general nature of that business shall be given, in the manner hereinafter mentioned or in such other manner, if any, as may be prescribed by the Company in general meeting, to such persons as are under the regulations of the Company, entitled to receive such notices from the Company.

Provided that a meeting of the Company shall notwithstanding that it is called by shorter notice than that specified in this Article be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as the annual general meeting, by Members present and entitled to attend and vote thereat; and

(b) in the case of any other meeting, by a majority in number of the Members having a right to attend and vote at the meeting, being a majority together holding not less than seventy-five per cent (75%) in nominal value of the shares giving that right."

(f) THAT the Articles of Association of the Company be amended by inserting the words 'The results of a poll may be made public on the Company's official website or other electronic means' after the word 'poll' in Article 63 so that Article 63 reads as follows:
"A poll demanded on the election of Chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the Chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with pending the taking of the poll. The results of a poll may be made public on the Company's official website or other electronic means."

(g) THAT the Articles of Association of the Company be amended by inserting the words 'and such instrument shall be delivered either physically or electronically in such manner as the Company may approve, provided that such delivery is considered secure under Kenyan law and is sent to the designated address.' after the word 'authorised' in Article 70 so that Article 70 reads as follows:

"The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointer is a Corporation, either under seal, or under the hand of an officer or attorney duly authorized, and such instrument shall be delivered either physically or electronically in such manner as the Company may approve, provided that such delivery is considered secure under Kenyan law and is sent to the designated address."

(h) THAT the Articles of Association of the Company be amended by inserting the words 'delivered or received' after the word 'deposited' and inserting the words 'or at the electronic address' after the word 'Kenya' of Article 71 so that Article 71 reads as follows:

"The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or notarially certified copy of the power or authority shall be deposited, delivered or received at the Office or at such other place within Kenya or at the electronic address as is specified for that purpose in the notice convening the meeting, not less than forty-eight hours before the time for holding the meeting or adjourned meeting, at which the person named in the instrument proposes to vote, or, in the case of a poll, not less than twenty-four hours before the time appointed for the taking of the poll, and in default the instrument of proxy shall not be treated as valid."

(i) THAT the Articles of Association of the Company be amended by inserting the words '(whether physical or electronic) of a" after the word 'copy' of Article 75 so that Article 75 reads as follows:

"Any corporation, which is a Member of the Company may, by resolution of its Directors or other governing body, appoint such persons as it thinks fit to act as its representative at any meeting of the Company or of any class of Members of the Company. The production at a meeting of a copy (whether physical or electronic) of a resolution certified by a director (other than the appointee if he himself shall be a director) and the secretary (or their equivalents) of such corporation to be a true copy of the resolution, shall be accepted by the Company as sufficient evidence of the validity of his appointment. The person so appointed shall be entitled to exercise the same powers on behalf of such corporation as it could exercise if it were an individual Member of the Company."

(j) THAT the Articles of Association of the Company be amended by inserting the words 'To the extent permissible by the law, the Directors may file legal returns and serve notices on the Registrar of Companies electronically' after the word 'therein' in Article 88 so that Article 88 reads as follows:

"The Directors shall duly comply with the provisions of the Statutes, and in particular with the provisions in regard to the registration of the particulars of mortgages and charges affecting the property of the Company, or created by it, and to keeping a register of the Directors and Secretaries, and to sending to the Registrar of Companies an annual list of Members, and a summary of particulars relating thereto, and notice of any consolidation or increase of share capital, or conversion of shares into stock, and copies of special resolutions, and a copy of the register of Directors and notifications of any changes therein. To the extent permissible by the law, the Directors may file statutory returns and serve notices on the Registrar of Companies electronically."

(k) THAT the Articles of Association of the Company be amended by inserting the words '(physical or electronic) of a' after the word 'books' of Article 93 so that Article 93 reads as follows:

"The Directors shall cause minutes to be made in books (physical or electronic) provided for the purpose
(a) of all appointments of officers made by the Directors;
(b) of all resolutions and proceedings at all meetings of the Company, and of the Directors, and of committees of Directors."

(l) THAT the Articles of Association of the Company be amended by deleting the current Article 101 and adopting a new Article 101 to read as follows:

"The Directors may meet for the dispatch of business, adjourn, and otherwise regulate their meetings, as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes, the Chairman shall have a second or casting vote. A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Directors. A meeting of directors shall be deemed to be duly constituted if the same is done through video-conferencing or by any other audio-visual means or through the use of any other electronic media or technology that would enable a Director to communicate with and recognize all the other Directors in the meeting in real time. It shall be necessary to give notice of a meeting of Directors to any Director for the time being absent from Kenya."

(m) THAT the Articles of Association of the Company be amended by inserting the words '(including in the manner set out in Article 101 in respect of Directors)' after the word 'meet' of Article 107 so that Article 107 reads as follows:

"A committee may meet (including in the manner set out in Article 101 in respect of Directors) and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the Members present, and in the case of an equality of votes the Chairman shall have a second or casting vote."

(n) THAT the Articles of Association of the Company be amended by inserting the words 'Such a resolution may be circulated to the Directors by electronic means and signed electronically' after the word 'held' and deleting the words 'provided that' in Article 109 so that Article 109 reads as follows:

"A resolution in writing signed by a simple majority of the Directors, or by all the members of a committee, shall be as valid and effectual as if it had been passed at a meeting of the Directors or of the committee (as the case may be) duly convened and held. Such a resolution may be circulated to the Directors by electronic means and signed electronically."

(o) THAT the Articles of Association of the Company be amended by deleting the current Article 134 and adopting a new Article 134 to read as follows:

"The Company may issue notices and any other communication to its Members through any of, or any combination of the following ways:
(a) Post or Delivery to the registered addresses of Members;
(b) Electronic transmission to the registered electronic addresses of Members;

(c) Publication, on the same date, in two daily newspapers of nationwide circulation;
(d) Publication on the Company's official website.

For this purpose, the Company may create and maintain a database of its Members registered physical, postal and electronic addresses. All notices must include the physical, postal and electronic addresses to which communications to the Company may be relayed and Members may issue communications to the Company through any of these addresses."

(p) THAT the Articles of Association of the Company be amended by deleting the current Article 135 and adopting a new Article 135 to read as follows:

"Any notice which has been published in a daily newspaper in accordance with Article 51 or 134 shall be deemed to have been served at 9:00 a.m. on the next day following the date when it was published. Any notice sent by post shall be deemed to have been served at the expiration of seventy-two hours after posting. Any notice sent by facsimile or electronic means including display in the Company's official website shall be deemed to have been served at midnight on the date when the notice was transmitted, sent or displayed."

(q) THAT the Articles of Association of the Company be amended by inserting the words 'or by electronic means' after the words 'prepaid letters' in Article 137 so that Article 137 reads as follows:

"A notice may be given by the Company to the person entitled to a share in consequence of the death or bankruptcy of a Member by sending it through the post in a prepaid letter, or by electronic means, addressed to him by name, or by the title of representative of the deceased, or trustee of the bankrupt, or by any like description, at the registered address of the person claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred."

(r) THAT the Articles of Association of the Company be amended by inserting a new Article 138 to read as follows:

"As far as permissible under the law the Company may issue notices and other communication on any corporate action, offers of shares of the Company, rights issues, preference shares issues, bonus issues and any other offers by electronic means."

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

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

BY ORDER OF THE BOARD

N. Oginde
Company Secretary
P.O. Box 30003, 00100 Nairobi GPO
7 March 2011

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 19, May 2011 at the Kenyatta International Conference Centre (KICC) at 11.30 a.m.

or any adjournment thereof.

As witness my/our hand/hands this day of ______________________________2011

Signed: ____

Note:

1. **The completed Form of Proxy by members must be lodged at the Share Registrar's office, 6th Floor, Bruce House, Standard Street, Nairobi or to be posted so as to reach Custody & Registrars Services (CRS), P.O. Box 8484 00100, Nairobi to reach them not later than 3.00 p.m. on Monday 16 May 2011, 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 na nusu za asubuhi Mei 19 2011, Kenyatta International Conference Centre (KICC), na wakati wa ahirisho lolote litakalotokea baadaye, kama

shahidi siku hii: ______________________________2011

Sahihi: ____

Muhimu:

1. **Hii fomu ya uwakilishi lazima irudishwe kwa afisi ya Custody & Registrars Services (CRS), orofa la sita, Bruce House, Standard Street, ama itumwe kwa njia ya posta kwa kutumia anwani ya Custody & Registrars Services (CRS), SLP 8484 001000, Nairobi kufika kabla ya Jumatatu saa tisa alasiri Mei 16 2011. Mwanahisa/wanahisa watakaowasilisha fomu hii baada ya saa tisa, hataruhusiwa/hawataruhusiwa kushiriki katika uchaguzi wowote.**
2. **Ikiwa mteuzi ni Shirika, fomu hii ya uwakilishi lazima ifungwe kwa lakiri.**