Standard Chartered Bank Kenya Limited Annual Report 2011

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Business Highlights

A Year of Continued Strong Performance

Business Highlights/KPIs

Operating income up 14% to
KShs 15,914 m
2010 KShs 13,903 m

Profit before taxation up 7% to
KShs 8,255 m
2010 KShs 7,682 m

Earnings per share up 6% to
KShs 19.75
2010 KShs 18.58

Loans and advances to customers up 59% to
KShs 96,098 m
2010 KShs 60,337 m

Deposits from customers up 22% to
KShs 122,323 m
2010 KShs 100,504 m

Shareholders' equity up 2% to
KShs 20,694 m
2010 KShs 20,331 m

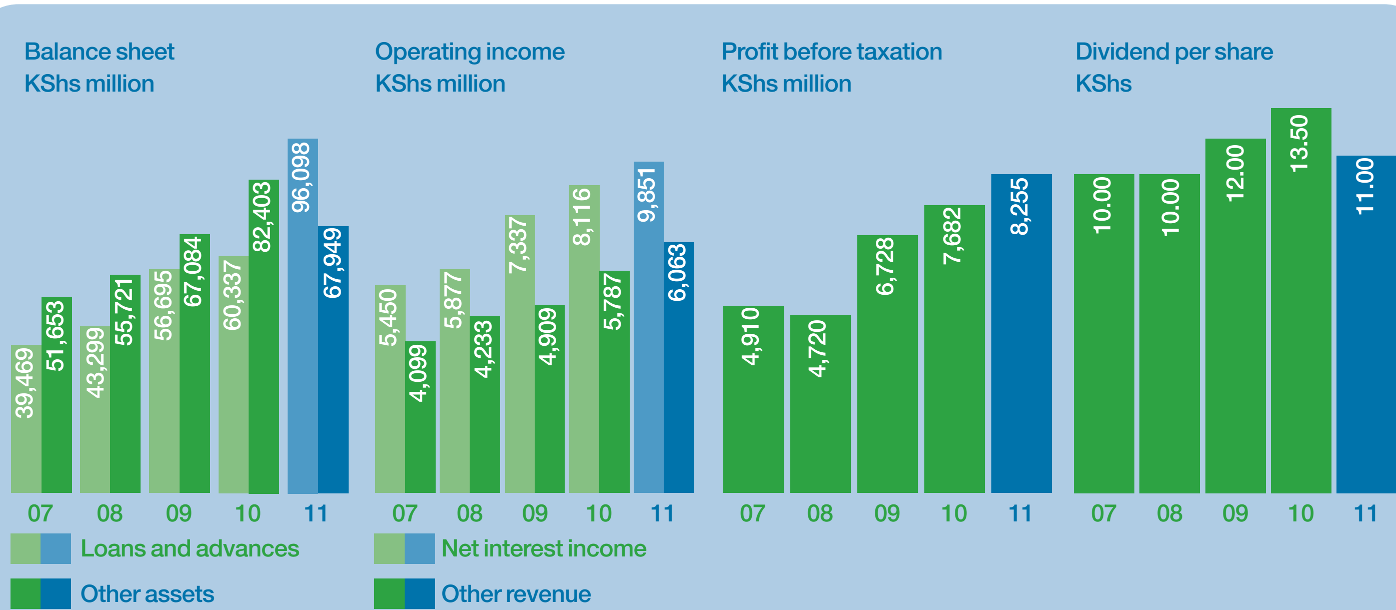
Employees
1,743
2010 1,554

Total dividends
KShs 3,326m
2010 KShs 4,044 m

Branches
32
2010 31

ATMs
90
2010 85

Five Year Performance Review



Five Year Summary

	2011	2010	Restated 2009	2008	2007
Income Statement	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Operating income	15,913,511	13,902,729	12,246,432	10,110,070	9,549,399
Impairment losses on loans and advances	(412,739)	(332,321)	(474,936)	(365,349)	(206,019)
Operating expenses	(7,245,637)	(5,888,524)	(5,043,049)	(5,024,907)	(4,433,192)
Profit before taxation	8,255,135	7,681,884	6,728,447	4,719,814	4,910,188
Taxation	(2,418,314)	(2,305,693)	(1,995,693)	(1,469,001)	(1,440,311)
Profit after taxation	5,836,821	5,376,191	4,732,754	3,250,813	3,469,877
Information per ordinary share					
Basic earnings per share (EPS)	19.75	18.58	16.45	11.11	11.90
Dividend per share on each ordinary share (DPS)	11.00	13.50	12.00	10.00	10.00
Statement of Financial Position					
Loans and advances to customers (gross)	97,417,343	61,599,405	58,016,010	44,857,772	41,025,357
Impairment losses on loans and advances	(1,319,520)	(1,262,576)	(1,321,134)	(1,558,953)	(1,556,835)
Government securities	24,584,908	54,540,817	43,357,357	23,251,930	26,674,673
Other assets	43,363,893	27,868,603	23,726,739	32,468,822	24,978,747
Total assets	164,046,624	142,746,249	123,778,972	99,019,571	91,121,942
Deposits from customers	122,323,049	100,504,065	86,773,652	76,898,456	73,840,563
Other liabilities	21,029,119	21,911,062	23,013,165	10,622,308	6,365,371
Total liabilities	143,352,168	122,415,127	109,786,817	87,520,764	80,205,934
Net assets	20,694,456	20,331,122	13,992,155	11,498,807	10,916,008
Shareholders' funds	20,694,456	20,331,122	13,992,155	11,498,807	10,916,008
Ratios					
Cost:income ratio	46%	42%	41%	50%	46%
Return on capital employed	33%	30%	39%	32%	36%
Gross non performing loans and advances/total gross loans and advances	1%	2%	3%	4%	5%
Impairment charge/gross loans and advances	1%	1%	1%	1%	1%
Gross loans and advances to deposits ratio	80%	61%	67%	58%	56%
Core capital/total deposit liabilities	12%	11%	12%	12%	12%
Core capital/total risk weighted assets	12%	14%	14%	16%	16%
Total capital/total risk weighted assets	14%	14%	14%	16%	17%

Chairman's Statement

Sustainable growth

Strategic growth

"Against a challenging economic backdrop, Standard Chartered Bank continued to perform strongly demonstrating our ability and commitment to build a sustainable business in Kenya. Keeping our shareholders top of mind when determining our strategy, the Bank delivered strong income and profit growth in 2011."

I am pleased to report that 2011 was our fifth consecutive year of strong income and profits despite the challenging external environment. Once again, our performance has shown that we are in the right segments, with the right strategy, and have the right leadership in place to deliver consistent value for our shareholders.

Operating environment

2011 was a difficult year for the global economy and indeed for Kenya as well. High fuel prices triggered by the crisis in the Arab world; the Euro crisis which created uncertainty in the global markets and increased currency volatility; high food prices notably maize of which Kenya imports substantial quantities; and the drought in the Horn of Africa that led to a massive influx of refugees and significant loss of livestock were some of the domestic and global shocks that contributed to the slowdown in Kenya's economic growth.

Notwithstanding the significant challenges, Kenya's economy grew by 4.3% and was driven by strong performance in the Financial, Construction and Tourism sectors. Moderate growth was recorded in the Agriculture and Manufacturing sectors. The Services sector maintained its position as the growth engine fuelled by continued growth in ICT and Tourism.

The banking sector performed well in 2011 and recorded significant growth in deposits as a result of deposit mobilisation, new delivery channels and adoption of agency banking. Assets hit the KShs 1 trillion mark driven by growth in deposits, injection of capital and retention of profits. The sector registered improved performance in earnings and capital and the level of non-performing loans reduced compared with a similar period in 2010.

As part of its reforms agenda, the banking sector implemented Cheque Truncation which seeks to reduce cheque handling costs. It also provides superior customer service levels, improves risk management, reduces liquidity risk and improves efficiency of our payment systems by streamlining the processing of cheques. Notably, its implementation has reduced the number of cheque clearing days countrywide from twenty one working days in some areas to three working days.

Chairman's Statement (Continued)

Financial results

Against a challenging economic backdrop, Standard Chartered Bank continued to perform strongly demonstrating our ability and commitment to build a sustainable business in Kenya. Keeping our shareholders top of mind when determining our strategy, the Bank delivered strong income and profit growth in 2011.

- Profit before taxation rose by 7% to KShs 8.3 billion (2010: KShs 7.7 billion);
- Total income rose 14% to KShs 15.9 billion (2010: KShs 13.9 billion) as a result of strong growth in interest income which increased by 21% from KShs 8.1 billion to KShs 9.9 billion;
- Non interest income increased by 5% to KShs 6.1 billion due to good growth in revenue from foreign exchange, fees and commissions. However, this was tempered by realised and unrealised mark-to-market losses in the bond portfolio as well as the foreign exchange derivatives;
- Net bad debt charge increased from KShs 332 million to KShs 413 million and is in line with the growth in our loans and advances portfolio;
- Total operating costs grew by 23% to KShs 7.2 billion (2010: KShs 5.9 billion) as we continued to invest in new business capabilities. A significant portion of the cost growth was due to our new head office building in Chiromo, the flow-through amortisation of the acquisition of the Custody business and recruitment of additional staff in our Priority Banking and SME businesses;
- Loans and advances increased by 59% to KShs 96.1 billion (2010: KShs 60.3 billion) while customer deposits increased by 22% to KShs 122.3 billion (2010: KShs 100.5 billion); and
- Our investment in government securities fell by 55% from KShs 54.5 billion to KShs 24.6 billion, as we continued to reposition our balance sheet away from government securities and into customer assets. Investment in government securities now constitutes only 15% of total assets compared to 38% in 2010.

The Board is recommending a final dividend for the year of KShs 11.00 for every ordinary share of KShs 5.00. This compares to KShs 13.50 per ordinary share in 2010. In the last one year, the Bank has had great opportunity to grow its asset book at a fast pace. To maintain this momentum and to take advantage of the demand for loans and advances the Board has found it necessary to reduce the dividend payout. Thus the 2011 dividend payout gives us the right balance between bolstering our capital base to enable us pursue growth as well as continue to deliver attractive returns to our investors.

Corporate Governance

Strong management and governance continue to be key components to our business model. In May 2011, Harris Mule retired from the Board after seven years of dedicated service as a non-executive director. We are extremely grateful to him for the immense contribution he made to the Bank's success.

To enhance the strength of our Board, Robin Bairstow, previously Head of Origination and Client Coverage for Standard Chartered Bank Zambia, was appointed in January as the Executive Director, Origination and Client Coverage replacing Segun Odusanya who resigned from the Board in June 2011 to pursue other interests.

In addition, Patrick Obath was appointed to the Board as a non-executive director in January this year. Patrick brings to the Board vast experience in change management, strategy, financial management and controls, turnarounds, governance and business risk from the oil industry where he served in various positions in Shell Corporation.

The various Board Committees continued to play a vital role in supporting the Board in discharging its duties. One of the areas of focus for the Audit Committee in 2011 was monitoring of the liquidity and capital management controls in place to ensure compliance with necessary regulatory requirements. The Risk Committee focused on reviewing the Bank's risk appetite. It also spent considerable time examining emerging risks owing to regulatory, capital and technology risks. The non-executive directors will continue to maintain oversight on the management of the Bank through board meetings and various board committees.

100 Years celebration

In 2011, Standard Chartered Bank celebrated 100 years of presence in Kenya since we opened our first two branches, Treasury Square in Mombasa and Kenyatta Avenue in Nairobi, in January 1911. As an organisation we are proud to be associated with the economic and social development of this great nation for the last century.

Chairman's Statement (Continued)

To mark this momentous achievement and demonstrate the significance the Group places in Kenya as a key market in its Africa footprint, the Standard Chartered Group Board, including the Group Chairman, John Peace, and the Group Chief Executive Officer, Peter Sands, held the annual mid-year Board and Strategy meeting in Nairobi in June 2011. During their visit, they took part in the Bank's centenary celebrations which included the official opening of the new Head Office building by his Excellency the President, Honorable Mwai Kibaki.

Also to mark our centennial anniversary and to celebrate the Nairobi Marathon, the Bank organised a 'Torch Run' from Nairobi to Mombasa, which was run by 25 members of staff. Other activities included the re-launch of the newly refurbished Treasury Square Branch, client dinners both in Nairobi and Mombasa and tree planting exercises at Karura and Ngong forests.

Community partnership

Standard Chartered plays a clear role in helping businesses set up and expand – helping people buy homes, grow their wealth and invest for the future. In this way, we can have a substantial positive impact on society whilst at the same time creating value for our shareholders.

We aim to be the world's best international bank, not only in Kenya but also in the rest of our footprint. Our consistent and sustained financial performance testifies to our business strategy and the disciplined way in which we have executed this over a number of years.

We believe that the long term success of our business depends on the health and prosperity of the communities in which we operate, and we continue to focus on the three areas where we can make the most difference:

- contributing to the real economy – using our financing to support growth and job creation and helping to widen access to financial services;
- promoting sustainable finance – providing credit responsibly and helping to mobilise finance for clean technology; and
- leading the way in communities – reducing our own impact on the environment, offering a great place to work and investing strategically in communities to maximise social returns.

I urge you to read the Sustainability Review contained in this Annual Report to see the progress the Bank is making in delivering the three areas mentioned. In the Review we set out our performance in 2011, measuring our progress against the stretching targets we have set ourselves to make sure that we remain 'Here for good' – Here for people, Here for progress and Here for the long run.

Summary

Standard Chartered's strategy is to provide responsive, innovative and creative financial solutions to our customers through marrying local expertise with international experience. The Bank's approach has been to enhance both our products and services and increase our network. Our innovations have mostly been driven by our customers' needs and a focus on key economic activities in the various countries in which we are present.

We remain well positioned in our chosen markets with a strong, underlying growth momentum, driven by our focus on the rapidly expanding middle classes and booming infrastructure investment. We are strongly capitalised and highly liquid, with diversified sources of quality income growth throughout our Consumer and Wholesale Banking businesses and an obsessive focus on the basics of banking. Finally, we have a cohesive and distinctive culture with a strong emphasis on values and leadership. 'Here for good', our brand promise powerfully sums up who we are and what we stand for.

In summary, 2011 was another year of strong performance for Standard Chartered Bank, and the Board remains confident for the year ahead. Our results demonstrate the continued success of our strategy, our diverse footprint, our unique culture and, most especially, the quality of our people. We enter 2012 in great shape.

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

12 March 2012

Taarifa ya Mwenyekiti

Msimamo madhubuti wa ukuaji

Mikakati ya Kujistawisha

"Licha ya kuweko kwa mazingira yenye changamoto tele za kiuchumi Benki ya Standard Chartered iliendelea na msimamo imara katika utekelezaji wake na kudhihirisha uwezo wetu na kujitolea kwetu kuendeleza biashara iliyo thabiti hapa Kenya. Katika kuyapa kipaumbele matarajio ya wanahisa wetu kwenye mikakati yetu, benki hii iliwasilisha mapato mazuri na ukuaji imara katika 2011."

Nina furaha kuwaarifu kuwa 2011 ulikuwa mwaka wa tano mfululizo wa mapato na faida imara licha ya kuweko mazingira yalojaa changamoto tele kutoka nje. Kwa mara nyingine tena, matokeo yetu mazuri yameonyesha kuwa tuko katika vitengo vifaavyo, na tuko na uongozi bora wenye uwezo wa kuendelea kuwasilisha faida kwa wanahisa wetu kila mara.

Mazingira ya shughuli

2011 ulikuwa mwaka mgumu kwa uchumi wa dunia nzima na kwa nchi yetu ya Kenya vile vile. Kupanda juu kwa bei za mafuta kuliochochewa na hali ya mgogoro katika nchi za Kiarabu; matatizo yaliyoikumba sarafu ya Euro ambayo yalileta kugeukageuka kwa thamani ya sarafu; kupanda kwa bei za chakula hasa muhimu mahindi ambayo Kenya huagiza kwa wingi kutoka nje; na hali ya ukame katika pembe ya Afrika iliopelekea kuingia kwa halaiki ya wakimbizi na kufariki kwa mifugo wengi, hii ikiwa ni baadhi ya athari kali za humu nchini na duniani zilizochangia kupunguza kasi wa ukuaji wa uchumi wa Kenya.

Licha ya changamoto hizi zilizothibitika, uchumi wa Kenya uliimarika kwa asilimia 4.3 na ulichangiwa na utekelezaji thabiti wa shughuli katika sekta hii ya fedha, ujenzi na utalii. Ukuaji wa wastani ulipatikana katika sekta za kilimo na uzalishaji viwandani. Sekta ya utoaji huduma ilidumisha nafasi yake ya kuwa kichocheo kikubwa cha ukuaji kwa kuendelea kuimarika kwa sekta ya teknolojia ya mawasiliano na utalii.

Sekta ya benki ilifanya vizuri katika mwaka wa 2011 na ilirekodi ukuaji wa maana katika uwekaji pesa benki baada ya hamasisho la uwekaji huo, pamoja na njia mpya za kufikisha huduma na kuanzishwa kwa huduma kupitia uwakala. Rasilimali kufikia alama ya Shilingi ya Kenya Trilioni Moja ikisababishwa na ongezeko la uwekaji pesa benki, kuongezwa mtaji na kubakizwa kwa faida. Sekta hii iliandikisha matokeo yaliyoimarika katika mapato na mtaji na upungufu wa viwango vya mikopo isiolipika inapolinganishwa na kipindi kipindi sawa na hiki katika mwaka wa 2010.

Kama sehemu moja katika ajenda yake ya mageuzi, sekta ya mabenki ilitekeleza mfumo wa kufupisha muda wa kushughulikia hundi yaani "Cheque Truncation" ambayo madhumuni yake ni kupunguza gharama za kushughulikia hundi. Pia inatoa huduma za viwango vya juu kwa wateja, inaboresha usimamizi wa usalama, inapunguza dhima ya ukwasi na kuboresha utenda kazi wa mfumo wetu malipo kwa kurahisisha kushughulikiwa kwa hundi. Ni wazi, kutekelezwa kwa mfumo huu kumepunguza idadi ya siku za kukagua na kupitisha hundi kote nchini kutoka siku ishirini na moja za kazi katika baadhi ya sehemu hadi siku tatu za kazi.

Matokeo ya kifedha

Licha ya kuweko kwa mazingira yenye changamoto tele za kiuchumi Standard Chartered iliendelea na msimamo imara katika utekelezaji wake na kudhihirisha uwezo wetu na kujitolea kwetu kuendeleza biashara iliyo thabiti hapa Kenya. Katika kuyapa

Taarifa ya Mwenyekiti (Yaendelea)

kipaumbele matarajio ya wanahisa wetu kwenye mikakati yetu, benki hii iliwasilisha mapato mazuri na ukuaji imara katika 2011.

- Faida kabla ya kodi ilipanda kwa asilimia 7 hadi Shilingi bilioni 8.3 (2010: Shilingi bilioni 7.7)

- Jumla ya mapato yalizidi kwa asilimia 14 hadi Shilingi bilioni 15.9 (2010: Shilingi bilioni 13.9) ikisababishwa na ukuaji imara wa mapato kutokana na riba ambayo yaliongezeka kwa asilimia 21 kutoka Shilingi bilioni 8.1 hadi Shilingi bilioni 9.9;

- Mapato yasiyo ya riba yaliongezeka kwa asilimia 5 hadi Shilingi bilioni 6.1 kwa ajili ya ukuaji mzuri wa maduhuli kutokana na biashara ya ubadilishanaji wa sarafu za kigeni, ada na asilimia za faida tunazotoza. Hata hivyo hili ilivurugwa na hasara zilizoalamishwa katika soko zinazotambulika na zisizotambulika katika orodha ya fedha za hati ya thamana pamoja na ile ya vizalika vya biashara ya ubadilishanaji sarafu za kigeni;

- Jumla fedha za madeni yasiolipika iliongezeka kutoka Shilingi milioni 332 hadi Shilingi milioni 413 na hii iko sawia na ukuaji katika orodha ya fedha za mikopo midogo na mikubwa;

- Jumla ya fedha za gharama ya utekelezaji shughuli ilizidi kwa asilimia 23 hadi Shilingi bilioni 7.2 (2010: Shilingi bilioni 5.9) tulipokuwa tunaendelea kuwekeza katika fursa za biashara mpya. Sehemu kubwa ya gharama ya ukuaji ilisababishwa na kujengwa kwa jumba la makao yetu makuu kule Chiromo, matokeo ya utengaji fedha za kumiliki biashara ya Usimamizi (Custody) na kuajiri wafanyikazi zaidi katika biashara zetu za Priority Banking na SME (huduma kwa wafanyibiashara wadogo).

- Utoaji mikopo mikubwa na midogo uliongezeka kwa asilimia 59 hadi Shilingi bilioni 96.1 (2010: Shilingi bilioni 60.3) huku uwekaji pesa za wateja ukizidi kwa asilimia 22 hadi Shilingi bilioni 122.3 (2010: Shilingi bilioni 100.5).

- Uwekezaji wetu katika hati za kifedha za serikali ulipungua kwa asilimia 55 kutoka Shilingi bilioni 54.5 hadi Shilingi bilioni 24.6, tulipoendelea kubadilisha hali ya mizania yetu ya hesabu za hati za thamana za serikali na kuwa rasilimali za wateja. Uwekezaji katika hati za kifedha za serikali sasa zinajumuisha asilimia 15 pekee ya jumla ya rasilimali zote ikilinganishwa na ile ya asilimia 38 katika mwaka wa 2010.

Halmashauri inapendekeza mgawo wa mwisho wa faida wa mwaka huu kuwa Shilingi 11.00 kwa kila hisa ya kawaida ya Shilingi 5.00. Hii inalinganishwa na wa Shilingi 13.50 kwa kila hisa ya kawaida katika 2010. Katika kipindi cha mwaka mmoja uliopita Benki ilipata fursa kubwa ya kustawisha daftari zake za rasilimali tena kwa kasi. Kudumisha mwenendo huo huo na kufuatilia fursa ya ongezeko la kuhitajika kwa mikopo mikubwa na midogo, halmashauri iliyonelea ni muhimu kupunguza kiasi cha malipo ya mgawo wa faida. Kwa hivyo malipo ya mgawo wa faida katika mwaka wa 2011 yanatuweka katika nafasi sawa baina ya kutilia nguvu msingi wa mtaji wetu ili kutuwezesha kufuatilia ukuaji na vile vile kuendelea kuwasilisha faida za kuvutia kwa wawekezaji wetu.

Usimamizi wa Shirika

Uongozi na usimamizi thabiti unaendelea kuwa kiungo muhimu katika mfumo wa biashara yetu. Mnamo Mei 2011, Harris Mule alistaafu kutoka bodi ya wakurugenzi baada ya miaka saba ya kujitolea kutumikia kama mkurugenzi asiye-mtendaji. Tunamshukuru sana kwa juhudi zake nyingi zilizochangia ufanisi wa Benki hii.

Kufanikisha zaidi uwezo wa Bodi, Robin Bairstow, ambaye hapo mbeleni alikuwa na wadhifa wa Msimamizi wa Uanzilishi na Uenezaji huduma kwa wateja (Head of Origination and Client Coverage) katika Benki ya Standard Chartered kule Zambia, ameteuliwa kuwa Mkurugenzi mtendaji, Uanzilishi na Uenezaji huduma kwa wateja (Origination and Client Coverage) akichukua nafasi ya Segun Odusanya ambaye alijiuzulu kutoka kwa Bodi mnamo Juni 2011 ili kufuatilia shughuli nyingine zake.

Kuongezea, Patrick Obath aliteuliwa kujiunga na bodi kama mkurugenzi asiye-mtendaji mnamo Machi mwaka huu. Patrick analeta kwenye Bodi uzoefu mkubwa katika usimamizi wa mageuzi, mkakati, usimamizi wa masuala ya kifedha na uthibiti, uboreshaji, uongozi wa dhima katika biashara anatoka katika sekta ya mafuta ambako alishikilia nyadhifa mbali mbali katika shirika la Shell.

Wanakamati mbali mbali wa Bodi waliendelea kutekeleza kazi yao muhimu la kusaidia Bodi kutimiza majukumu yake. Moja ya maeneo yaliolengwa na Kamati ya Kukagua Hesabu katika mwaka wa 2011 ilikuwa kukagua kwa makini ukwasi na usimamizi wa rasilimali kwa njia bora kuhakikisha utekelezaji wa mahitaji ya kisheria. Kamati ya Dhima ilitilia maanani uhakiki wa hamu ya Shirika ya dhima. Vile vile ilitumia muda mwingi kuchunguza dhima zinazozuka kutokana na dhima katika ufuataji kanuni, mtaji na teknolojia. Wakurugenzi wasio-watendaji wataendelea kudumisha jukumu lao la kushauri wasimamizi wa Benki kupitia mikutano ya bodi na kupitia kamati mbali mbali za bodi.

Maadhimisho ya miaka 100

Katika mwaka wa 2011 Benki ya Standard Chartered walisherehekea miaka 100 ya kuwa hapa Kenya tangu tulipofungua matawi yetu mawili ya kwanza, ya Treasury Square mjini Mombasa na Kenyatta Avenue jijini Nairobi, mwezi wa Januari 1911. Kama shirika tunajivunia kuhusika kwetu katika

Taarifa ya Mwenyekiti (Yaendelea)

ustawishaji wa kiuchumi na wa kijamii wa taifa hili letu adhimu tangu karne iliopita.

Kuadhimisha mafanikio haya ya maana sana na kuonyesha umuhimu unaopatiwa Kenya na Kundi kama soko muhimu la wayo wake katika bara la Afrika, Bodi ya Kundi la Standard Chartered, ikijumuisha Mwenyekiti wa Kundi, John Peace, pamoja na Afisa Mkuu Mkurugenzi wa Kundi, Peter Sands, walifanya mkutano mkuu wa nusu mwaka wa bodi na mikakati jijini Nairobi katika mwezi wa Juni. Wakati wa ziara yao, walijiunga katika sherehe za Benki za kuadhimisha miaka mia moja ambazo zilijumuisha kufunguliwa rasmi kwa Jumba la Makao Makuu ya benki na Mtukufu Rais, Mheshimiwa Mwai Kibaki.

Vile vile kuadhimisha miaka mia moja yetu na kusherehekea mbio za Nairobi Marathon, benki iliandaa mbio ya kubeba mwenge 'Torch Run' kutoka Nairobi hadi Mombasa, mbio ambazo zilihusisha wafanyikazi wetu 25. Shughuli zingine zilikuwa ni pamoja na kuzinduliwa tena kwa tawi letu lililojengwa upya la Treasury Square, kunadaliwa kwa chakula cha jioni kwa wateja wetu katika miji yote miwili, Nairobi na Mombasa na shughuli ya upandaji miti katika misitu ya Karura na Ngong.

Ushirikiano na Jumuiya

Standard Chartered wanatekeleza jukumu lililo wazi la kusaidia biashara kuanza na kupanuka – husaidia watu kununua nyumba, kustawisha utajiri wao na kuwekeza katika siku zijazo. Kwa njia hii, tunaweza kuleta athari nzuri katika jumuiya na wakati huo huo tukiwaletea wanahisa wetu thamani kwa hisa zao.

Lengo letu ni kuwa benki ya dunia iliyo bora zaidi katika ulimwengu wote, sio hapa nchini Kenya pekee bali pia katika maeno mengine tunakopatikana. Kuendeleza kwetu kwa matokeo thabiti ya hali ya kifedha kunatoa ushuhuda wa mikakati yetu imara ya kibiashara na udumishaji wa nidhamu katika utekekelezaji wetu kwa muda wa miaka kadhaa iliyopita sasa.

Tunaamini kuwa ufanisi wa muda mrefu wa biashara yetu unategemea afya na ufanisi wa jumuiya tunakoendesha shughuli zetu, na tunaendelea kutilia mkazo katika maeneo matatu ambamo tunaweza tukaleta mabadiliko ya maana:

- Kuchangia katika uchumi halisi – kwa kutumia utoaji fedha wetu kuunga mkono ukuaji na kubuni nafasi za kazi pamoja na kusaidia kueneza uwezo wa kupata huduma za kifedha;
- Kukuza utoaji fedha wa kuendelea – utoaji mikopo kwa njia ya kuwajibika na kusaidia kuhamasisha kutoa fedha za teknolojia halisi;
- Kuongoza njia katika jumuiya – kupunguza athari yetu wenyewe katika mazingira, kutoa mahala bora zaidi pa kufanyia kazi na kuwekeza kimkakati katika jumuiya ili kupata matokeo ya upeo wa juu ya kijamii.

Ningependa kuwahimiza msome Uhakiki wa Maendeleo (Sustainability Review) ulioko humu katika Taarifa hii ya Mwaka ili kuona maendeleo Benki inayotekeleza katika kuwasilisha matokeo katika maeneo hayo matatu yaliotajwa. Katika Uhakiki tuliowekea utekelezaji wetu katika 2011, tunapima usitawi wetu ukilinganishwa na malengo makubwa tuliojiwekea ili kuhakisha tunabaki Hapa kwa Mazuri – Hapa kwa ajili ya watu, hapa kwa ajili ya maendeleo na hapa kwa muda wote.

Muhtasari

Mkakati wa Standard Chartered ni kutoa suluhisho za kifedha zilizo na majibu, vumbuzi na bunifu kwa wateja wetu kupitia kuoanisha ujuzi wa hapa nchini na uzoefu wa kimataifa. Mtazamo wa Benki umekuwa kuboresha bidhaa pamoja na huduma na kuzidisha mtandao wetu. Uvumbuzi wetu umechangiwa sana na mahitaji ya wateja na kupatia umuhimu shughuli za kiuchumi katika nchi mbali mbali tunakoendesha shughuli zetu.

Tunaendelea kuwa msimamo mzuri katika masoko yetu teule tukiwa na msukumo imara wa ukuaji, unaopelekwa na kutilia maanani usitawi unaoendelea kukuwa wa watu wa mapato ya kati na ukuaji wa ghafla wa uwekezaji katika muundo-msingi. Tuna mtaji imara na uliyo mwepesi kusarifika, kukiwa na tukiwa na njia aina nyingi za kuongeza mapato yalo mazuri kote katika biashara zetu za huduma za kibenki za Rejareja na za Jumla na kuzingatia zaidi maadili ya shughuli za benki. Mwishowe, tuna utaratibu unaofungamana na wa kipekee unaotilia maanani maadili na uongozi. Tuko hapa kwa mazuri, ni ahadi iliyo kwenye chapa yetu inafafanua barabara jinsi tulivyo na matarjio yetu.

Kwa muhtasari, 2011 ulikuwa mwaka mwingine wa ufanisi mkubwa kwa Standard Chartered, na Bodi ya wakurugenzi inaendelea kuwa imani ya ufanisi katika tunaoukabili. Matokeo yetu mazuri yanathibitisha kufaulu kwa mikakati yetu, kuweko kwetu katika sehemu tofauti tofauti, desturi yetu ya ya kipekee ya kutenda kazi na la muhimu zaidi ubora uliyo na wafanyikazi wetu. Tunaingia mwaka wa 2012 tukiwa katika hali nzuri kabisa.

Nikitamatisha, ningependa kutoa shukrani zangu za dhati kwa wateja wetu kwa kutuunga mkono bila kuchoka. Vile vile ningependa kuwashukuru Bodi ya wakurugenzi, wasimamizi na wafanyikazi wa Benki hii kwa juhudi na bidii walioweka na kutuwezesha kuwasilisha kwa mara nyingine tena mwaka mwingine wa mafanikio mazuri.

Wilfred Kiboro
Mwenyekiti

12 Machi 2012

Chief Executive Officer's Review

Sustainable growth

The Standard Chartered Bank story is one of consistent delivery and sustained growth. We have the right strategy, a distinctive culture and a strong brand. We are focused on delivering for our shareholders, supporting our customers and clients, and making a positive impact on the communities in which we live and work. We are well positioned in some of the fastest-growing segments of our economy. As a Bank, we continue to benefit from our deep client relationships, our network and a well capitalised balance sheet.

Strategic growth

"We set ourselves ambitious performance goals and have consistently delivered against them. We have strengthened the infrastructure and technology of the Bank; we have reinvigorated our brand; and we have increased staff engagement and deepened our talent pool. We are focused on strategic growth, investing at pace in both of our businesses."

Over the last few years, we have pursued a focused agenda. We set ourselves ambitious performance goals and have consistently delivered against them. We have strengthened the infrastructure and technology of the Bank; we have reinvigorated our brand; and we have increased staff engagement and deepened our talent pool. We are focused on strategic growth, investing at pace in both of our businesses. We are obsessed with the basics of banking: being well capitalised and highly liquid; managing risk proactively; keeping tight control of costs; and staying well diversified. This makes our balance sheet and earnings extraordinarily resilient.

2011 performance

You may recall that our financial results for the first half were significantly impacted by the sharp rise in interest rates which resulted in the revaluation of our trading book and thereby causing mark-to-market unrealised losses in the bond trading portfolio and derivatives. At the time, we anticipated that this position would correct itself in the second half of the year. We are pleased to advise that the mark-to-market positions were largely reversed during the second half and our trading book activities are now profitable. We shall continue to maintain robust appropriateness and

Chief Executive Officer's Review (Continued)

suitability process to mitigate any risk that may arise from financial markets dislocation.

I am therefore very pleased that in 2011, we continued on the path of rapid growth, strong financial performance and excellent strategic progress. We delivered against a balanced scorecard of growth and performance and cost control and risk management. Both our Wholesale and Consumer Banking businesses contributed 51% and 49% to operating income respectively, underlining our success in completely transforming the Consumer Bank and building a balanced business and is a strong testament to our diversified business.

Profit before taxation was KShs 8.3 billion compared to KShs 7.7 billion in 2010, an increase of 7%.

Total revenue grew to KShs 15.9 billion, driven mainly by the following:

- Interest income on loans and advances increased by 60% to KShs 9.5 billion on the back of strong asset growth across both businesses and re-pricing of facilities due to higher interest rates;
- Fees and commissions increased by 29% from KShs 2.6 billion to KShs 3.4 billion and were mainly driven by significant growth in loans and advances, trade finance and improved revenues from our custodial services business;
- Interest income from investments in government securities decreased by 40% largely on account of decreased volumes as we grew customer assets;
- Our interest expense increased by 30% to KShs 2.2 billion as we grew deposits by 22% during the year. The cost of funding went up in 2011 following the sharp rise in interest rates and the persistent tight liquidity in the second half of the year leading to market rates for wholesale deposits increasing sharply;
- Income from foreign exchange trading increased to KShs 2.6 billion resulting from the volatility of the shilling and on account of increased volumes traded by importers in the manufacturing, agriculture, oil and telecommunications industries. Growth in foreign exchange income was also driven by the combination of regular economic expansion coupled with an aggressive growth strategy. It included retaining and enhancing relationships with old clients, exploiting new opportunities (e.g. new custody business) and taking advantage of overall economic growth; and
- Other income comprising mainly of income on government securities sales fell on the back of a 55% reduction in holdings in government securities as we repositioned our balance sheet in order to support the rapid growth in customer assets and realised losses in the trading book and unrealised mark-to-market losses on the derivatives positions.

The Bank continues to remain very liquid and well capitalised with capital and liquidity ratios that are well above target ratios set by the Central Bank of Kenya. This strategically places us in a position to accommodate any further regulatory requirements and simultaneously take advantage of growth

Chief Executive Officer's Review (Continued)

opportunities in our businesses. Our liquidity position also remains strong with a well diversified retail funding base. We also have an optimal loan deposit ratio of 78.6% that gives us good headroom to grow loans and advances.

Business Review

In 2011, we saw strong-based momentum across the businesses, with activity levels and volumes up sharply in a number of products as we helped our clients' trade and invest.

Consumer Banking

Consumer Banking ended 2011 in the best shape it has ever been in for many years and is well positioned to take advantage of opportunities in the market. The transformation journey continues to deliver good results both on the balance sheet, profit and loss and the non financial metrics as well. Operating income increased by 21% to KShs 7.8 billion which was 49% of the total bank income, up from 46% in 2010. The growth in income is on the back of increased balance sheet volumes, particularly in customer assets, and non funded income.

On the balance sheet, customer assets recorded a strong growth of 36% in 2011 to stand at KShs 32.2 billion. Mortgages and SME lending were the main drivers in the growth in customer assets, growing by 89% and 36% respectively. The fixed and partially fixed mortgage was the most popular product and the customers who took advantage of this offering are now enjoying the benefit of predictability. Customer deposits on the other hand grew by 9% to KShs 70 billion with a good deposit mix. Current and savings accounts constituted 79% of all Consumer Banking deposits.

Both the Priority and SME segments did particularly well growing customer numbers in double digits during the year under review. At the beginning of the year, we launched Preferred Banking targeting the young emerging affluent consumer and re-positioned our SME customer proposition in line with customer needs. We continued to selectively grow our distribution network and opened one new branch in Chiromo and two priority centres – Chiromo and Treasury Square in Mombasa. We also refurbished Treasury Square branch in Mombasa. On alternate channels, we continued to leverage on our technology platform to offer a variety of products and services such as e-statements, mobile and internet banking which served to give our customers various and convenient touch points for banking.

We also went to the market in 2011 with the first ever guarantee on loan disbursements. This is a bold promise where the Bank pays a customer KShs 3,000 if their personal loan is not disbursed within 3 days of application.

As a result, Consumer Banking delivered a strong financial performance reflecting our increasingly broad based product and customer mix. Operating profit increased by 28% to reach KShs 3.3 billion. In 2012, we will continue to invest at the right pace, focusing on increasing productivity and innovation. The business will continue to look at other service guarantees especially in the areas of mortgages and teller services.

Wholesale Banking

The Wholesale Banking business focused on key clients, deepening relationships and growing our

Chief Executive Officer's Review (Continued)

product capabilities to support local trade and offering short term working capital solutions in addition to risk hedging solutions. 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 rates and currency hedging. By helping our clients manage both investment and trade risks in an increasingly global economy, these derivative products have real economic and social value.

During the year, our Wholesale Banking business executed well on this strategy, delivering a year on year income growth of 9% to KShs 8.2 billion. Disciplined investments in key sales and products teams and control functions delivered good results across all products and customer segments. This business continued to be driven by strong client income growth which was up 49% on last year, and accounts for 90% of total Wholesale Banking income. We continued to strengthen relations with existing clients and diversifying income growth using our network capabilities as a source of differentiation.

In 2011, the cross-sell ratio improved to 3.40 up from 2.29 in 2010 demonstrating deepening client relationships and product value add that we are providing to our clients. However, there is still room to further improve cross-sell ratios and strengthen our product capabilities. Our network in the Middle East, India, China and South East Asia has proved to be important in giving us opportunities to leverage on as trade corridors change.

Looking ahead, we see a lot of opportunities as the country gears up to achieving the Vision 2030 goals. There are opportunities in infrastructure development/financing, energy and manufacturing. The business is well positioned to continue being the right partner to our clients. Indeed to our clients we will continue demonstrating that we are Here for good and here for the long haul and to do business with them.

Costs

Total operating expenses increased by 23 % to KShs 7.2 billion.

- Staff costs grew by 10% to KShs 3.7 billion as we continued to grow staff headcount in line with our business expansion;
- Premises and equipment costs increased by 40% to KShs 0.7 billion due to the flow through of investments made over the last eighteen months such as branch refurbishments, our new priority centers and the new head office building;
- Depreciation and amortisation increased by 135% to KShs 0.7 billion largely on account of the amortisation charge on the intangible asset relating to the acquisition of the Custodial Services business as well as our continued investment in infrastructure and technology to support our business growth; and
- Other costs increased by 24% to KShs 2.1 billion in line with increased operating costs due to increased business and the impact of the prevailing high inflationary rates throughout 2011.

Consequently the cost:income ratio rose to 45.5% compared to 42.4% in 2010.

Chief Executive Officer's Review (Continued)

Non-performing loans and net bad debt charge

Non-performing loans remain among the lowest in the market at KShs 1.0 billion compared to KShs 1.2 billion last year. This translates to 1.1% of gross total loans compared to 2.0% in 2010. The Bank is comfortable with the current level of provisions and continues to manage credit risks.

Benchmarking

In 2011, we continued to receive recognition for excellence from various institutions. Standard Chartered Bank 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 first runners-up in the corporate social investment category.

Further accolades received in 2011 include the Best Bank in Kenya in 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 2011, we continued to engage our staff in various initiatives, including finding creative solutions to improve their working environment and to improve customer service. In 2012, 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

Delivering record income and profits in any year is always a good result. To do this every year for five years through a period of uncertainty is testament to the dedication, discipline and professionalism of the people of Standard Chartered Bank. I would like to take this opportunity to thank them once again for their hard work in making this happen. I am also extremely appreciative of the support we received from our clients and customers, our investors and regulators.

Kenya's growth prospects in 2012 are mixed. The economy should continue to recover from bouts of adverse weather which impacted agriculture, hydroelectricity supply and manufacturing during 2011. In addition, inflation should continue on its downward trend which should lead to lower interest rates in the second half of the year. However, the continued crisis in Europe as well uncertainty regarding the weather and world oil prices could prolong the period of high interest rates. Currency stability still remains a risk given the large current account deficit that the country is facing at the moment and the fact that growth in imports continues to outstrip export earnings.

Given the shock experienced after flawed elections at the end of 2007, politics will remain a key driver of Kenya's economic outlook. While passage of the constitution is broadly positive, signalling widespread support for devolution of power from the centre to more powerful regions, many of the tenets of the new constitution still require legislative changes to become operational. The process is not devoid of political risk.

Chief Executive Officer's Review (Continued)

The uncertainty around the political process and especially the elections will continue to act as a drag on business confidence while the activities and actions of a forceful parliament in pursuing a populist agenda may have far reaching and damaging consequences that will go beyond the elections. A good example is parliament's bid to cap interest rates despite concrete evidence that it would be detrimental to the economy and offer little advantage or protection to majority of Kenyans.

Kenya's regional leadership should stand it in good stead in the medium term, when more meaningful regionalisation is expected following the signing of the East African Protocol in July 2010. East Africa's new oil producers also look set to increase their reliance on Kenyan ports. Regional trading partners now account for 47% of Kenya's exports, granting it some degree of immunity to a slowdown elsewhere. Given robust growth in the East African sub-region, cargo throughput at Kenyan ports has already risen significantly, and will benefit from infrastructure development in the years to come.

For Standard Chartered Bank, we have started 2012 strongly and we are on track to deliver on our aspirations set for this year, but it is very early days and there are a number of factors which might affect our performance. Looking at the first two months of the year and our momentum into March, both businesses have had good starts, with income ahead of the comparable period last year. Expenses are under tight control across the Bank and credit quality remains good.

Nonetheless, we are cognisant of the uncertainties that face the Kenyan economy and that could have a negative impact on our performance. We remain focused on the fundamentals of our business and on the disciplined execution of our strategy. We are well positioned in some of the most exciting customer segments and well placed to make the most of the opportunities they present.

Richard Etemesi
Chief Executive Officer

12 March 2012

Taarifa ya Afisa Mkuu Mkurugenzi

Msimamo madhubuti wa ukuaji

Mikakati ya ukuaji

"Tulijiwekea malengo makuu katika utendaji kazi wetu na tumeendelea kufikia matokeo kama tulivyodhamiria. Tumefaulu kuimarisha muundo-msingi na teknolojia ya Benki; tumeiongezea nguvu chapa yetu; tumeimarisha zaidi kushirikisha wafanyi kazi na tumeongeza wale wenye ujuzi. Tunalenga zaidi mikakati ya kujikuza, kuwekeza kwa mwenedo uliyo sambamba na biashara zetu zote mbili."

Hadithi ya Benki ya Standard Chartered ni ya uthabiti wa kuwasilisha huduma na ya ukuaji unaoendelea. Tuko na mkakati uliyo sawa, desturi ya kipekee ya utendaji kazi na chapa iliyo imara. Lengo letu kuu likiwa kuwasilisha faida kwa wenyehisa wetu, kuwaunga mkono wateja wetu, na kuleta athari inayoimarisha jumuiya tunayoishi nayo na tunakoendesha biashara yetu. Tuko katika nafasi nzuri miongoni mwa baadhi ya vitengo vya uchumi wetu vinavyoendelea kukuwa kwa kasi zaidi. Kama benki, tunaendelea kunufaika na uhusiano mkubwa baina yetu na wateja wetu, mtandao wetu pamoja na mizania yenye rasilimali madhubuti.

Katika miaka michache iliyopita, tumekuwa tukifuatilia ajenda yenye mtazamo sawa kabisa. Tulijiwekea malengo makuu katika utendaji kazi wetu na tumeendelea kufikia matokeo kama tulivyodhamiria. Tumefaulu kuimarisha muundo-msingi na teknolojia ya Benki; tumeiongezea nguvu chapa yetu; tumeimarisha zaidi kushirikisha wafanyikazi na tumeongeza wale wenye ujuzi. Tunalenga zaidi mikakati ya kujikuza, kuwekeza kwa mwenendo uliyo sambamba na biashara zetu zote mbili. Tunashikilia zaidi maadili katika shughuli za benki: kuwa na rasilimali thabiti yenye ukwasi zaidi; kusimamia dhima kwa moyo wa kujituma; kuthibiti vyema gharama; na kuendelea kudumisha utofauti. Hii imefanya mizania yetu ya hesabu na mapato kuwa mzuri mno.

Matokeo ya 2011

Unaweza kukumbuka kuwa matokeo yetu ya hali ya kifedha katika nusu ya kwanza ya mwaka yaliathiriwa pakubwa na ongezeko kali na viwango vya riba ambayo ilipelekea sisi kuthaminisha upya vitabu vyetu vya biashara na hivyo basi kupatikana ongezeko la hasara sokoni katika orodha ya fedha zilizowekezwa na vizalika. Wakati huo, tulitumaini kuwa hali hii itajirekebisha yenyewe katika nusu ya pili ya mwaka. Tuna furaha kuwajulisha kuwa hali ya tishio la hasara iligeuka haraka katika nusu ya pili ya mwaka na sasa vitabu vyetu vya hesabu vinaonyesha tunapata faida. Tutaendelea kuwa imara katika uwekaji na kuwa na mipango muafaka ya kupunguza dhima yoyote itakayozuka kutokana na kusambaratika kwa masoko ya kifedha.

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

Kwa hivyo basi, nina furaha sana kuwa katika mwaka wa 2011, tuliendelea kufuata njia ya kutepeleka kwenye ukuaji, imara wa hali ya kifedha na mikakati bora zaidi ya kuendelea kusitawi. Tuliwasilisha matokeo bora yakiegemezwa kwenye mlinganisho mzuri wa ukuaji na utendaji na usimamizi mzuri wa dhima. Biashara zetu zote mbili za shughuli za benki za Jumla na Rejareja zilichangia asilimia 51 na asilimia 49 mtawalia kwa faida ya shughuli, msingi wa kufaulu kwetu ikiwa kubadilisha kabisa shughuli zetu za kibenki kwa Wateja wa rejareja na kujenga ulingano sawa wa biashara na huu ni ushahidi tosha wa utofauti wa biashara yetu.

Faida kabla ya kodi ilikuwa shilingi bilioni 8.3 ikilinganishwa na shilingi bilioni 7.7 katika 2010, ikiwa ni ongezeko la asilimia 7%.

Jumla ya faida ilizidi hadi shilingi bilioni 15.9, hii ikichangiwa zaidi na yafuatayo:

- Mapato kutokana na riba ya mikopo mikubwa na midogo yaliongezeka kwa asilimia 60 hadi shilingi bilioni 9.5 ikiegemea ukuaji imara wa rasilimali kwote katika bisahara zetu zote mbili na kupanga bei mpya ya huduma iliyosababishwa na kupanda kwa viwango vya riba;

- Ada na asilimia ya faida ilizidi kwa asilimia 29 kutoka shilingi bilioni 2.6 hadi shilingi bilioni 3.4 na hasa ilipata msukumo kutokana na ukuaji imara wa mikopo mikubwa na midogo, mikopo kwa biashara na faida iliyositawi kutoka kwa biashara yetu ya huduma ya uangalizi;

- Faida kutokana na riba ya kuwekeza kwenye hati za serikali ilipungua kwa asilimia 40 sana kutokana na kupunguka kwa viwango huku tukikuza rasilimali za wateja wetu;

- Gharama yetu ya riba iliongezeka kwa asilimia 30 hadi shilingi bilioni 2.2 tulipokuwa tunapata ukuaji wa karadha kwa asilimia 22 mwakani. Gharama ya kufidia hazina ilipanda katika mwaka wa 2011 baada ya kuongezeka haraka kwa viwango vya riba na kuendelea kubnawa kwa ukwasi katika kipindi cha nusu ya pili ya mwaka kuliopelekea kupanda kwa kasi ada katika soko hasa ile ya karadha ya jumla ikongezeka mno;

- Mapato kutokana na biashara ya ubadilishanaji wa pesa za kigeni yaliongezeka hadi shilingi bilioni 2.6 ikisababishwa kutokana na hali ya kugeukageuka ya thamani ya shilingi na kutokana na ongezeko la biashara ya uangizaji kutoka nje katika wiwanda vya uzalishaji, kilimo, mafuta na mawasiliano. Ukuaji katika biashara ya ubadilishanaji wa fedha za kigeni pia ulichochewa na mchanganyo wa usitawi wa kawaida wa uchumi pamoja na mikakati iliyojaa hima ya kutaka kuendelea. Ikijumuisha kushikilia na kudumisha uhusiano mzuri uliopo na wateja wa zamani, kufuatilia fursa mpya zinazoibuka (k.m. biashara mpya ya usimamizi) na kunufaika na ukuaji wa uchumi kwa ujumla; na

- Faida nyingine itokanayo zaidi na mapato ya uuzaji wa hati za serikali ilidorora na kwenda chini kutokana na kupungua kwa uwekezaji wetu katika hati za serikali hadi asilimia 55 tulipoiweka sawa mizani yetu ili kuhimili ukuaji wa kasi wa rasilimali za wateja na hasara kwenye daftari za hesabu pamoja na hasara isiyoamulika katika soko katika nafasi zilizofikiwa.

Benki inaendelea kuwa na ukwasi mkubwa na yenye uwezo wa kuguza ukwasi huo kuwa mtaji huku uwiano wa mtaji na ukwasi ukiwa umetimiza na hata kuzidi viwango vilivyowekwa na Benki Kuu ya Kenya. Kimkakati hii inatuweka katika nafasi nzuri ya kuweza kutekeleza sheria

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

zaidi inapohitajika na wakati huo huo kufuatilia fursa za ukuaji katika biashara zetu. Vile vile nafasi yetu ya ukwasi bado ni imara tukiwa na msingi imara utokanoa na biashara ya rejareja yenye bidhaa aina nyingi. Pia tuko na uwiano bora kabisa wa asilimia 78.6 wa pesa za mkopo zinazowekwa ambapo inatupatia nafasi nzuri ya kukuza utoaji wa mikopo mikubwa na midogo.

Uhakiki wa Biashara

Katika mwaka wa 2011, tulishuhudia msukumo wenye nguvu kote katika biashara, kukiwa na ongezeko kubwa la viwango vya shughuli na uzalishaji miongoni mwa bidhaa zetu huku tukiendelea kuwasaidia wateja wetu kukuza biashara zao na kuwekeza.

Shughuli za Benki kwa wateja rejareja

Shughuli za Benki kwa wateja rejareja ulitamatisha mwaka wa 2011 kwa kuwa katika hali nzuri zaidi kuliko ilivyokuwa katika miaka mingi iliyopita na iko katika nafasi nzuri kabisa ya kufuatilia fursa zilizoko katika soko. Hatua za kubadilisha mambo zinaendelea kuwasilisha matokeo mazuri kote kwenye mizania ya hesabu, faida na hasara na ile ya mifumo isiyo ya kifedha. Chumo kutokana na uendeshaji shughuli iliongezeka kwa asilimia 21 hadi shilingi bilioni 7.8 ambayo ilikuwa ni asilimia 49 ya jumla ya mapato yote ya benki., ikiwa ni ongezeko kutoka asilimia 46 katika mwaka wa 2010. Ukuaji huu wa mapato unaegemea ongezeko la faida katika mizania, hasa katika rasilimali ya wateja, pamoja na mapato ambayo hayakugharamiwa.

Katika mizania yetu ya hesabu, rasilimali ya wateja ilionyesha ukuaji imara wa asilimia 36 katika 2011 kufiki hadi shilingi bilioni 32.2. Rehani na mikopo kwa wafanyibiashara wadogo wadogo ilikuwa kichocheo muhimu kwa ukuaji huu wa rasilimali ya wateja ukuaji wa wa asilimia 89 na asilimia 36 mtawalia. Kitengo cha rehani isiobadilika na ya kubadilika kwa kiasi ndiyo bidhaa ilitakiwa sana na wateja ambao walichukua fursa ya huduma tuliowatolea na sasa wanafurahia faida ya uwezo wetu wa kutabiri hali ya mambo. Uwekaji pesa wa wateja kwa upande mwingine pia ilizidi kukuwa kwa asilimia 9 hadi shilingi bilioni 70. Kukiwa na mchanganyo mzuri wa karadha. Akaunti za hundi na za akiba zikiwa ni asilimia 79 ya uwekaji wote wa fedha za wateja katika benki.

Vitengo vyote viwili vya akaunti ya Priority (ambapo wateja hupewa umuhimu wa kwanza) na SME (akaunti kwa wafanyibiashara wadogo) vilitekeleza shughuli zake vizuri mno na kukuza maradufu idadi ya wateja katika mwaka huu tunaoukariria. Katika kipindi cha mwanzo wa mwaka, tulizindua Preferred Banking (aina ya akaunti inayolenga vijana wanaoanza maisha) na pia tuligeuza upya pendekezo letu kwa wateja wa SME ili lichukuane na mahitaji ya wateja. Tuliendeleza ukuaji teule katika kusambaza mtandao wetu wa matawi na tukafungua tawi moja jipya la Chiromo na vituo viwili vya kushughulikia wateja wa priority – Chiromo na Treasury Square mjini Mombasa. Vile vile tulijenga upya tawi la Treasury Square jijini Mombasa. Katika kutumia njia badala, tuliendelea kutumia uwezo wetu katika ulingo wa teknolojia kuandaa bidhaa na huduma mbali mbali kama vile taarifa ya akaunti, shughuli za benki katika rununu na katika mtandao wa internet huduma ambazo zimewasaidia wateja wetu kwa kuwapa njia mbali mbali za kufikia za kufikia akaunti zao za benki.

Katika mwaka wa 2011 vile vile tulizindua katika soko kwa mara ya kwanza kabisa dhamana ya kutoa mkopo. Hii ni hatua ya kijasiri ambapo benki inatoa ahadi ya kumlipa mteja shilingi 3,000 ikiwa fedha za mkopo wao wa kibinafsi hazitatoka katika muda wa siku 3 baada ya ombi kufaulu.

Kutoka na haya, kitengo cha shughuli za rejareja za benki kiliwasilisha matokeo ya kifedha ya kuridhisha mno ikidhihirisha mchanganyo mpana wa bidhaa na huduma zetu kwa wateja. Faida kutokana na shughuli zetu iliongezeka kwa asilimia 28 kufikia hadi shilingi bilioni 3.3. Katika mwaka wa 2012, tutaendelea kuwekeza kwa mwenendo sawa, tukizingatia zaidi kuongeza uzalishaji na ubunifu. Biashara hii yetu itaendelea kuangazia kuendelea kuekea dhamana huduma zetu hasa katika upande wa rehani na mwahala kwa kupokea na kuhudumia.

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

Shughuli za benki za Jumla

Biashara ya Benki ya Jumla ililenga wateja muhimu, kutilia nguvu uhusiano mwema na kukuza uwezo wa bidhaa zetu kuwaauni wafanyibiashara wa humu nchini na kuwapa suluhisho kwa rasilimali za kuendesha biashara pamoja na bidhaa za kuwakinga na dhima. Tunajivunia usaidizi ufaao tunaowapatia wateja wetu hasa katika mashirika ya humu nchini yanapoendelea kukua na kuendesha biashara zao. Sisi ni miongoni mwa benki chache hapa nchini zinazotoa huduma ya kinga dhidi ya kushuka thamani kwa bidhaa, viwango vya riba na sarafu. Kwa kuwasaidia wateja wetu kuweza kusimamia rasilimali zao na kuwapa dhima ya biashara katika uchumi unaoendelea kuwa wa ulimwengu wote, huduma hizi za ziada zina thamani halisi ya kiuchumi na ya kijamii.

Katika mwaka tunaouzungumzia, biashara yetu ya shughuli za Benki kwa Jumla ilitekelezwa vyema kwa mkakati huu, ikawasilisha ukuaji wa mapato mwakani ya asilimia 9 hadi shilingi bilioni 8.2. Uwekezaji wenye nidhamu katika mauzo muhimu na makundi ya bidhaa na usimamizi wa shughuli ulizalisha faida nzuri kote katika vitengo vya bidhaa na wateja. Biashara hii iliendelea kupelekwa mbele na ukuaji imara wa faida kutokana nawateja ambao ulizidi hadi asilimia 49 katika mwaka uliyopita, na inachangia asilimia 90 ya jumla ya mapato yote yatokanayo na shughuli za Benki kwa Jumla . Tuliendelea kutilia nguvu uhusiano mwema na wateja tuliyo nao na kupanua ukuaji wa faida kwa kutumia uwezo wetu wa kuenea kama chanzo cha kujitofautisha na washindani wetu.

Katika mwaka wa 2011, uwiano wa kingamo la mauzo uliimarika na kufika 3.40 ikiwa ni ongezeko kutoka 2.29 ilivyokuwa katika mwaka wa 2010 ikithibitisha kuzidisha uhusiano mwema na wateja na huduma za ziada tunazowapa wateja wetu. Hata hivyo, bado kuna nafasi kusitawisha zaidi uwiano wa kingamo la mauzo na kutilia nguvu uwezo wa bidhaa zetu. Mtandao wetu katika Mashariki ya kati, India, Uchina na Kusini Mashariki ya Asia umethibitika kuwa muhimu katika kutupatia uwezo wa kufuatilia fursa wakati huu ambapo ushoroba wa biashara unabadilika.

Tukitazama mbele, tunaona fursa nyingi wakati taifa letu linapojitayarisha kufikia malengo ya ruwaza ya 2030. Kuna fursa katika kusitawisha muundo-msingi na kugharamia, nishati na uzalishaji viwandani. Biashara yetu iko katika nafasi nzuri ya kuendelea kuwa mshirika afaaye kwa wateja wetu. Bila shaka kwa wateja wetu bado tutaendelea kudhihirisha kuwa tuko hapa kuwaletea mazuri na tuko hapa kwa muda mrefu na kwa ajili ya kufanya biashara nao.

Gharama

Jumla ya gharama ya kuendesha shughuli iliongezeka kwa asilimia 23 hadi shilingi bilioni 7.2.

- Gharama ya wafanyikazi ilizidi kwa asilimia 10 hadi shilingi bilioni 3.7 tulipoendelea kuongeza iadai ya wafanyikazi wetu kuambatana na upanuzi wa biashara yetu;

- Gharama ya majengo na vifaa iliongezeka kwa asilimia 40 hadi shilingi bilioni 0.7 kutokana na bidii ya kuwekeza iliyowekwa katika kipindi cha miezi kumi na nane iliyopita kama kujenga upya matawi, vituo vipya vya huduma kwa wateja wa priority na jumba la makao makuu yetu mapya;

- Upunguzaji thamani na utengaji fedha ulizidi kwa asilimia 135 kufikia shilingi bilioni 0.7 hasa zaidi kutokana na kudhaminisha akiba ya rasilimali isiopimika ihusianayo na kumiliki biashara ya huduma ya Usimamizi yaani Custodial Services pamoja na kuendelea kwetu kuwekeza katika muundo-msingi na teknolijia kusaidi ukuaji wa biashara hii yetu; na

- Gharama zingine zilipanda kwa asilimia 24 hadi shilingi bilioni 2.1 kuambatana na kuongezeka kwa gharama ya uendeshaji shughuli na athari za kupanda kwa gharama ya maisha iliyodumu mwaka wote wa 2011.

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

Kwa hiyo uwiano wa gharama:faida ulipanda hadi asilimia 45.5 ikilinganishwa na asilimia 42.4 katika mwaka wa 2010.

Mikopo isiyotimizwa na jumla ya dhamana ya madeni yasiyotegemewa kulipwa.

Mikopo isiyotimizwa bado inabaki kuwa miongoni mwa ya kiwango cha chini zaidi katik soko hili ikiwa ni shilingi bilioni 1.0 ikilinganishwa na shilingi bilioni 1.2 ya mwaka uliyopita. Hii inakuwa asilimia 1.1 ya jumla ya mikopo ikilinganishwa na asilimia 2.0 ya mwaka wa 2010. Benki inaridhika na viwango vilivyoko hivi sasa vya akiba ya baada na inaendelea kusimamia dhima ya madeni.

Kutuzwa

Katika mwaka wa 2011 tuliendelea kutambulika na kutunikiwa tuzo za ubora kutoka idara mbali mbali. Benki ya Standard Chartered iliibuka mshindi wa taji la kwanza hapa Kenya pamoja na katika Afrika Mashariki katika tuzo za utoaji taarifa za kifedha za Financial Reporting (FiRe) Awards. Benki hii pia ilitangazwa mshindi katika kitengo cha kampuni zilizoorodheshwa katika soko la hisa, sehemu ya benki na mshindi wa pili katika kitengo cha mashirika yaliowekeza katika maswala ya kijamii.

Sifa kuu pia zilizopokewa katika mwaka wa 2011 zilijumuisha Benki Bora zaidi nchini Kenya kwenye tuzo za 'Think Business Banking Awards.'

Tunaamini kuwa tuzo hizi zote zinadhihirisha kutambulika kwa ufanisi wetu na msimamo wetu hapa Kenya na kuwa Benki ya Standard Chartered inaendelea kuongoza njia katika ubunifu wa bidhaa na hali ya kifedha.

Wafanyikazi

Watu wetu ndiyo haswa Benki ya Standard Chartered. Tumejitolea kuwasiadi kukuwa, kuwaunga mkono mmoja mmoja kuleta mabadiliko na kwa makundi kufaulu. Katika mwaka wa 2011, tuliendelea kuwashirikisha wafanyikazi wetu katika shughuli mabli mbali za kuanzisha mambo, ikijumuisha kugundua njia bunifu za kusuluhisha na kuboresha mazingira ya kazi na za kuboresha huduma kwa wateja. Katika mwaka wa 2012, tutaendelea kujitolea katika kuwavutia na kuwaendeleza wafanyikazi wenye ujuzi, kuwapa ustadi na uwezo wote wanaouhitaji ili kufaulu, na kuwazawadi kwa fursa nyingi ili kuongeza uwezo wao hadi upeo ndani ya benki.

Msimamo

Kuwasilisha mapato na faida ya kuvunja rekodi katika kipindi cha mwaka wowote ule bila shaka huwa ni matokeo mazuri. Kufikia matokeo hayo mazuri kila mwaka kwa muda wa miaka mitano mfululizo tena katika hali ya uchumi isiyoweza kutabirika, ni ushuhuda wa kujitolea, nidhamu na weledi wa watu wa Benki ya Standard Chartered. Ningependa kuchukua fursa hii kuwashukuru kwa mara nyingine kwa bidii yao kuhakikisha ufanisi huu unafikiwa. Vile vile natoa shukrani zangu za dhati kwa wateja wetu, wawekezaji wetu na wasimamizi wa kanuni kwa kutuunga mkono.

Matumaini ya usitawi wa Kenya katika mwaka wa 2012 yako katika hali tatanishi. Uchumi unastahili kuendelea kupata afueni baada ya vipindi vya hali mbaya ya hewa iliyoathiri kilimo, usambazaji umeme utokanao na nguvu ya maji na uzalishaji viwandani katika mwaka wa 2011. Kuongezea, kupanda kwa gharama ya maisha kunatarajiwa kuendelea kupungua na hii itasababisha viwango vya riba kwenda chini katika nusu ya mwaka. Hata hivyo, hali mbaya ya uchumi inayoendelea kukabili bara la Ulaya pamoja na hali ya hewa isiyotabirika na kupanda kwa bei ya mafuta duniani kunaweza kufanya kipindi hiki cha viwango vya juu vya riba kuweko kwa muda mrefu. Kutulia kwa sarafu bado kunabaki dhima kubwa kutokana na upungufu mkubwa wa akaunti unaokabili taifa hili hivi sasa na kwa vile uingizaji bidhaa kutoka nje unaendelea kushinda mapato kutokana na uuzaji bidhaa nje ya nchi.

Kutokana na hali ya kushtua iliyokuweko baada ya uchaguzi ulioingia utata mwishoni mwa mwaka wa 2007, siasa zitaendelea kuwa kichochezi kikubwa katika matarajio ya uchumi wa Kenya. Japo kupitishwa kwa katiba mpya ni

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

jambo la kuleta matumaini kila mahali, ikiashiria kote kungwa mkono kwa ugawaji wa madaraka kutoka kituo kimoja hadi kwenye majimbo yenye uwezo, vipengee vingi vya katiba hii mpya bado vinahitaji kupitishwa bungeni ili kuanza kufanya kazi. Mfumo wa kutekeleza haya haujaepuka mashaka ya kisiasa.

Hali isiotabirika inayokabili mfumo kisiasa na hasa upigaji kura itaendelea kuwa kama kikwazo cha biashara kuwa matumaini wakati huo huo shughuli na vitendo vya bunge linalotumia uwezo wake wote kufuatilia ajenda ya kujipendekeza kwa watu inaweza kuleta madhara makubwa ambayo yataendelea hata baada ya kura. Mfano mzuri ni juhudi za wabunge kuweka viwango vya riba licha ya kuweko ushahidi wa dhahiri kuwa kitendo kama hiki kinaweza kuharibu uchumi wa nchi na hakina manufaa wala hakiwalindi halaiki ya wakenya.

Uongozi wa Kenya katika jimbo hili uko katika nafasi nzuri katika muhula wa kati, ambapo natija ya muungano wa mataifa ya eneo hili unatarajiwa kufuatia kusainiwa kwa mkataba wa Itifaki ya Afrika Mashariki (East African Protocol) mnamo Julai, 2010. Nchi za Afrika Mashariki ambazo sasa zinatoa mafuta pia zinatazamiwa kuongeza utegemewaji wa bandari za Kenya. Washirika wa kibiashara kutoka eneo hili sasa wanachangia asilimia 47 ya bidhaa za Kenya za kuuzwa nje, hii ikitoa ridhaa kiasi kidogo ya kinga dhidi ya upungufu wa mwendo katika sehemu zingine. Kutokana na ufanisi imara ulioko sasa katika jimbo dogo la Afrika Mashariki, uchukuzi wa mizigo tayari umeongezeka sana, na hii itasaidiwa zaidi na usitawishaji wa muundo-msingi katika miaka inayokuja.

Kwa Benki ya Standard Chartered, tumeanza mwaka wa 2012 kwa hima na tuko kwenye hatua za kuwasilisha matokeo mazuri ya matarajio yetu kama tulivyopangia kwa mwaka huu, lakini bado ni mapema na una baadhi ya matukio ambayo yanaweza kuathiri natija ya utendaji kazi wetu. Tunapotazama miezi miwili ya mwanzo wa mwaka huu na mwenendo wetu tulipoingia mwezi wa Machi, biashara zetu zote mbili zimekuwa na mwanzo mzuri, kukiwa na mapato yanayozidi ikilinganishwa na kipindi kama hiki katika mwaka jana. Gharama zimethibitiwa vyema kote katika Benki hii na mikopo zipo katika hali njema.

Hata hivyo, tunatambua hali isiotabirika inayokabili uchumi wa Kenya na inayoweza kuleta athari ya kutangua matokeo ya utendaji kazi wetu. Lengo letu bado tunasisistiza kufuata misingi na kanuni za biashara hii yetu na nidhamu katika utekelezaji wa mikakati yetu. Tuko katika nafasi nzuri kwenye miongoni mwa vitengo vya wateja vya kusisimua zaidi na tuna uwezo tosha wa kufaidi vilivyo fursa wanazotupatia.

Richard Etemesi
Afisa Mkuu Mkurugenzi

12 Machi 2012

Sustainability Review

"Here for good is about our commitment to our customers, our communities, and ourselves. It is us at our best."

Our highlights in 2011

- Voted the Best Bank in Kenya in 2011 by Think Business.
- Cemented our commitment to the Kenyan market with the move to our ultra modern headquarters, StandardChartered@Chiromo. This is a green building that is constructed with the aim of achieving a GOLD LEED status from the Leadership in Environmental and Energy Design (LEED). This is in line with the Bank's commitment to 'protecting the environment' in all the markets in which it operates.
- 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 88 million.
- Through the 'Seeing is Believing' initiative, we invested all the proceeds from the 2010 Nairobi Marathon totaling KShs16 million by funding over 800 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 fourth year running to sponsor the annual 'Cycle with the Rhino' event whose proceeds go towards rehabilitating Lake Nakuru National Park.
- 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 priorities in 2012

- Continue to train and finance our SME customers.
- More focus on training on Sanctions, Anti Money Laundering, Fraud awareness, Bribery and Corruption.
- Strengthen surveillance and intelligence on financial crime risks and trends.
- Target 100% Employee Volunteering days.
- Attract and develop talented people, providing the skills and resources necessary for them to succeed, and rewarding them with opportunities to maximise their potential within the Bank.

Our sustainable business priorities

Sustainability Review (Continued)

In 2011, we continued to build on our brand promise, 'Here for good', as we celebrated 100 years since we opened our first two branches, Treasury Square in Mombasa and Kenyatta Avenue in Nairobi in January 1911.

Over the years, we have weathered many social and economic challenges remaining a key player in shaping the economy of this country. These are 100 years of banking excellence where we have set trends that have formed the basis of banking in Kenya.

Looking back, we can proudly say it is through determination borne from the character of the Kenyan people that has earned us a solid 100 years of banking excellence.

The Bank's CEO, Richard Etemesi leads staff to plant 1,100 trees at Karura Forest in November 2011.

Through the years, we have placed a premium on financial expertise and cutting edge technology. We have spearheaded some of the market's leading banking products that have redefined banking forever. In 2011, we continued on the path of rapid growth, strong financial performance and excellent strategic progress. Our move to StandardChartered@Chiromo in March 2011 reinforced our commitment to this market which is well embedded in our brand promise 'Here for good'. Whichever way you look at it, 'Here for good' is us at our best. It is what we have been, what we are and what we will be for the next 100 years.

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 risk; and
- Leading the way in communities.

We execute 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
- Responsible selling and marketing

The Group Board Chairman, John Peace, joins staff in laying the foundation for a dormitory at Dream Children's Home.

Sustainability Review (Continued)

Protecting the environment

As a Bank, our aim is to be a force for good, and to make a positive contribution to the wellbeing of the global natural environment. We are committed to building a sustainable business over the long term and are trusted worldwide for upholding high standards of corporate governance, social responsibility, environmental protection and employee diversity.

Our strategy is set out in our Environment and Climate Change Policy and Procedures and has three specific aims:

- **Operational impact:** Reducing our operational impacts, including our energy and water consumption, paper use and air travel;
- **Engagement:** Engaging with stakeholder groups including non-governmental organisations (NGOs), sustainable investors, governments and employees to encourage community developments that mitigate and adapt to climate change; and
- **Sustainable lending:** Promoting sustainable finance by identifying risks and opportunities in environmental finance.

StandardChartered@Chiromo

Last year, we cemented our commitment to the Kenyan market with the move to our ultra modern headquarters at Chiromo. Ours is a green building that is constructed with the aim of achieving a GOLD LEED status from the Leadership in Environmental and Energy Design (LEED). This is in line with the Bank's commitment to actively integrate green initiatives into designs and seek relevant green building certifications for all new buildings.
We identified energy, water and paper consumption as key areas in which we can make a difference internally.

Our offices are managed on environmentally focused initiatives. We harvest our rain water and treat it for reuse. We also have a borehole and treatment system; a foul sewage collection and treatment facility; waterless urinals; infra red sensors on wash hand basin taps; dual flush capability in the washrooms; solar power for providing hot water; zoned movement sensors to control lighting in open plan areas; a hybrid air conditioning system that takes advantage of Nairobi's great climate and minimises the time that the air conditioners will run; daylight sensors on perimeter lighting zones; a double skin glazing system that drastically reduces solar heat gain in the office areas; elevators that meet all minimum energy objectives (and that operate all the time and quietly); and energy efficient light fittings are our building's environmentally friendly features. The building has been oriented on the site so that the effects of the sun and solar gain are minimised.

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.

In also reducing our environmental impact in 2011, we carried out the following:

- requiring that all our partners and vendors demonstrate ethical business practices;
- introduced the Information Retention Management programme - a global archiving policy aimed at reducing paper consumption;

StandardChartered@Chiromo during the inauguration in June 2011.

Sustainability Review (Continued)

Protecting the environment (Continued)

- invested in audio and video conferencing facilities to reduce the volume of business travel.

As a Bank, the most significant contribution we can make to protecting the environment is by reducing the indirect impact of our operations. We aim to do this by raising awareness among our staff, customers, clients and key stakeholders.

- **Our staff:** We aim to raise awareness among our staff by inspiring them to protect the environment both at work and at home. We aim to provide this inspiration through communication, interaction and leadership.

- **Our customers:** Consumer Banking has taken several steps to embed environmental considerations to their core business operations, including the introduction and promotion of e-statements, mobile banking and online banking; and reducing the number of fields that customers must complete in application forms.

- **Our clients:** We encourage and facilitate long term, sustainable behaviour change through our 14 sector and issue position statements, and our Renewable Energy and Environmental Finance (REEF) strategy.

- **Our key stakeholders:** Through our strong partnerships with key stakeholders, we show our commitment to protecting the environment by engaging in international policies and strategic initiatives. These include our membership of The Climate Group and the United Nations Environment Programme Finance Initiative (UNEPFI), and our support for key policy statements such as the Copenhagen Communiqué.

External interventions

The Kenya Wildlife Service initiated the 'Cycle with the Rhino' event in order to highlight the plight of rhinos as an endangered species in Kenya. The funds raised from the event were to help rehabilitate Lake Nakuru National Park's 74-km baboon-proof electric fence around the park as well as support community projects in conservation. We have supported this initiative for the last four years to the tune of KShs 3 million annually.

Apart from 'Cycle with the Rhino', Standard Chartered Bank is involved in re-forestation activities across the country. In 2011, in partnership with the Green Belt Movement and Kenya Wildlife Service we planted over 4,650 trees. Apart from covering the costs of seedlings and planting, the Bank contributed towards the maintenance of the trees for three years to ensure sustainability.

Staff during one of the volunteer days at Dreams Children's home.

Standard Chartered staff get ready to 'Cycle with the Rhino.'

Sustainability Review (Continued)
Community investment

Sustainability is one of the main forces shaping human and economic activity in the 21st century.

Doing business that delivers long term shareholder value and contributes to the success of the communities in which we operate is core to our strategy and supports our 'Here for good' brand promise.

We work closely with key stakeholders to achieve our sustainability goals. We also empower our staff to help tackle the challenges we face in our markets, from environmental degradation to ill health.

Our community investment focuses on:
- Standard Chartered Nairobi Marathon
- Seeing is Believing
- Living with HIV
- Employee Volunteering
- Environment

'Share the Vision'
The theme of the 2011 Nairobi Marathon, 'Share the Vision' was built on what we have achieved over the previous eight editions, especially in its contribution to 'Seeing is Believing'.

On Sunday 30 October 2011, thousands of Kenyans and people from around the world – as far as Cyprus, America, China and India, gathered at the Nyayo National Stadium to participate in the 9th edition of the Standard Chartered Nairobi Marathon. The event attracted 16,000 participants and helped raise KShs 17 million towards the 'Seeing is Believing' initiative. The funds raised will facilitate 800 cataract, glaucoma and trauma related surgeries for children under the age of nine as well as the purchase of eye care surgical equipment at the five hospitals supported by Standard Chartered Bank.

Despite security concerns, due to the increase of terrorist attacks on Kenya, the 2011 marathon was a huge success.

The key achievements in 2011 are as follows:

- **Increased participation:** 16,655 people took part in the 2011 Marathon, an 8% increase from 2010. The number of corporate organisations who participated increased from 96 to 102.

- **Volunteering:** we had over 1,000 volunteers with 300 of these being staff members.

- **Wheelchair and tricycle races:** in line with the Bank's Diversity & Inclusion agenda, in 2011 we continued to partner with our 'Seeing is Believing' technical partner, Christian Blind Mission, who also support people with physical disabilities to help build the profile of the wheel chair and tricycle races.

  Together we were able to deliver on the following:

  - In 2010 we introduced a 12.5km category for the wheelchair participants. Though well received by all that participated they felt it was too short. Thus in 2011 we increased the distance to 21km.

  - Increased the prize money for this category from KShs 760,000 in 2010 to KShs 1,400,000 in 2011. This was made possible by increased support from other organisations such as the National Council of Persons with Disabilities.

- **Increase in the number of exhibitors at the Marathon Expo:** to enhance spectator participation in the Marathon, every year we have an exhibition and entertainment area during the Marathon. In 2011, we had an increased number of exhibitors as well as spectators. This signifies that more and more organisations want to be associated with the Standard Chartered Nairobi Marathon.

The 2011 Standard Chartered Nairobi Marathon.

Sustainability Review

Sustainability Review (Continued)

Community investment (Continued)

- **Money raised:** one of the objectives of the Nairobi Marathon is to raise money for eradication of avoidable blindness in Kenya through cataract, glaucoma and trauma related surgeries for children under the age of nine. The proceeds (i.e. participant registration fees; donations by individuals and organisations) of the Marathon go towards local eye projects. The amount raised in 2011 was KShs 17 million up from KShs 16 million in 2010.

- **Increased sponsorship:** In 2011, we were able to bring in external sponsorship worth KShs 47 million up from KShs 38 million in 2010.

- **Increased stakeholder support:** as part of their sponsorship, the City Council of Nairobi extended to the Bank waivers on all branding; recruitment at malls and supermarket activations at roundabouts.

As an international meet, the push is always to raise the standard higher. The Standard Chartered Nairobi Marathon has positioned the country as the real home of athletics. When we set out with the idea of sponsoring a marathon of international status in Nairobi, the following were our objectives:

- raise the profile of Kenya internationally;

- help identify and provide opportunities for the local athletic talent to excel;

- help boost tourism to Kenya;

- create a community event for everyone's enjoyment; and

- raise funds for the needy in the community, that is, our 'Seeing is Believing' community initiative.

The marathon has achieved all these objectives in good measure. It has put Kenya on the world map as it continues to attract international runners therefore increasing the profile of our nation.

The Nairobi Marathon has also served as a platform where budding athletes have launched their international careers. Since the launch of the Marathon in 2003 only one winner has successfully defended their title. Every year the marathon produces new winners.

The Standard Chartered Nairobi Marathon aims to be the most distinguished marathon in Africa, benefiting the community through 'Seeing is Believing' while affirming our brand promise 'Here for good'.

Staff members get ready to start the Mombasa Torch Tour run. This coincided with the Bank's centenary celebrations.

Sustainability Review (Continued)

Community investment (Continued)

'Seeing is Believing'

'Seeing is Believing' is our global programme to help tackle preventable and curable blindness. Since launching in 2003 (as part of our 150th anniversary celebrations), 'Seeing is Believing' has helped 25 million people, giving more than 2.78 million people their sight back.

You may ask, why did Standard Chartered Bank decide to get involved in the eradication of avoidable blindness? The reason is that:

- **39 million** people across the world are blind;
- **80%** of blindness is avoidable;
- **90%** of avoidable blindness occurs in the developing world;
- every **5 seconds,** someone goes blind;
- **one child** goes blind **every minute;** and
- **60% of children** die within one year of going blind.

Without effective, major intervention, the number of blind people in the world could increase to 76 million by 2020. These are the cold hard facts about avoidable blindness.

In September 2011, Standard Chartered Group pledged to raise USD100 million by 2020 for sustainable eye-care programmes, aiming to reach 50 million people. So far, the Bank has been able to raise USD 18.5 million towards the target.

In Kenya, through the proceeds of the Nairobi Marathon, in partnership with Christian Blind Mission, we sponsor cataract, glaucoma and trauma related surgeries for needy children under the age of nine at five hospitals country wide. These are Kikuyu Eye Hospital; Kwale District Eye Centre and Lighthouse for Christ Eye Centre, both at the Coast; Sabatia Eye Hospital in Western Kenya and Tenwek Hospital Eye Unit in the Rift Valley.

The initiative has helped restore sight to over 4,000 children in Kenya through the hospitals. With the proceeds of the 2010 Marathon, apart from sponsoring over 800 surgeries we were able to purchase state-of-the-art equipment for two of the beneficiary hospitals as well as put up a child friendly nursery and playroom at Lighthouse for Christ Eye Centre. We also launched a pilot project in Kwale, whereby we are supporting follow-up treatment for children who have undergone surgery until they turn 7 years. The programme currently has 30 children. This is in line with our objective of providing surgery to as many needy children as possible but at the same time guaranteeing quality.

Staff out on an Employee Volunteering day.

Sustainability Review (Continued)

Community investment (Continued)

Girl Child Education

Building on our partnership with Starehe Girls' High School and in collaboration with the Global Giveback Circle, Standard Chartered Bank in 2010 committed to change the lives of five girls by assisting them fund their university education.

This unique model sees five girls every year work for the Bank for 18 months 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. The objective of this partnership is to provide a homelike, supportive environment within which girls from disadvantaged backgrounds can grow towards their full potential in terms of academic, career and personal developments.

'Living with HIV'

HIV/AIDS remains one of the greatest challenges to global health, affecting more than 33 million people worldwide, yet there is still no cure or vaccine.

There has been encouraging progress in treatment, shifting HIV infection from fatal to a chronic condition. Education is crucial in tackling the spread of HIV through providing people with the facts to make safe lifestyle choices and avoid becoming infected or infecting others.

Our workplace HIV education programme called 'Living with HIV' is part of our global policy on HIV and AIDS and was developed to provide a minimum standard of HIV education to staff. It includes free access to HIV testing and treatment for staff and their dependants, as well as a non-disclosure clause.

In addition to educating our own staff, we provide our education materials free of charge, to partner organisations for their own in-house use. This includes our e-learning and face-to-face workshop guidelines. In return, they have to commit to educate an agreed number of employees. Our education tools are available in 10 languages.

Staff projects and volunteering

Employee Volunteering (EV) is aligned to our brand promise, 'Here for good'. Under the programme, employees are encouraged to undertake volunteering placements that are aligned to the Group's Sustainability strategy or those that are beneficial to the community.

During these days, our staff get the opportunity to use their skills to make a unique contribution to organisations and causes they support. Under the Bank's EV programme, employees are encouraged to take three days paid leave per year to volunteer on projects aligned with our sustainability initiatives. In 2011, 1,105 staff took 1,569.5 EV days translating into an achievement of 142%. Volunteering themes that are in line with the Group's Sustainability strategy include:

- Visual impairment (or any 'Seeing is Believing' related activity);
- HIV and AIDS (or any 'Living with HIV' related activity);
- Goal - our global programme that empowers the lives of adolescent girls through sport and life skills education;
- Diversity & Inclusion;
- Environment; and
- Country specific initiatives.

Group Board and Management Committee leaders speak at a women's forum during their visit in June 2011.

Sustainability Review (Continued)

Responsible selling and marketing

At Standard Chartered, our approach to selling and marketing is guided by our brand promise 'Here for good'. Our brand promise helps define the Bank's culture and values and creates the foundation to embed the United Kingdom Financial Services Authority's principle of Treating Customers Fairly in our interactions with customers and clients.

We are committed to treating our customers fairly in setting high standards for employee training, product development, marketing and sales as well as after-sales service processes and managing customer complaints. We want to ensure that we are transparent in our dealings with our customers and that we offer them the right products and advice.

This is underpinned by three of our core values of being trustworthy, courageous and responsive. We apply these values to maintain customer loyalty, reinforce a culture which seeks fairness in customer relationships and ensure customers understand the risks involved.

Customer Charter

We can demonstrate that we are living our brand promise by being 'Here for good' to our customers through our Customer Charter. In 2011, the Bank rolled out a new customer focused strategy to help us achieve the world's best Consumer Bank position.

Consumer Banking Head, Kariuki Ngari, leads his team to receive Group awards in Singapore that included Consumer Banking Award for Excellence in Business Performance 2011.

Through the Charter, we promise our Consumer Bank customers that we shall treat them fairly; ensure they receive excellent service, appropriate financing solutions and an enduring relationship.

We can proudly say that in 2011 the Consumer Bank, demonstrated that they are living our brand promise by being 'Here for good' to the customers through the Customer Charter. As a true testament to their excellent work in upholding the Customer Charter, during the year, Consumer Bank won a number of Standard Chartered Group awards. The awards include:

- Consumer Banking Award for Excellence in Business Performance (Full Year 2011);
- Best innovation – Remote Channels (Full Year 2011);
- 1st in Global Contact Center Tele Sales League (Full Year 2011); and
- Best in SCB Way Implementation (2nd Half 2011).

Sustainability Review (Continued)

Responsible selling and marketing (Continued)

Training

CB Academy

The Consumer Banking Academy East Africa was introduced in 2010. Its key role is in supporting the Customer Focus pillar of the CB strategy. In 2011, Certification Programmes were launched to provide a strong, consistent and standardised approach to building core capabilities in key roles. These programmes aptly named '*Powered2Perform*' were designed to equip Consumer Banking employees with technical skills and leadership capabilities.

For the Relationship Managers we built core competencies in:

- Customer engagement skills;
- Product knowledge on Consumer Banking transactions, lending and wealth management;
- Compliance – external and internal; and
- Operations efficiency.

Branch Managers core competencies are:

- Customer Experience and Relationship Management;
- Strategy Formulation and Execution;
- Financial Management, Risk Management & Governance; and
- Leadership, People and Community Development.

Key highlights in 2011 were:

1. *Day 1 readiness for Premium and SME:* This intensive 21 day programme prepares new frontline managers to be ready for their roles when they report on duty. Due to the success of the programme in 2011, we have extended it to new business executives and personal banking frontline staff.

2. *The SCB Way:* In 2011, we won an overall Group award for quarter two and an honourable mention for the full year as a runner up to Hong Kong on the back of this programme.

3. *Wealth Management Training;* The Wealth Management Trusted Advisor proposition journey began in 2011 and to date we have certified 72% of the branch managers, 88% of the Priority relationship managers, 57% of the Preferred relationship managers and 48% of the SME relationship managers which is line with our goal to profitably grow our balance sheet and Assets Under Management.

4. *BM Powered2Perform:* In 2011, all the branch managers completed the '*Powered2Perform'* programme.

We have grown into a great resource offering support to the whole of Africa. We believe in continuing to develop and empower our staff as we endeavour to be responsible in our selling and marketing.

Sustainability Review (Continued)

Tackling financial crime

Financial crime risk is the risk that we incur financial, reputational or regulatory damage as a result of Money Laundering and Terrorist Financing, market abuse, fraud, bribery and corruption or breach of international sanctions. Standard Chartered Bank is vigilant to the financial crime risk that can arise from internal and external sources, including in our dealings with customers and other stakeholders and which may involve people, processes, and systems of the Bank.

The banking industry continues to remain a target of third parties seeking to defraud, disrupt legitimate economic activity or to facilitate other illegal activities. The risk posed by such criminal activity is growing with criminals becoming more sophisticated as they take advantage of the increased use of technology, such as online and electronic transactions.

Consequently, financial crime is on the rise with the industry exposed to potential losses arising out of fraudulent or criminal behavior. Identity theft, cheque and card fraud and online banking fraud have tended to increase year on year. A growing sophistication among criminals has led to the use of phishing, pharming, Trojans and malware to steal passwords. The potential use of banking for money laundering and terrorist financing activities also exposes the industry to significant legal, financial and reputational risks.

Financial Crime Risk (FCR) Unit within our Compliance Department is tasked exclusively with the responsibility for mitigating and managing all financial crime risk the Bank faces. We have a broad and strong range of measures in place to monitor, control and mitigate this risk. Controls to prevent, detect and mitigate this risk are embedded in our systems, policies, procedures and processes and across a wide range of the Bank's activities and operations.

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

The FCR team in conjunction with Legal and Compliance departments trains all members of staff (including new joiners) in Consumer Banking, Wholesale Banking, Global Shared Service Centre, Technology & Operations and other Support Functions on the Group's AML & CTF Policies and Procedures, Local AML & CTF laws and regulations, the Group's Speaking Up policy, UK Anti Bribery Act, Group Sanctions policies and Central Bank regulations on financial crime in general. These are aimed at equipping staff with knowledge on prevention, detection and reporting of AML/CTF and other financial crime risks, appreciation of the importance of applying sound business ethics and conducting themselves within the standards as set out in the Bank's code of conduct.

Speak Up Policy

FCR continues with managing the Speak Up channels (SCB's Whistle Blowing Process) and raising staff awareness of the Group's Speak Up Policy and Guidelines. Speak Up posters are displayed conspicuously at our new head office at Chiromo. Broadcasts encouraging staff to Speak Up (whistle blowing) on any issues of misconduct or suspected cases of fraud, breaches of Group Policies and Procedures and any acts against the local laws and regulations are regularly issued to our staff.

Fraud awareness training

FCR conducts fraud awareness trainings to Bank staff on an ongoing basis to provide them with the skills for detection and prevention of internal and external frauds. As a result, there has been a significant decline in the number of successful frauds against the Bank and its customers. We have witnessed cases where staff have detected frauds and culprits arrested at the banking halls while attempting to withdraw customers' funds. FCR also made presentations to security service providers and law enforcement agencies on ATM fraud awareness to curb the increase of ATM card skimming. Customer education has also been carried out through the Kenya Credit and Debit Card Association umbrella association on ATM fraud awareness. The Bank has been a key participant on the Kenya Bankers' Association staff and customer programme on ATM fraud awareness.

Investigation and surveillance

FCR investigates all suspected frauds and Speak Up cases. Recommendations emanating from these investigations are adopted by the businesses to improve on the controls and operating procedures. Lessons learnt are used to further strengthen the control measures for countering these risks including improving detective and preventive procedures by putting in place process and technology improvements.

The Bank has also put in place mechanisms to ensure that all staff and stakeholders are aware of the risk of corruption, including the provisions of the UK Bribery Act. A culture of zero tolerance to bribery and corruption has been inculcated in the staff and strong policies, systems, and procedures for the prevention and detection of acts of corruption and bribery have been put in place.

Sustainability Review (Continued)

Access to finance

The Bank's microfinance portfolio continued to grow in 2011 with a huge focus 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.

Our goal is 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.

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.

SME Banking: In Kenya, SMEs contribute between 70% and 80% of the country's GDP, making the sector a key driver of our economy.

The significance of SMEs to cross border trade is huge because many of the SMEs function as essential suppliers to larger exporting firms.

For banks, SMEs represent a great opportunity as new technologies make it easier to deploy state-of-the-art business models with customised statistical credit scoring for smaller firms. The traditional view of SMEs as being unprofitable to bank is now unfounded as it has quickly been proven that with the right business model, dedicated teams and tailored, cost-effective products, it is possible to bank SMEs profitably. Yet, access to finance remains a primary concern for SMEs with many being severely under-banked.

SMEs need banking because they lack the cash flow to make large investments and are unable to access capital markets like large firms. Today, their needs go far beyond local finance. As SMEs seek to grow beyond borders, they require not just loans, but a full and sophisticated range of banking services, including credit, trade and working capital, cash management, treasury and insurance.

At Standard Chartered Bank, we are committed to the development of SMEs. Our international footprint combined with our deep-rooted local knowledge places us at a vantage point when it comes to recognising the unique challenges faced by these companies.

On the back of our strategy to offer best-in-class banking solutions to our chosen market segments, Standard Chartered Bank strengthened its SME proposition in 2011 to enable the Bank deliver our vision of being the World's Best International Consumer Bank in each of our chosen markets and segments. Along with this, the Bank launched some new SME products which included:

- An SME on-line banking platform;
- *Straight2Bank:* a one stop shop for SME customers providing cash, trade, foreign exchange and other financial services through a single sign-on access;
- **Borderless Banking:** customers enjoy the convenience and efficiency of banking from their own account in both Kenya and Uganda. The services available include cash withdrawals, balance enquiries, cash deposits and statement request. The service will be implemented in Tanzania in 2012; and
- **Asset financing:** to enable more SMEs access financing. The asset financing offering provides financing for purchases of equipment and machinery to customers.

Last year, SME lending was a key driver of the growth in customer assets with deposits growing by 20% in 2011. Our SME segment did particularly well growing customer numbers in double digits in 2011. To cater for this customer segment, the Bank re-positioned its SME customer proposition in line with customer needs and continued to leverage on the technology platform to offer a variety of products and services which served to give customers various and convenient touch points for banking.

Focus for 2012

- The SME business remains a key focus for the Bank ;
- Four key SME training sessions for customers aligned to the Millennium Development Goals agenda to be held; and
- The Bank will continue to sponsor the Top 100 SME Awards.

Sustainability Review (Continued)

Great place to work

To improve engagement and the productivity of employees, the Bank embedded scorecards for frontline employees in Consumer Banking. These tools clarify what is expected of the employees while measuring their performance. As a result, we have seen improved productivity and high participation of employees in incentive schemes.

Improved employee service

Human Resources has continued to improve the way it serves employees and line managers by introducing both manager and employee self services. This enabled the Bank to automate most HR transactions and place them at the forefront of employees thereby freeing up the HR staff to provide more value add services to the businesses. Today employees are able to access their pay information, information on shares and access their performance online.

This has also improved the engagement of our employees.

Some of the key automated services include:

- Employee performance review: Employees can set their objectives online and self assess online. The line manager then reviews employee performance online thus cutting the need for exchanging paperwork;

- Employee engagement: The move to our new head office brought 900 employees under one roof. We have noted improved day to day engagement. Employees are able to liaise with each other cutting down the time they access information and as a result they perform better;

- Focus on employee personal life: HR encourages employees to enhance their soft skills that are life related. In 2011, we held a 'People Focus Week' where we invited external speakers to talk about pertinent issues affecting our employees like, managing relations, managing burnout, personal grooming, law and taxation, personal finance management, health and retirement investment.

The Bank's long serving employees during the 25 year service dinner where they were feted and awarded.

Sustainability Review (Continued)

Great place to work (Continued)

Leadership development training

The programme is aimed at ensuring that staff fit into the Bank structures well. The Bank's second priority is to massively multiply our leadership capabilities. We are an institution that is growing, therefore Leadership Development is a key focus for us. It is our key differentiator from other banks in the market. The leadership training cuts across all levels of the Bank to develop leadership capabilities for different roles within the Bank.

- Line Managers Leadership Essentials: This training targets first time line managers and is a fundamental programme within the Bank that ensures staff are aligned towards the Bank's goals;
- Leading for Performance: This is the second level of the learning development targeting team leaders; and
- Rethinking Leadership: is the third level of our learning development targeted at business heads.

Our approach to leadership development is unique because we look at learning as a process and not an event. In this regard, before participants attend the workshop they are subjected to some exercises that culminate in a pre-workshop capability survey which sets the best line for us for use during the workshop. After the workshop, participants and their line managers review the learnings and the implementation recording specific capability improvement for their staff. This is recorded in the post capability survey.

This approach has given the Bank a good return on investment on training because it is systematic and results focused making it unique to Standard Chartered Bank. In 2011, we re-launched the Great Managers Programme which is a management capability improvement training aimed at moving our managers from good to great.

Talent development

We engaged all our talented staff in development training and exposed them to senior managers visiting from Group as a way of building up their networks and sharing best practice. Some of our staff have also been on short term assignments to the more developed countries.

The continuous need to develop our people to meet the challenges of our business has seen the Leadership Development team work closely with the Consumer Banking Academy that was set up in 2010 to initially cover the technical training areas for the Bank that include product knowledge, selling skills and customer service.

In 2011, the Learning Centre was established with three state of the art learning rooms and a resource centre. This has gone a long way in ensuring that we are efficient in the delivery of our training.

Employee wellness

The management of our employees wellbeing is a key priority. Our employees are fundamental to the success of our business and so we encourage a healthy work-life balance through our Employee Wellness Programme (EWP). Through EWP we focus on developing the holistic wellbeing of our employees, their physical, spiritual and mental wellbeing. EWP aims to motivate employees to pursue healthy lifestyles by educating them about health risk factors and how to manage them.

In 2011, the Bank realised more staff members profiling on e-care by enabling them to access e-care at their desk even without an internet connection. There was also an increase in usage by spouses.

In 2012, HR is looking to invigorate the programme by highlighting its usefulness to staff.

Standard Chartered
Here for good

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And with the addition of M-PESA, you can now enjoy all of these Mobile Banking services:

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6. Change PIN | **7.** Mini Statement | **8.** Request Cheque Book | **9.** More Services

Talk to us today on 329 3900 or dial *722# to access Mobile Banking.

Board of Directors


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Board of Directors Profiles

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 67.

2. Richard M. 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 49.

3. Michael C. Hart, Non- Executive Director
Appointed to the Board on 20 February 2003. He is the Vice Chairman for Standard Chartered Bank in Africa. His previous senior appointments include Chief Executive Officer, Standard Chartered Africa, 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 60.

4. 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 45.

5. Chemutai Murgor, Executive Director, Finance & Chief Finance Officer
Appointed to the Board on 1 March 2007. She has been with the Bank for 11 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 42.

6. 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 59.

7. Nancy N. 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 51.

8. 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 Limited. He is currently the Investor Relations Officer at Safaricom. Age 57.

9. 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 51.

10. Patrick Obath, Non-Executive Director
Appointed to the Board on 24 January 2012. He has vast experience in change management, strategy, financial management and controls, turnarounds, governance and business risk. He is well versed in health, safety and environment management systems and processes. He is the Chairman of the Kenya Private Sector Alliance (KEPSA) and a director at East African Business Council, Africa Alliance Capital and Kenya Power. He is a Managing Consultant at Eduardo and Associates. Previous appointments include Managing Director at Shell East Africa. Age 57.

11. Robin Bairstow, Executive Director, Origination & Client Coverage
Appointed to the Board on 24 January 2012. He has been with the Bank for 9 years and his immediate previous appointment was Director Origination & Client Coverage, Zambia. He has wide experience in corporate finance and banking spanning over 21 years. Prior to joining Standard Chartered Bank, Robin worked with Citibank NA South Africa, BOE Bank Limited, ABSA Bank Limited and Nedbank. Age 46.

Management Committee


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Management Committee Profiles

1. Richard M. Etemesi, Chief Executive Officer
He has been with the Bank for 20 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 and 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. 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.

3. Chemutai Murgor, Chief Finance Officer
She has been with the Bank for 11 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.

4. Robin Bairstow, Head, Origination & Client Coverage
He has been with the Bank for 9 years and has held various positions within the Bank. He has over 21 years in the financial sector. Prior to joining Standard Chartered Bank, he worked with Citibank NA South Africa, BOE Bank Limited, ABSA Bank Limited and Nedbank.

5. George Akello, Chief Risk Officer
He has been with the Bank for 14 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.

6. Grace Tibihikirra Makoko, Head, Financial Markets
She was appointed Area Head of Financial Markets East Africa in November 2011. Prior to this, she was Head of Global Markets Standard Chartered Bank Uganda, a post she held since April 2007. Grace joined the Bank straight from University in December 1995 as a contract staff in Credit Risk Control and has risen through the organisation.

7. Paul Sagnia, Chief Information Officer
He has been with the Bank for 32 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.

8. Nancy N. Oginde, Head, Legal
She has been with the Bank for 20 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.

9. Munir Ahmed, Head, Compliance and Assurance
He joined the Bank in 1996. He has held various positions within the Bank including Country Head Compliance Kenya, Director Transaction Banking, Regional Head Network Management, Africa and Chief Financial Officer, SCB South Africa.

10. Annie Kigira-Kinuthia, Head, Corporate Affairs
She joined the Bank in 2007. She is the Regional Head of Corporate Affairs and the Africa Head for Brand and Sponsorship. She has over 16 years of experience in corporate affairs having worked at Equity Bank, World Vision Kenya and Unga Group in senior positions.

11. Sam Gitwekere, Senior Credit Officer
He joined the Bank in October 2011 from Barclays Bank PLC Dubai where he was the Corporate Credit Director for Barclays Africa. Sam has held various roles at Barclays Bank Kenya including Regional Director, Barclays Business Support and Corporate Recoveries and Senior Corporate Manager/Industry Head.

12. Reuben Mbindu, Head, Human Resources
He has been with the Bank for over 16 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.

The Board and Statutory Information

Directors

W. Kiboro	Chairman
R. Etemesi	Chief Executive Officer
M. Hart*	
K. Shah*	
H. Mule	(Resigned on 19 May 2011)
C. Murgor	
A. Mutahi	
K. Ngari	
S. Odusanya**	(Resigned on 10 June 2011)
L. Baillie*	
R. Bairstow***	(Appointed on 24 January 2012)
P. Obath	(Appointed on 24 January 2012)

* British
** Nigerian
***South African

Secretary

N. Oginde
StandardChartered@Chiromo
48 Westlands Road
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

StandardChartered@Chiromo
48 Westlands Road
P.O. Box 30003
00100 Nairobi GPO.

Registrars and Transfer Office

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

Board Committees

Board Audit Committee

K. Shah	Chairman
A. Mutahi	
L. Baillie	
N. Oginde	Secretary
C. Murgor*	
D. Mwindi*	Head of Internal Audit
M. Ahmed*	Head of Compliance and Assurance
KPMG Kenya*	

*By invitation.

Board Risk Committee

A. Mutahi	Chairperson
L. Baillie	
G. Akello	Chief Risk Officer
R. Etemesi	
N. Oginde	Secretary
K. Ngari*	
R. Bairstow*	
C. Murgor*	
S. Gitwekere*	Senior Credit Officer

*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	
R. Bairstow	
S. Gitwekere	
C. Murgor	
G. Akello	
G. Makoko	Secretary

Management Committee

R. Etemesi	Chairman
K. Ngari	
R. Bairstow	
S. Gitwekere	
C. Murgor	
G. Makoko	
R. Mbindu	
P. Sagnia	
N. Oginde	
G. Akello	
A. Kigira-Kinuthia	
M. Ahmed	

Report of the Directors

for the year ended 31 December 2011

The directors are happy to submit their report together with the audited financial statements for the year ended 31 December 2011 in accordance with Section 22 of the Banking Act and Section 157 of the Kenya 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 52 to 117.

3. Dividends

(a) The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of KShs 11.00 for every ordinary share of KShs 5.00.

(b) The directors did not recommend the payment of an interim dividend for the year.

The total dividend for the year is therefore KShs 11.00 (2010 – KShs 13.50) for every ordinary share.

(c) The Board has also resolved to recommend to the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of KShs 168,000,000 on the non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares. The total dividend for the year is therefore KShs 168,000,000 (2010 – 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.

(d) The dividends will be payable to shareholders registered on the Company's Register at the close of business on 13 April 2012 and will be paid on or after 31 May 2012. The Register will remain closed on 16 April 2012 for the preparation of dividend warrants.

4. Directors

The directors who served during the year are set out on pages 38 and 39.

All directors are subject to periodic re-appointment and the following directors will be seeking re-election:

(a) Mrs. Anne Mutahi, retires from office by rotation and will offer herself for re-election at the forthcoming Annual General Meeting in accordance with Section 96(1) of the Memorandum and Articles of Association;

(b) Mr. Patrick Obath, 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. Robin Bairstow, 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.

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 12 March 2012.

BY ORDER OF THE BOARD

N. N. Oginde
Company Secretary

12 March 2012

Statement on Corporate Governance

for the year ended 31 December 2011

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

Highlights

- adopted a formalised approach to assessing individual director effectiveness, including assessment by the Chairman; and
- created space for deeper and broader discussions on risk and strategy issues.

Our priorities in 2012

- enhanced focus on key strategic and risk issues;
- maintaining the right balance in pursuing growth opportunities in tandem with appropriate governance systems, controls, processes and information flows; and
- nurturing the Bank's corporate culture, values and 'Here for good' brand promise as the Bank continues to grow.

The Board

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. The Board has the appropriate mix of skills, knowledge and experience to perform its role effectively.

There is a good working relationship between the non-executive and executive directors, characterised by a healthy level of challenge and debate. The executive team ensures that the non-executive directors receive comprehensive reports on the economic and competitive landscape. The non-executive directors have access to information and management staff at all levels.

Board composition: Who is a member of the Board?

Currently, the Board comprises of ten members; the Chairman, four executive directors and five non-executive directors. All the non-executive directors including the Chairman are independent. We believe that the Board has a good mix of skills and experience to drive the business forward whilst maintaining a tight control on risk management and good governance.

The Board wishes to thank Mr. Harris Mule and Mr. Segun Odusanya, who stepped down from the Board during the year, for their great contribution.

All directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, the directors receive an induction training covering the Company's business and operations and an appreciation of the key risk areas.

This year, we will be seeking shareholder approval to elect Mr. Patrick Obath as a non-executive director, and Mr. Robin Bairstow as an executive director, both of whom are currently casual directors.

Induction and ongoing development

On appointment, new directors receive a comprehensive and tailored induction training 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.

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.

Role of the 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 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 directors are required to declare any interests that may give rise to a potential or perceived conflict.

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

Statement on Corporate Governance (Continued)

for the year ended 31 December 2011

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.

What has the Board done during the year?

Over the year, the Board reviewed liquidity, capital, costs, risk management, employee engagement and corporate governance matters amongst other things.

Given the fast-changing external environment, the Board understands the importance of remaining cognisant of the changes in the regulatory and political environment. The Board is aware that the strategic performance and management of risk is closely linked to the prevailing economic and market conditions.

Over and above its scheduled meetings, the Board also hosted the Standard Charetered Plc Group Board in June 2011 and was engaged in various customer events and visits in the Coast Region.

How do we ensure that we have an effective Board?

The Board is encouraged to have open, transparent and constructive dialogue amongst its members. In addition to this, the Board has a carefully structured Board agenda. The Board held a two-day meeting in October 2011 to focus on the strategy of the Company for the next three years. There was sufficient time to examine emerging risks and opportunities in detail.

The non-executive directors are fully supported by the Company Secretary who provides advice and guidance to the Directors. Further, the Board is entitled to seek independent professional advice at the Company's expense.

Board effectiveness evaluation

The Board undertook a review of its effectiveness in March 2011 as part of the annual board evaluation process. The process was led by the Chairman and was supported by the Company Secretary. The evaluation entailed a self-evaluation, evaluation of the Chairman and of the overall Board interactions, conduct of business meetings and scope of control exercised by the directors.

The Chairman also undertook one-on-one sessions with the respective non-executive directors to review their performance and to receive their individual feedback.

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 exercise full and effective control over strategic, financial, operational, compliance and governance issues.

A careful balance of formal and informal meetings throughout the year exists and there is an atmosphere of cordial relations. This creates an environment that encourages challenge, consultation, information sharing, innovative thinking and openness in communication.

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

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

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

*Resigned as a director on 19 May 2011.

**Resigned as a director on 10 June 2011.

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.

In 2011, the terms of reference for the Board Audit and Board Risk Committees were refined following a comprehensive governance review.

Statement on Corporate Governance (Continued)

for the year ended 31 December 2011

Standard Chartered Bank Kenya Limited Board				
Primary Committees				
Board Audit Committee	**Board Risk Committee**	**Board Nomination, Evaluation and Remuneration Committee**	**ALCO Committee**	**Management Committee**
Oversight and review of financial, audit and internal control issues.	Oversight and review of fundamental prudential risks including credit, market, capital and liquidity.	Oversight and review to ensure the Board composition has the optimum balance of skills, knowledge and experience. General oversight over the staff remuneration policies.	Ensure the country balance sheet is managed in accordance with regulatory requirements and policies.	Assist the CEO in the oversight and day-to-day management as well as providing general direction for the Company.

Details of these committees and membership are indicated below.

Board Audit Committee

Members

K. Shah	Chairman
A. Mutahi	
L. Baillie	
N. Oginde	Secretary
C. Murgor*	
D. Mwindi*	Head of Internal Audit
M. Ahmed*	Head of Compliance and Assurance
KPMG Kenya*	

*By invitation.

Highlights

- continued to robustly monitor the controls in place for management of capital and liquidity position, especially in line with the regulatory requirements; and
- closely monitored audit findings and the actions thereon from the external and internal auditors.

Role and function

The Committee reviews the integrity of and approves the financial statements of the Company. It also reviews the financial reports to establish the 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. Kaushik Shah as Chairman has relevant financial experience and that all other committee members have broad experience and sufficient knowledge of financial reporting and the attendant requirements.

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.

Statement on Corporate Governance (Continued)
for the year ended 31 December 2011

Attendance

Number of meetings in 2011	Scheduled (4)
K. Shah	4/4
A. Mutahi	4/4
H. Mule*	2/4
L. Baillie	3/4

* Resigned as a director on 19 May 2011.

Board Risk Committee
Members

A. Mutahi	Chairperson
L. Baillie	
G. Akello	Chief Risk Officer
R. Etemesi	
N. Oginde	Secretary
K. Ngari*	
R. Bairstow*	
S. Gitwekere*	Senior Credit Officer
C. Murgor*	

*By invitation.

Highlights
- enhanced focus on emerging risk; and
- comprehensive review of the Bank's risk appetite.

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.

This year, the Committee reviewed its terms of reference comprehensively and amended its agenda to focus on other key risk matters e.g. emerging risks as a result of technology, regulatory risk, reputational risk and capital risk. These issues received due attention in various meetings.

The Committee reviewed the Company's risk appetite and the directors were able to provide useful and critical feedback to management.

Attendance

Number of meetings scheduled in 2011	Scheduled (4)
H. Mule*	2/4
A. Mutahi	4/4
L. Baillie	4/4

*Resigned as a director on 19 May 2011.

Board Nomination, Evaluation and Remuneration Committee
Members

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

Highlights:
- reviewed the size of the Board and recommended appointment of an additional non-executive director; and
- reviewed the salary survey details and the general policy and banding for the entire Bank.

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.

Following the stepping down of Mr. Mule as a non-executive director, the Committee considered the need to appoint an additional non-executive director to meet the regulatory requirements of the size of the Board. The Committee identified and recruited Mr. Patrick Obath to the position of a non-executive director.

Statement on Corporate Governance (Continued)

for the year ended 31 December 2011

Asset and Liability Committee (ALCO)
Members

R. Etemesi	Chairman
K. Ngari	
R. Bairstow	
S. Gitwekere	
C. Murgor	
G. Akello	
G. Makoko	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	
R. Bairstow	
S. Gitwekere	
C. Murgor	
G. Makoko	
R. Mbindu	
P. Sagnia	
N. Oginde	
G. Akello	
A. Kigira-Kinuthia	
M. Ahmed	

Role and function

The Management Commitee 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 general oversight 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. Information on the aggregate amount of emoluments and fees paid to directors is disclosed on Note 14 of the financial statements.

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 and 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,

Statement on Corporate Governance (Continued)
for the year ended 31 December 2011

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 52 to 117 which comprise the statement of financial position at 31 December 2011, 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 the 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 12 March 2012 and were signed on its behalf by:

Director: W. Kiboro

Director: R. Etemesi

Director: C. Murgor

12 March 2012

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 52 to 117 which comprise the statement of financial position of the Group and the Company at 31 December 2011, 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 50, 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 for such internal control as the directors determine is necessary to enable preparation of financial statements that are free from material misstatement, 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 2011, 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.

12 March 2012

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Note	2011 KShs '000	2010 KShs '000
Interest income	8	12,011,253	9,777,689
Interest expense	9	(2,159,959)	(1,662,125)
Net interest income		9,851,294	8,115,564
Fee and commission income	10	3,613,182	2,687,887
Fee and commission expense	10	(210,746)	(57,131)
Net fee and commission income		3,402,436	2,630,756
Net trading income	11	2,246,685	1,973,690
Other operating income	12	413,096	1,182,719
OPERATING INCOME		15,913,511	13,902,729
Staff costs	13	(3,736,746)	(3,394,945)
Premises and equipment costs	13	(733,730)	(523,988)
General administrative expenses		(2,064,022)	(1,667,318)
Depreciation and amortisation	13	(711,139)	(302,273)
OPERATING EXPENSES		(7,245,637)	(5,888,524)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		8,667,874	8,014,205
Net impairment losses on loans and advances	22(b)	(412,739)	(332,321)
PROFIT BEFORE TAXATION	14	8,255,135	7,681,884
INCOME TAX EXPENSE	15	(2,418,314)	(2,305,693)
NET PROFIT FOR THE YEAR		5,836,821	5,376,191
OTHER COMPREHENSIVE (LOSS)/INCOME			
Change in fair value of available-for-sale investments		(4,616,524)	355,953
Deferred tax on change in fair value of available-for-sale investments		1,372,529	(94,358)
Revaluation surplus		401,412	-
Deferred tax on revaluation surplus		(104,614)	-
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(2,947,197)	261,595
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,889,624	5,637,786
BASIC AND DILUTED EARNINGS PER SHARE - (KShs)	16	19.75	18.58
DIVIDEND PER SHARE - (KShs)	17	11.00	13.50

The notes set out on pages 60 to 117 form an integral part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2011

ASSETS	Note	2011 KShs '000	2010 KShs '000
Cash and balances with Central Bank of Kenya	18	**12,005,054**	8,210,822
Government and other securities held for trading	19	**41,222**	3,271,603
Derivative financial instruments	20	**384,809**	283,036
Loans and advances to banks	21	**2,542,427**	3,243,868
Loans and advances to customers	22 (a)	**96,097,823**	60,336,829
Investment securities	23	**25,012,421**	52,161,984
Amounts due from group companies	24	**16,678,067**	5,208,201
Non-current asset held for sale	27	**57,724**	334,770
Property and equipment	28	**4,055,767**	3,341,337
Intangible assets	29	**4,373,307**	4,739,681
Prepaid operating lease rentals	30	**107,042**	110,513
Deferred tax asset	31 (a)	**327,104**	-
Other assets	32	**2,363,857**	1,503,605
TOTAL ASSETS		**164,046,624**	142,746,249
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	33	**7,738,987**	4,212,680
Deposits from customers	34	**122,323,049**	100,504,065
Derivative financial instruments	20	**822,806**	285,491
Amounts due to group companies	24	**8,183,214**	10,397,957
Tax payable		**108,172**	36,247
Deferred tax liability	31(a)	**-**	1,098,526
Retirement benefit obligations	35	**49,000**	165,076
Other liabilities	36	**4,126,940**	5,715,085
TOTAL LIABILITIES		**143,352,168**	122,415,127
Shareholders' equity (Page 56-57)			
Share capital	37	**1,715,386**	1,715,386
Share premium	37	**4,836,258**	4,836,258
Capital contribution reserve	37	**1,889,683**	1,891,127
Revaluation reserve	37	**551,300**	304,363
Fair value reserve	37	**(2,316,104)**	927,891
Statutory credit risk reserve	37	**452,010**	259,155
Retained earnings		**10,240,075**	7,872,096
Proposed dividends		**3,325,848**	2,524,846
TOTAL SHAREHOLDERS' EQUITY		**20,694,456**	20,331,122
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**164,046,624**	142,746,249

The financial statements set out on pages 52 to 117 were approved by the Board of Directors on 12 March 2012 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 60 to 117 form an integral part of these financial statements.

Company Statement of Financial Position

at 31 December 2011

ASSETS	*Note*	2011 KShs '000	2010 KShs '000
Cash and balances with Central Bank of Kenya	18	**12,005,054**	8,210,822
Government and other securities held for trading	19	**41,222**	3,271,603
Derivative financial instruments	20	**384,809**	283,036
Loans and advances to banks	21	**2,542,427**	3,243,868
Loans and advances to customers	22 (a)	**96,097,823**	60,336,829
Investment securities	23	**25,012,421**	52,161,984
Amounts due from group companies	24	**16,678,067**	5,208,201
Investment in subsidiaries	25	**140,243**	140,243
Non-current asset held for sale	27	**57,724**	334,770
Property and equipment	28	**4,055,767**	3,341,337
Intangible assets	29	**4,373,307**	4,739,681
Prepaid operating lease rentals	30	**107,042**	110,513
Deferred tax asset	31 (b)	**321,875**	-
Other assets	32	**2,363,857**	1,497,142
TOTAL ASSETS		**164,181,638**	142,880,029
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	33	**7,738,987**	4,212,680
Deposits from customers	34	**122,323,049**	100,504,065
Derivative financial instruments	20	**822,806**	285,491
Amounts due to group companies	24	**8,183,214**	10,397,957
Amounts due to subsidiaries		**265,654**	262,043
Tax payable		**120,027**	44,918
Deferred tax liability	31(b)	**-**	1,103,634
Retirement benefit obligations	35	**49,000**	165,076
Other liabilities	36	**4,107,895**	5,693,678
TOTAL LIABILITIES		**143,610,632**	122,669,542
Shareholders' equity (Page 58-59)			
Share capital	37	**1,715,386**	1,715,386
Share premium	37	**4,836,258**	4,836,258
Capital contribution reserve	37	**1,889,683**	1,891,127
Revaluation reserve	37	**551,300**	304,363
Fair value reserve	37	**(2,316,104)**	927,891
Statutory credit risk reserve	37	**452,010**	259,155
Retained earnings		**10,116,625**	7,751,461
Proposed dividends		**3,325,848**	2,524,846
TOTAL SHAREHOLDERS' EQUITY		**20,571,006**	20,210,487
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**164,181,638**	142,880,029

The financial statements set out on pages 52 to 117 were approved by the Board of Directors on 12 March 2012 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 60 to 117 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Note	2011 KShs '000	2010 KShs '000
Net cash flows from operating activities	38 (a)	**5,380,864**	16,674,403
Cash flows from investing activities			
Purchase of property and equipment	28	**(719,272)**	(1,447,245)
Proceeds from sale of non-current asset held for sale		**697,032**	-
Proceeds from sale of property and equipment		**1,452**	2,925
Purchase of intangible assets	29	**-**	(11,081)
Purchase of custody business	26	**-**	(1,883,365)
Net cash used in investing activities		**(20,788)**	(3,338,766)
Cash flows from financing activities			
Ordinary shares issued, net of issue costs		**-**	2,391,805
Share based payments:			
– 2010/2009 settled		**(67,454)**	(74,590)
– 2011/2010 allocated during the year		**66,010**	67,454
Dividends paid on ordinary shares:			
– Final 2010/2009		**(2,440,156)**	(1,903,775)
– Interim 2011/2010		**-**	(1,435,386)
Dividends paid on preference shares:			
– Final 2010/2009		**(84,690)**	(84,690)
– Interim 2011/2010		**-**	(83,310)
Net cash used in financing activities		**(2,526,290)**	(1,122,492)
Increase in cash and cash equivalents		**2,833,786**	12,213,145
Cash and cash equivalents at 1 January		**4,095,636**	(8,117,509)
Cash and cash equivalents at 31 December	38 (b)	**6,929,422**	4,095,636

The notes set out on pages 60 to 117 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	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 2011	1,715,386	4,836,258	1,891,127	304,363	927,891	259,155	7,872,096	2,524,846	20,331,122
Net profit for the year	–	–	–	–	–	–	5,836,821	–	5,836,821
Other comprehensive income									
Change in fair value of available-for-sale investments	–	–	–	–	(4,616,524)	–	–	–	(4,616,524)
Deferred tax on change in fair value of available-for-sale investments	–	–	–	–	1,372,529	–	–	–	1,372,529
Realised revaluation reserves on sale of property	–	–	–	(55,958)	–	–	55,958	–	–
Deferred tax on realised revaluation reserves on sale of property	–	–	–	16,788	–	–	(16,788)	–	–
Revaluation surplus	–	–	–	401,412	–	–	–	–	401,412
Deferred tax on revaluation surplus	–	–	–	(104,614)	–	–	–	–	(104,614)
Excess depreciation transfer	–	–	–	(15,273)	–	–	15,273	–	–
Deferred tax on excess depreciation transfer	–	–	–	4,582	–	–	(4,582)	–	–
Transfer to statutory credit risk reserve	–	–	–	–	–	192,855	(192,855)	–	–
Total other comprehensive income	**–**	**–**	**–**	**246,937**	**(3,243,995)**	**192,855**	**(142,994)**	**–**	**(2,947,197)**
Total comprehensive income for the year	**–**	**–**	**–**	**246,937**	**(3,243,995)**	**192,855**	**5,693,827**	**–**	**2,889,624**
Transactions with owners, recorded directly in equity									
Share based payments:									
– 2010 paid	–	–	(67,454)	–	–	–	–	–	(67,454)
– 2011 accrual	–	–	66,010	–	–	–	–	–	66,010
Dividends paid:									
– Final 2010	–	–	–	–	–	–	–	(2,524,846)	(2,524,846)
Proposed final dividends:									
– Ordinary shares	–	–	–	–	–	–	(3,157,848)	3,157,848	–
– Preference shares	–	–	–	–	–	–	(168,000)	168,000	–
Total contributions by and distributions to owners	**–**	**–**	**(1,444)**	**–**	**–**	**–**	**(3,325,848)**	**801,002**	**(2,526,290)**
At 31 December 2011	**1,715,386**	**4,836,258**	**1,889,683**	**551,300**	**(2,316,104)**	**452,010**	**10,240,075**	**3,325,848**	**20,694,456**

The notes set out on pages 60 to 117 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	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	–	–	74,590	–	–	–	–	–	74,590
Restated balance at 1 January 2010	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 60 to 117 form an integral part of these financial statements.

Company Statement of Changes in Equity
for the year ended 31 December 2011

	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 2011	1,715,386	4,836,258	1,891,127	304,363	927,891	259,155	7,751,461	2,524,846	20,210,487
Net profit for the year	–	–	–	–	–	–	5,834,006	–	5,834,006
Other comprehensive income									
Change in fair value of available-for-sale investments	–	–	–	–	(4,616,524)	–	–	–	(4,616,524)
Deferred tax on change in fair value of available-for-sale investments	–	–	–	–	1,372,529	–	–	–	1,372,529
Realised revaluation reserves on sale of property	–	–	–	(55,958)	–	–	55,958	–	–
Deferred tax on realised revaluation reserves on sale of property	–	–	–	16,788	–	–	(16,788)	–	–
Revaluation surplus	–	–	–	401,412	–	–	–	–	401,412
Deferred tax on revaluation surplus	–	–	–	(104,614)	–	–	–	–	(104,614)
Excess depreciation transfer	–	–	–	(15,273)	–	–	15,273	–	–
Deferred tax on excess depreciation transfer	–	–	–	4,582	–	–	(4,582)	–	–
Transfer to statutory credit risk reserve	–	–	–	–	–	192,855	(192,855)	–	–
Total other comprehensive income	**–**	**–**	**–**	**246,937**	**(3,243,995)**	**192,855**	**(142,994)**	**–**	**(2,947,197)**
Total comprehensive income for the year	**–**	**–**	**–**	**246,937**	**(3,243,995)**	**192,855**	**5,691,012**	**–**	**2,886,809**
Transactions with owners, recorded directly in equity									
Share based payments:									
– 2010 paid	–	–	(67,454)	–	–	–	–	–	(67,454)
– 2011 accrual	–	–	66,010	–	–	–	–	–	66,010
Dividends paid:									
– Final 2010	–	–	–	–	–	–	–	(2,524,846)	(2,524,846)
Proposed final dividends:									
– Ordinary shares	–	–	–	–	–	–	(3,157,848)	3,157,848	–
– Preference shares	–	–	–	–	–	–	(168,000)	168,000	–
Total contributions by and distributions to owners	**–**	**–**	**(1,444)**	**–**	**–**	**–**	**(3,325,848)**	**801,002**	**(2,526,290)**
At 31 December 2011	**1,715,386**	**4,836,258**	**1,889,683**	**551,300**	**(2,316,104)**	**452,010**	**10,116,625**	**3,325,848**	**20,571,006**

The notes set out on pages 60 to 117 form an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2011

	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	–	–	74,590	–	–	–	–	–	74,590
Restated balance at 1 January 2010	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 60 to 117 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011

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:

StandardChartered@Chiromo
48 Westlands Road
P.O. Box 30003
00100 Nairobi GPO.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2011 comprise the Bank and its subsidiaries (together referred to as the "Group" and 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 60 to 117 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 subject to IFRIC 14 restrictions; and
- land and buildings are measured at revalued amounts.

(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.

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.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

Transaction 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 profit or loss.

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

(c) Transactions in foreign currencies

Transactions in foreign currencies of Group entities 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 profit or loss in the year in which they arise.

Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost 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 financial liabilities held at amortised cost, interest income and interest expense is recognised in profit or loss using the effective interest rate method.

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

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 financial liabilities held at amortised cost is recognised in profit or loss 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 financial 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 financial iability 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 financial 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 Company'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 financial 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 as the related services are performed, 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

(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 profit or loss except to the extent that it relates to items recognised directly in equity, or other comprehensive income, 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 affects neither accounting nor taxable profit. Deferred tax is not recognised on the initial recognition of goodwill as well as differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied on the temporary differences when they reverse, based on tax laws that have been 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 financial 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 enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the 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, is recognised in profit or loss.

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

(iii) Offsetting of financial assets and financial liabilities

Financial assets and financial 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

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 are usually 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 profit or loss 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 financial liability is the amount at which the financial asset or financial 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 measured 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 (measured 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, which is classified as an available-for-sale financial asset, 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

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are recognised in profit or loss 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 profit or loss.

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 profit or loss. 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 profit or loss.

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 risk of changes in their fair value.

Cash and cash equivalents are measured 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 subsequently measured at fair value in the statement of financial position with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. 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 measured 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 measured at fair value through profit or loss, incremental direct transaction costs and subsequently accounted for depending on their classification either as 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.

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Subsequent to initial recognition, available-for-sale financial assets are measured 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 reclassified to profit or loss.

(k) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value. Subsequent to initial recognition, derivative financial instruments are measured 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 profit or loss.

The Group uses the following derivative instruments:

Currency forwards

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 profit or loss. 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

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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 profit or loss.

(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 and depreciation rates for the current and comparative year are as follows:

Fixtures and fittings	10 years
Equipment	10 years
Computers	3 years
Motor vehicles	4 years

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 although it is subject to impairment testing.

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

Freehold land and buildings are revalued every three years. The carrying amounts are adjusted to the revaluations and the resulting increase, 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 profit or loss.

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 profit or loss in the year in which they arise.

(n) Intangible assets

(i) Acquired intangible asset

At the date of acquisition of a 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. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are subsequently amortised on the basis of their expected useful lives. At each reporting 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 impaired immediately.

In 2010, the Group acquired the custody business from Barclays Bank of Kenya Limited which gave rise to an intangible asset primarily arising out of the purchase of customer relationships which is being amortised over 11 years on the basis of the expected useful life of the customer relationships that were acquired.

(ii) Goodwill

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

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for the year ended 31 December 2011

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 major cash generating unit 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 if the definition of an intangible asset and the recognition criteria are met. 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 three 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 profit or loss 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. If any such indication exists then the asset's recoverable amount is estimated.

Goodwill is reviewed each year irrespective of whether or not there is an indication of impairment.

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.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

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 period 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 assets 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 recognised in profit or loss so as to spread the regular cost over the lives of pensioners in accordance with the advice of qualified actuaries who carry out a full valuation of the scheme every three years. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates on government securities that have maturity dates approximating the terms of the Group's obligations.

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All the actuarial gains and losses are recognised as the pensioners and deferred pensioners participating in the scheme no longer work for the Company.

The impact of the amendments to IFRIC 14 IAS 19 'limit on a defined benefit asset, minimum funding requirements and their interaction' effective 1 January 2011 has been incorporated into the financial statements.

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.

Paragraph 58b of IAS 19 stipulates that a net pension asset (determined as total assets net of the defined benefit obligation, unrecognised past service costs and unrecognised actuarial losses) that arises can only be recognised in so far as the company has unconditional right to a refund of surplus arising in the Fund or is able to use the surplus to offset company contributions relating to future accruals of benefits or future administration costs. Therefore the resultant surplus has been restricted.

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 profit or loss 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 profit or loss 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 the capital contribution reserve, 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 profit or loss 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.

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(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 Group 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 Company 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 2011, and have not been applied in preparing these consolidated financial statements as follows:

- Amendments to IAS 1 *'Presentation of items of Other Comprehensive Income'* (effective 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. It however does not change the existing option to present profit or loss and other comprehensive income in two statements but changes the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

- Amendments to IAS 12 *'Deferred Tax: Recovery of Underlying Assets Statements'* (effective 1 January 2012). The amendments introduce an exception to the general measurement requirements of IAS 12 'Income Taxes' in respect of investment properties measured at fair value. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset.

- IAS 19 *'Employee Benefits'* (effective 1 January 2013). The amended IAS 19 requires that actuarial gains and losses are recognised immediately in other comprehensive income. This change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19. It also requires that expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

- IFRS 10 *'Consolidated Financial Statements'* (effective 1 January 2013). This standard replaces the requirements and guidance in IAS 27 relating to consolidated financial statements. The objective of this standard is to improve the usefulness of consolidated financial statements by developing a single basis for consolidation and robust guidance for applying that basis to situations where it has proved difficult to assess control in practice and divergence has evolved. The basis for consolidation is control and it is applied irrespective of the nature of the investee.

- IFRS 11- *'Joint arrangements'* (effective 1 January 2013). IFRS 11 supersedes IAS 31 and SIC -13 relating to Joinlty Controlled Entities. The objective of this IFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. It focuses

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on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It further distinguishes joint arrangements between joint operations and joint ventures; and requires the equity method for jointly controlled entities that are now called joint ventures.

- IFRS 12 - *'Disclosure of interests in other entities'* (effective 1 January 2013). The objective of this IFRS is to require an entity to disclose information that enables users of its financial statements to evaluate: the nature of, and risks associated with, its interest in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

- IFRS 13 - '*Fair value measurement*' (effective 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

- IFRS 9 *'Financial Instruments'* (effective 1 January 2015) 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 or loss 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 these standards.

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 Group 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 committees 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;

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- 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 considered as impaired and 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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

cash flows. In any decision relating to the recognition of an impairment provision, 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. The impairment assessment 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 impairment assessment 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 recognising the impairment 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 recognised 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.

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2011

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	2011 KShs '000	2010 KShs '000
Individually impaired		
Grade 13: Impaired	254,331	240,544
Grade 14: Impaired	776,496	965,012
	1,030,827	1,205,556
Allowance for impairment	(677,314)	(734,536)
	353,513	471,020
Loans past due but not impaired		
Past due up to 30 days	3,891,696	1,455,362
Past due 31 – 60 days	303,058	284,731
Past due 61 – 90 days	150,899	225,818
	4,345,653	1,965,911
Loans neither past due nor impaired		
Grade 1	-	6
Grade 2	-	-
Grade 3	4,060,069	-
Grade 4	1,324,441	1,222,336
Grade 5	3,313,606	2,536,071
Grade 6	1,708,329	2,846,962
Grade 7	14,300,195	11,335,052
Grade 8	22,644,213	5,998,619
Grade 9	9,787,549	7,876,329
Grade 10	6,499,254	4,440,094
Grade 11	27,130,078	21,548,543
Grade 12 – watch	1,273,129	623,926
	92,040,863	58,427,938
Portfolio impairment provision	(642,206)	(528,040)
	91,398,657	57,899,898
Net loans and advances	96,097,823	60,336,829

(iv) Fair value of collateral held

Group and Company		
Against impaired loans	536,417	515,171
Against past due but not impaired loans	3,049,531	3,528,248

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Fair value of collateral held (Continued)

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.

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 2011 or 2010.

	2011	2010
(v) Loans and advances concentration by sector	**KShs '000**	KShs '000
Group and Company		
Business services	**1,982,141**	2,429,748
Manufacturing	**14,147,506**	8,557,466
Wholesale and retail trade	**10,986,100**	6,722,955
Transport and communication	**21,008,715**	9,113,974
Real estate	**7,872,724**	6,417,843
Agriculture	**5,315,250**	5,283,571
Energy and water	**10,537,871**	4,836,403
Others	**25,567,036**	18,237,445
	97,417,343	61,599,405

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.

	2011	2010
(vi) Loans and advances concentration by business	**KShs '000**	KShs '000
Group and Company		
Consumer Banking	**32,792,858**	24,293,566
Wholesale Banking	**64,624,485**	37,305,839
	97,417,343	61,599,405

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(vii) Other financial assets

Group and Company	2011 KShs '000	2010 KShs '000
Neither past due nor impaired:		
Cash and balances with Central Bank of Kenya	12,005,054	8,210,822
Government and other securities held for trading	41,222	3,271,603
Derivative financial instruments	384,809	283,036
Loans and advances to banks	2,542,427	3,243,868
Investment securities	25,012,421	52,161,984
Amounts due from group companies	16,678,067	5,208,201
Other assets - uncleared effects	428,242	765,044

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. 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquid risk (Continued)

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;
- commitments, both on and off the statement of financial position, 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, repo'd 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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	2011	2010
	%	%
At 31 December	34	55
Average for the year	43	59
Highest for the year	54	63
Lowest for the year	34	53

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.

The advances to deposits ratio at 31 December 2011 was as follows:

Group and Company

	2011 KShs '000	2010 KShs '000
Loans and advances to customers	96,097,823	60,336,829
Deposits from customers	122,323,049	100,504,065
	%	%
Advances to deposits ratio	79	60

Group

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2011 to the contractual maturity date.

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

31 December 2011: LIABILITIES	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Deposits from banks	6,642,361	1,096,626	–	–	–	7,738,987
Deposits from customers	104,301,616	9,246,503	6,445,978	2,314,236	14,716	122,323,049
Derivative financial instruments	822,806	–	–	–	–	822,806
Amounts due to group companies	3,570,094	–	1,017,600	1,899,520	1,696,000	8,183,214
Other liabilities - bills payable	474,145	–	–	–	–	474,145
At 31 December 2011	**115,811,022**	**10,343,129**	**7,463,578**	**4,213,756**	**1,710,716**	**139,542,201**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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 - bills payable	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**

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.

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.

(c) Market risk

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 etc.

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 2011.

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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

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.

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 give 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

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 2011:				
Daily value at risk:	**At 31 December**	**Average**	**High**	**Low**
Foreign exchange risk	7,809	10,706	42,222	1,694
Interest rate risk	170,163	162,574	211,130	112,699
	177,972	**173,280**	**253,352**	**114,393**
31 December 2010:				
Daily value at risk:				
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**

(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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

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 2011:

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	–	–	–	–	–	–	12,005,054	**12,005,054**
Government and other securities held for trading	9.99	–	–	40,888	–	–	334	**41,222**
Derivative financial instruments	–	384,809	–	–	–	–	–	**384,809**
Deposits and advances to banks	20.07	842,427	225,000	900,000	575,000	–	–	**2,542,427**
Loans and advances to customers	14.42	17,011,433	21,481,516	15,569,610	26,085,498	15,596,254	353,512	**96,097,823**
Investment securities	6.4	2,940,111	8,589,187	5,067,835	7,740,724	674,564	–	**25,012,421**
Amounts due from group companies	1.01	4,321,586	254,400	5,790,865	–	1,696,000	4,615,216	**16,678,067**
Other assets - uncleared effects	–	–	–	–	–	–	428,242	**428,242**
At 31 December 2011	**–**	**25,500,366**	**30,550,103**	**27,369,198**	**34,401,222**	**17,966,818**	**17,402,358**	**153,190,065**
LIABILITIES								
Deposits from banks	20.81	6,318,786	1,096,626	–	–	–	323,575	**7,738,987**
Deposits from customers	4.1	35,552,599	9,246,503	6,445,978	2,314,236	14,716	68,749,017	**122,323,049**
Derivative financial instruments	–	822,806	–	–	–	–	–	**822,806**
Amounts due to group companies	1.31	848,000	–	1,017,600	1,899,520	1,696,000	2,722,094	**8,183,214**
Other liabilities – bills payable	–	–	–	–	–	–	474,145	**474,145**
At 31 December 2011	**–**	**43,542,191**	**10,343,129**	**7,463,578**	**4,213,756**	**1,710,716**	**72,268,831**	**139,542,201**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

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 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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

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)

31 December 2011:					
Group	**USD**	**Euro**	**GBP**	**Other**	**Total**
ASSETS					
Cash, deposits and advances to banks	717,444	49,439	258,706	198,606	**1,224,195**
Loans and advances to customers	26,545,693	563,645	1,961,788	187,968	**29,259,094**
Amounts due from group companies	5,367,580	2,007,649	8,370,913	167,719	**15,913,861**
Other assets	6,256,997	247,520	823,504	27,042	**7,355,063**
At 31 December 2011	**38,887,714**	**2,868,253**	**11,414,911**	**581,335**	**53,752,213**
LIABILITIES					
Deposits from banks	12,699	–	–	–	**12,699**
Deposits from customers	26,640,808	2,775,717	10,536,017	222,551	**40,175,093**
Amounts due to group companies	3,765,344	173	–	–	**3,765,517**
Other liabilities	7,276,892	85,114	793,248	231,099	**8,386,353**
At 31 December 2011	**37,695,743**	**2,861,004**	**11,329,265**	**453,650**	**52,339,662**
Net statement of financial position exposure	**1,191,971**	**7,249**	**85,646**	**127,685**	**1,412,551**

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 statement of financial position exposure	**(485,570)**	**38,533**	**(115,829)**	**142,682**	**(420,184)**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

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 700 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 2012	KShs 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 share capital, capital contribution reserve, share premium, 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.

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2011

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

The Bank's regulatory capital position at 31 December 2011 was as follows:

Company	2011 KShs '000	2010 KShs '000
Core capital (Tier 1)		
Share capital	1,715,386	1,715,386
Share premium	4,836,258	4,836,258
Retained earnings	10,116,625	7,751,461
Capital contribution reserve	1,823,673	1,823,673
	18,491,942	16,126,778
Less deductions from capital:		
Goodwill on acquired intangible asset (Note 29)	(1,112,111)	(1,112,111)
Acquired intangible asset (Note 29)	(3,257,376)	(3,620,686)
	14,122,455	11,393,981
Supplementary capital (Tier 2)		
Revaluation reserves (25%)	137,825	76,091
Statutory credit risk reserve	452,010	259,155
Subordinated debt (Note 24)	1,701,495	–
	2,291,330	335,246
Total capital	16,413,785	11,729,227
Risk weighted assets		
On-balance sheet	101,261,876	71,000,305
Off-balance sheet	13,498,105	10,935,706
Total risk weighted assets	114,759,981	81,936,011
Deposits from customers	122,323,049	100,504,065
Capital ratios		
Core capital/total deposit liabilities (CBK minimum 8%)	12%	11%
Core capital/total risk weighted assets (CBK minimum 8%)	12%	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;

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

Capital allocation (Continued)

- available supply of capital and capital raising options; and
- internal controls and governance for managing the Bank's risk, performance and capital.

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 of Directors.

(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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

(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.

The process used for recognising impairment 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 impairment provisions are recognised 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 impairment 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 judgmental overlays based on regulatory environment and business cycle adjustments based on macro-environment, portfolio loss severity, collections and recovery performance trends.

(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 profit or loss 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.

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2011

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

(b) Fair value of financial instruments (Continued)

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, including 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.

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 management in determining the useful life for property and equipment.

Acquired intangible asset

Critical estimates are made by the management in determining the useful life of the acquired customer relationships giving rise to the acquired intangible asset.

(e) Revaluation of items of property and equipment

Certain items of 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 balances 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

(g) Share based payments (Continued)

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.

(h) Valuation of acquired intangible asset

At the date of acquisition of a 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 operating 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 the year ended 31 December 2011

	Consumer Banking KShs '000	Wholesale Banking KShs '000	Total KShs '000
Net interest income	5,170,138	4,681,156	**9,851,294**
Non funded income	2,587,229	3,474,988	**6,062,217**
Operating income	**7,757,367**	**8,156,144**	**15,913,511**
Operating expenses	(4,047,675)	(3,197,962)	**(7,245,637)**
Net impairment losses on loans and advances	(383,330)	(29,409)	**(412,739)**
Profit before taxation	**3,326,362**	**4,928,773**	**8,255,135**

Statement of comprehensive income for the 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**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

6 OPERATING SEGMENTS (Continued)

Group

Statement of financial position as at 31 December 2011

	Consumer Banking KShs '000	Wholesale Banking KShs '000	Unallocated KShs '000	Total KShs '000
Assets				
Segment assets	32,154,669	112,971,587	–	**145,126,256**
Unallocated assets	–	–	18,920,368	**18,920,368**
Total assets	**32,154,669**	**112,971,587**	**18,920,368**	**164,046,624**
Liabilities and shareholders' equity				
Segment liabilities	69,960,047	69,108,009	–	**139,068,056**
Unallocated liabilities	–	–	24,978,568	**24,978,568**
Inter-segment lending	(37,805,378)	43,863,578	(6,058,200)	**–**
Total liabilities and shareholders' equity	**32,154,669**	**112,971,587**	**18,920,368**	**164,046,624**
Other segment items				
Depreciation and amortisation	147,581	419,925	143,633	**711,139**
Capital expenditure	226,445	52,230	2,733,830	**3,012,505**

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 asset	–	3,707,038	–	**3,707,038**
Capital expenditure	98,094	984	1,359,248	**1,458,326**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

7 FINANCIAL ASSETS AND LIABILITIES

(a) 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 2011:	Held for trading KShs '000	Held-to-maturity KShs '000	Loans and receivables KShs '000	Available-for-sale KShs '000	Other financial liabilities at amortised cost KShs '000	Total carrying amount KShs '000	Fair value KShs '000
Assets							
Cash and balances with Central Bank of Kenya	–	–	12,005,054	–	–	12,005,054	12,005,054
Government and other securities held for trading	41,222	–	–	–	–	41,222	41,222
Derivative financial instruments	384,809	–	–	–	–	384,809	384,809
Deposits and advances to banks	–	–	2,542,427	–	–	2,542,427	2,542,427
Loans and advances to customers	–	–	96,097,823	–	–	96,097,823	96,097,823
Investment securities	–	1,532,592	–	23,479,829	–	25,012,421	24,974,841
Amounts due from group companies	–	–	16,678,067	–	–	16,678,067	16,678,067
Other assets - uncleared effects	–	–	428,242	–	–	428,242	428,242
Total assets	426,031	1,532,592	127,751,613	23,479,829	–	153,190,065	153,152,485
Liabilities							
Deposits from banks	–	–	–	–	7,738,987	7,738,987	7,738,987
Deposits from customers	–	–	–	–	122,323,049	122,323,049	122,323,049
Derivative financial instruments	822,806	–	–	–	–	822,806	822,806
Amounts due to group companies	–	–	–	–	8,183,214	8,183,214	8,183,214
Other liabilities - bills payable	–	–	–	–	474,145	474,145	474,145
Total liabilities	822,806	–	–	–	138,719,395	139,542,201	139,542,201
31 December 2010:							
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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

7 FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) 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(j) 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 amount.

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 mature within 6 months and hence the fair value approximates their carrying amounts.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

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 2011 and 2010:

Group 31 December 2011:	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Assets				
Government and other securities held for trading	–	–	41,222	41,222
Derivative financial instruments	–	384,809	–	384,809
Investment securities	–	25,012,421	–	25,012,421
Amounts due from group companies	23,924	347,148	–	371,072
Total assets	23,924	25,744,378	41,222	25,809,524
Liabilities				
Derivative financial instruments	–	822,806	–	822,806
Amounts due to group companies	345,942	498,747	–	844,689
Total liabilities	345,942	1,321,553	–	1,667,495
31 December 2010:				
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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

		2011 KShs '000	2010 KShs '000
8	**INTEREST INCOME**		
	Loans and advances to customers	9,538,055	5,953,424
	Loans and advances to banks	263,286	130,846
	Investment securities:		
	Held-to-maturity	144,517	171,003
	Available-for-sale	2,039,303	3,480,221
	Accrued on impaired assets (Discount unwind)	26,092	42,195
		12,011,253	9,777,689
9	**INTEREST EXPENSE**		
	Deposits from customers	1,305,834	1,277,871
	Deposits from banks	854,125	384,254
		2,159,959	1,662,125
10	**NET FEE AND COMMISSION INCOME**		
	Fee and commission income		
	Commissions	2,009,248	1,341,439
	Service fees	1,603,934	1,346,448
		3,613,182	2,687,887
	Fee and commission expense		
	Inter-bank transaction fees and other fees	210,746	57,131
11	**NET TRADING INCOME**		
	Gains less losses on foreign currency transactions	2,586,397	1,622,154
	Interest income on held-for-trading securities	111,464	134,746
	Other trading (losses)/profits	(451,176)	216,790
		2,246,685	1,973,690
12	**OTHER OPERATING INCOME**		
	Gains less losses on disposal of available-for-sale securities:		
	– Government treasury bonds and bills	28,224	1,163,130
	– Corporate bond	9,213	-
	Rental income	16,379	16,955
	Profit on sale of non-current asset held for sale	356,427	-
	Profit on sale of property and equipment	51	2,508
	Other	2,802	126
		413,096	1,182,719

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

	2011 KShs '000	2010 KShs '000
13 OPERATING EXPENSES		
Staff costs		
Salaries and wages	2,897,874	2,545,884
Contributions to defined contribution plan	313,131	276,459
(Decrease)/increase in retirement benefit obligations (Note 35)	(63,176)	70,063
Redundancy charge	-	15
Employee share based payments expenses	71,193	67,744
Other staff costs	517,724	434,780
	3,736,746	3,394,945

	2011 No.	2010 No.
The number of employees at the year end was:		
Management	969	913
Unionisable	389	420
Other	385	221
	1,743	1,554

	2011 KShs '000	2010 KShs '000
Premises and equipment costs		
Rental of premises	234,644	205,750
Rental of computers and equipment	94,445	72,938
Electricity	116,509	94,459
Other premises and equipment costs	288,132	150,841
	733,730	523,988
Depreciation and amortisation		
Premises	28,023	24,217
Fixtures, fittings and equipment	311,510	177,583
Motor vehicles	2,324	3,706
Depreciation on property and equipment (Note 28)	341,857	205,506
Amortisation of intangible assets (Note 29)	366,374	93,851
Amortisation of prepaid operating lease rentals (Note 30)	2,908	2,916
	711,139	302,273
14 PROFIT BEFORE TAXATION		
Profit before taxation is arrived at after charging:		
Depreciation	341,857	205,506
Amortisation of intangible assets	366,374	93,851
Amortisation of prepaid operating lease rentals	2,908	2,916
Directors' emoluments - Fees	8,188	7,882
- Other	115,546	80,148
Auditors' remuneration	12,800	12,800
And after crediting:		
Profit on sale of non-current asset held for sale	356,427	-
Profit on sale of property and equipment	51	2,508

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

15 INCOME TAX EXPENSE

	2011 KShs '000	2010 KShs '000
Current tax expense		
Current year's tax at 30%	2,579,637	2,328,378
Prior year (over)/under provision	(3,608)	4,642
	2,576,029	2,333,020
Deferred tax credit - Note 31(a)	(157,715)	(27,327)
Income tax expense	2,418,314	2,305,693

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

	2011 KShs '000	2010 KShs '000
Accounting profit before taxation	8,255,135	7,681,884
Computed tax using the applicable corporation tax rate at 30%	2,476,541	2,304,565
Non-deductible costs and non-taxable income	(54,619)	(3,514)
Prior year (over)/under provision	(3,608)	4,642
Income tax expense	2,418,314	2,305,693

16 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2011 is based on the profit attributable to ordinary shareholders of KShs 5,668,821,000 (2010 - KShs 5,208,191,000) and a weighted average number of ordinary shares outstanding during the year of 287,077,134 (2010 - 280,299,401). In 2010, the weighted average number of shares was restated to include the effects of the rights issue.

Profit attributable to ordinary shareholders:	2011 KShs '000	2010 KShs '000
Net profit for the year	5,836,821	5,376,191
Dividends on non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares	(168,000)	(168,000)
	5,668,821	5,208,191
Basic earnings per share (KShs)	19.75	18.58

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 2011 and 2010.

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 24 May 2012, a final dividend in respect of the year ended 31 December 2011 of KShs 11.00 (2010 - KShs 8.50) for every ordinary share of KShs 5.00 is to be proposed. One interim dividend of KShs Nil (2010 - KShs 5.00) 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 11.00 (2010 - KShs 13.50).

At the Annual General Meeting to be held on 24 May 2012, a final dividend in respect of the year ended 31 December 2011 of KShs 168,000,000 (2010 - KShs 84,690,411) for the preference shares is to be proposed. An interim dividend of KShs Nil (2010 - KShs 83,309,589) was declared and paid in the year. This will bring the total dividend for the year to KShs 168,000,000 (2010 - 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

18 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2011	2010
Group and Company	**KShs '000**	KShs '000
Cash on hand	**2,926,464**	2,663,148
Balances with Central Bank of Kenya:		
-Restricted balances (Cash Reserve Ratio)	**7,129,758**	5,088,713
-Unrestricted balances	**1,948,832**	458,961
	12,005,054	8,210,822

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 2011, the Cash Reserve Ratio requirement was 5.25% (2010 - 4.50%) of all deposits. These funds are now available for use by the Bank in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% requirement and provided that the overall average in the month is at least 5.25%.

19 GOVERNMENT AND OTHER SECURITIES HELD FOR TRADING

	2011	2010
Group and Company	**KShs '000**	KShs '000
Treasury bonds	**-**	566,839
Treasury bills	**-**	2,620,191
Money market bonds	**41,222**	84,573
Government and other securities held for trading	**41,222**	3,271,603

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

	2011				2010			
	Treasury bonds	Treasury bills	Money market bonds	Total	Treasury bonds	Treasury bills	Money market bonds	Total
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
At 1 January	566,839	2,620,191	84,573	3,271,603	2,197,508	-	129,192	2,326,700
Additions	4,630,000	906,950	-	5,536,950	7,248,900	2,630,000	-	9,878,900
Disposals and maturities	(5,196,839)	(3,527,141)	(42,200)	(8,766,180)	(8,763,200)	-	(42,200)	(8,805,400)
Changes in fair value	-	-	(1,151)	(1,151)	(116,369)	(9,809)	(2,419)	(128,597)
At 31 December	**-**	**-**	**41,222**	**41,222**	**566,839**	**2,620,191**	**84,573**	**3,271,603**

The weighted average effective interest rate on government and other securities held for trading at 31 December 2011 was 9.99% (2010 - 3.23%).

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 profit or loss.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

20 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

These tables analyse 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

	2011			2010		
	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	9,991,989	384,809	777,604	9,178,284	280,278	182,311
Forward exchange contracts	44,733,058	_	_	19,830,006	2,758	2,099
Commodity derivative contracts	_	_	45,202	_	_	101,081
	54,725,047	**384,809**	**822,806**	29,008,290	283,036	285,491

21 LOANS AND ADVANCES TO BANKS

Group and Company	**2011 KShs '000**	2010 KShs '000
Loans and advances to local banks	**1,936,706**	3,111,053
Loans and advances to foreign banks	**605,721**	132,815
	2,542,427	3,243,868

The weighted average effective interest rate on loans and advances to banks at 31 December 2011 was 20.07% (2010 - 4.84%).

22 LOANS AND ADVANCES TO CUSTOMERS

Group and Company	**2011 KShs '000**	2010 KShs '000
(a) Classification		
Overdrafts	**14,986,274**	11,029,710
Loans	**81,569,227**	49,797,484
Bills discounted	**861,842**	772,211
Gross loans and advances	**97,417,343**	61,599,405
Less: Impairment losses on loans and advances	**(1,319,520)**	(1,262,576)
Net loans and advances	**96,097,823**	60,336,829
Repayable on demand	**17,603,383**	11,756,242
Less than 3 months	**21,776,479**	13,061,573
3 months to 1 year	**15,783,396**	4,428,760
1 to 5 years	**26,443,678**	26,503,355
5 to 10 years	**10,128,522**	2,363,115
Over 10 years	**5,681,885**	3,486,360
Gross loans and advances	**97,417,343**	61,599,405

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

Group and Company

(b) Impairment losses on loans and advances

	Specific impairment losses	Portfolio impairment provision	Total
31 December 2011:	KShs '000	KShs '000	KShs '000
At 1 January	734,536	528,040	1,262,576
Provisions recognised during the year	581,159	114,166	695,325
Amounts written off during the year	(612,289)	–	(612,289)
Amounts released to interest income	(26,092)	–	(26,092)
At 31 December 2011	**677,314**	**642,206**	**1,319,520**
Provisions recognised during the year	581,159	142,702	723,861
Amounts recovered during the year	(282,586)	(28,536)	(311,122)
Net charge to profit or loss	**298,573**	**114,166**	**412,739**
31 December 2010:			
At 1 January	754,156	566,978	1,321,134
Provisions recognised 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 2010	**734,536**	**528,040**	**1,262,576**
Provisions recognised during the year	565,671	(38,938)	526,733
Amounts recovered during the year	(194,412)	–	(194,412)
Net charge to profit or loss	**371,259**	**(38,938)**	**332,321**

The weighted average effective interest rate on loans and advances to customers at 31December 2011 was 14.24% (2010 –9.92%).

23 INVESTMENT SECURITIES

Group and Company	**2011 KShs '000**	2010 KShs '000
Available-for-sale		
Treasury bonds	**15,732,939**	35,258,634
Treasury bills	**7,319,377**	14,059,982
Money market bonds	**427,513**	808,197
	23,479,829	50,126,813
Held-to-maturity		
Treasury bonds	**1,532,592**	2,035,171
Total investment securities	**25,012,421**	52,161,984

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2011

23 INVESTMENT SECURITIES (Continued)

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

	2011			2010		
	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Total KShs '000	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Total KShs '000
At 1 January	51,353,787	808,197	52,161,984	41,159,849	2,313,630	43,473,479
Additions	14,850,813	-	14,850,813	46,426,982	500,000	46,926,982
Disposals and maturities	(36,910,951)	(101,750)	(37,012,701)	(38,362,464)	(1,880,750)	(40,243,214)
Changes in fair value	(4,681,873)	(278,934)	(4,960,807)	622,683	(124,683)	498,000
Amortisation of discounts and premiums	(26,868)	_	(26,868)	1,506,737	_	1,506,737
At 31 December	**24,584,908**	**427,513**	**25,012,421**	**51,353,787**	**808,197**	**52,161,984**

The weighted average effective interest rate on treasury bonds at 31 December 2011 was 7.98% (2010 – 8.72%) and on treasury bills was 9.19% (2010 – 3.63%).

There were no treasury bills under repurchase agreements outstanding at 31 December 2011 and 2010.

The weighted average effective interest rate on money market bonds at 31 December 2011 was 7.97% (2010 – 8.89%).

At 31 December 2011, unamortised premiums on investment securities amounted to KShs 584,485,000 (2010 – KShs 1,217,154,000) and unamortised discounts amounted to KShs 209,389,000 (2010 – KShs 160,078,000).

24 GROUP COMPANY BALANCES

Group and Company	**2011 KShs '000**	2010 KShs '000
Amounts due from group companies	**16,678,067**	5,208,201
Amounts due to group companies	**8,183,214**	10,397,957

Included in amounts due to Group companies is a subordinated debt of US$ 20 million (KShs 1,696,000,000) advanced on 18 August 2011. The subordinated debt is an unsecured 10 year loan capital issued by Standard Chartered PLC to enhance the Bank's capital base (Tier 2 capital) but can be recalled after five years and 1 day at the option of both parties. The subordinated debt is unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle the subordinated debt in certain circumstances as set out in the contractual agreement. The interest on the subordinated debt is referenced to the LIBOR. The weighted average effective interest rate at 31 December 2011 on the subordinated debt was 2.65% (2010 – Nil).

The weighted average effective interest rate at 31 December 2011 on amounts due from group companies was 1.01% (2010 – 0.85%) and on amounts due to group companies was 1.31% (2010 – 1.34%).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

25 INVESTMENT IN SUBSIDIARIES

The following subsidiaries are wholly owned by the Company:

Company	Status	2011 KShs '000	2010 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 measured at cost less accumulated impairment losses. 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 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 asset 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.

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 asset has been based will not cause the carrying amounts to exceed their recoverable amount.

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2011

26 BUSINESS COMBINATION (Continued)

If the acquisition 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	**2011**	2010
	KShs '000	KShs '000
Operating income	**891,700**	163,958
Profit/(loss) before taxation	**372,523**	(64,398)

Acquisition related costs of KShs 17 million (2010 - KShs 120 million) are included within operating expenses in the Group's consolidated profit or loss.

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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

27 NON-CURRENT ASSET HELD FOR SALE

Group and Company

	2011			2010		
	Property and equipment KShs '000	Prepaid operating lease rentals KShs '000	Total KShs '000	Property and equipment KShs '000	Prepaid operating lease rentals KShs '000	Total KShs '000
At 1 January	243,750	91,020	334,770	–	–	–
Transfer from property and equipment (Note 28)	62,996	–	62,996	243,750	–	243,750
Transfer from prepaid operating lease rentals (Note 30)	–	563	563	–	91,020	91,020
Disposals	(249,585)	(91,020)	(340,605)	–	–	–
At 31 December	**57,161**	**563**	**57,724**	**243,750**	**91,020**	**334,770**

The 2011 non-current asset held for sale relates to two properties which are being sold. The details relating to this are shown in Notes 28 and 30.

The properties have been placed on the market with the sale expected within the 2012 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 2011	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 2011	100,000	463,250	2,494,769	16,370	2,462,707	5,537,096
Transfer to non-current asset held for sale (Note 27)	–	(68,000)	–	–	–	(68,000)
Additions	–	–	–	–	719,272	719,272
Transfers	–	664,967	2,347,538	–	(3,012,505)	–
Disposals	–	–	(422,790)	–	–	(422,790)
Revaluation surplus	50,000	278,517	–	–	–	328,517
At 31 December 2011	**150,000**	**1,338,734**	**4,419,517**	**16,370**	**169,474**	**6,094,095**
Depreciation:						
At 1 January 2011	2,025	52,464	2,130,515	10,755	–	2,195,759
Transfer to non-current asset held for sale (Note 27)	–	(5,004)	–	–	–	(5,004)
Charge for the year	1,075	26,948	311,510	2,324	–	341,857
Disposals	–	–	(421,389)	–	–	(421,389)
Depreciation written back on revaluation	(2,700)	(70,195)	–	–	–	(72,895)
At 31 December 2011	**400**	**4,213**	**2,020,636**	**13,079**	**–**	**2,038,328**
Carrying amount:						
At 31 December 2011	**149,600**	**1,334,521**	**2,398,881**	**3,291**	**169,474**	**4,055,767**

Notes to the Consolidated Financial Statements (Continued)

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28 PROPERTY AND EQUIPMENT (Continued)

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**
Carrying amount:						
At 31 December 2010	**97,975**	**410,786**	**364,254**	**5,615**	**2,462,707**	**3,341,337**

Included in property and equipment at 31 December 2011 are assets with a gross value of KShs 1,534,270,284 (2010 – KShs 1,761,845,755) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been KShs 619,064,419 (2010 – KShs 649,162,455).

There were no idle assets as at 31 December 2011 and 2010.

Capital work in progress relates to the branch expansion and refurbishment that was ongoing during the year.

Following the completion of the new head office, the work in progress existing at 1 January 2011 has subsequently been capitalised during the year.

Freehold land and buildings were revalued on an open market basis by Lloyd Masika Limited, a firm of professional valuers as at 30 September 2011. 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 three 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 2011.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year ended 31 December 2011 (2010:Nil). If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2011 KShs '000	2010 KShs '000
Cost	**759,808**	494,654
Accumulated depreciation	**(65,806)**	(197,007)
Carrying amount	**694,002**	297,647

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

29 INTANGIBLE ASSETS

Group and Company

	2011				2010			
	Acquired intangible asset KShs '000	Goodwill KShs '000	Capitalised software KShs '000	**Total KShs '000**	Acquired intangible asset KShs '000	Goodwill KShs '000	Capitalised software KShs '000	**Total KShs '000**
Cost								
At 1 January	3,707,038	1,112,111	196,893	**5,016,042**	-	-	185,812	**185,812**
Additions (Note 26)	-	-	-	**-**	3,707,038	1,112,111	11,081	**4,830,230**
At 31 December	**3,707,038**	**1,112,111**	**196,893**	**5,016,042**	**3,707,038**	**1,112,111**	**196,893**	**5,016,042**
Amortisation								
At 1 January	86,352	-	190,009	**276,361**	-	-	182,510	**182,510**
Charge for the year	363,310	-	3,064	**366,374**	86,352	-	7,499	**93,851**
At 31 December	**449,662**	**-**	**193,073**	**642,735**	**86,352**	**-**	**190,009**	**276,361**
Carrying amount:								
At 31 December	**3,257,376**	**1,112,111**	**3,820**	**4,373,307**	**3,620,686**	**1,112,111**	**6,884**	**4,739,681**

As at 31 December 2011, assets with a gross value of KShs 185,811,490 (2010 – KShs 185,811,490) are fully amortised but still in use. The notional amortisation charge for the year on these assets would have been KShs 62,300,426 (2010 – KShs 62,300,426).

There were no idle assets as at 31 December 2011 and 2010.

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 (2010-Nil).

The recoverable amounts have been calculated based on their value in use. Value in use was detemined by discounting the future cashflows expected to be generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2011 was determined similarly as in 2010. The calculation of the value in use 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.

The key assumptions described above may change as economic and market conditions change. Management believes that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of the unit to decline below the carrying amount.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

30 PREPAID OPERATING LEASE RENTALS

Group and Company

	2011 KShs '000	2010 KShs '000
Cost		
At 1 January	**138,541**	245,408
Transfer to non-current asset held for sale (Note 27)	**(6,737)**	(106,867)
At 31 December	**131,804**	138,541
Amortisation		
At 1 January	**28,028**	40,959
Transfer to non-current asset held for sale (Note 27)	**(6,174)**	(15,847)
Charge for the year	**2,908**	2,916
At 31 December	**24,762**	28,028
Carrying amount at 31 December	**107,042**	110,513

31 DEFERRED TAX ASSET/(LIABILITY)

The net deferred tax assets/(liabilities) at 31 December 2011 and 2010 are attributable to the following:

2011

(a) Group

	At 1 January KShs '000	Profit or loss current year KShs '000	Recognised on business combination (Note 26) KShs '000	Other comprehensive income KShs '000	At 31 December KShs '000
Asset/(liability)					
Tax losses in subsidiaries	2,654	122	–	–	2,776
Property and equipment	204,052	(38,049)	–	–	166,003
Acquired intangible asset	(1,086,206)	108,993	–	–	(977,213)
Portfolio impairment provision	158,412	34,250	–	–	192,662
Revaluation surplus	(107,712)	21,370	–	(104,614)	(190,956)
Fair value reserve	(379,913)	–	–	1,372,529	992,616
Accrued interest	48,615	42,348	–	–	90,963
Other provisions	12,049	23,504	–	–	35,553
Retirement benefit obligations	49,523	(34,823)	–	–	14,700
	(1,098,526)	**157,715**	**–**	**1,267,915**	**327,104**

(b) Company

	At 1 January KShs '000	Profit or loss current year KShs '000	Recognised on business combination (Note 26) KShs '000	Other comprehensive income KShs '000	At 31 December KShs '000
Asset/(liability)					
Property and equipment	204,047	(38,048)	–	–	165,999
Acquired intangible asset	(1,086,206)	108,993	–	–	(977,213)
Portfolio impairment provision	158,412	34,250	–	–	192,662
Revaluation surplus	(107,712)	21,370	–	(104,614)	(190,956)
Fair value reserve	(379,913)	–	–	1,372,529	992,616
Accrued interest	48,615	42,348	–	–	90,963
Other provisions	9,600	23,504	–	–	33,104
Retirement benefit obligations	49,523	(34,823)	–	–	14,700
	(1,103,634)	**157,594**	**–**	**1,267,915**	**321,875**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

31 DEFERRED TAX ASSET/(LIABILITY) (Continued)

2010

(a) Group

Asset/(liability)	At 1 January KShs '000	Profit or 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 or 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)**

32 OTHER ASSETS

	2011 Group KShs '000	2011 Company KShs '000	2010 Group KShs '000	2010 Company KShs '000
Uncleared effects	**428,242**	**428,242**	765,044	763,877
Prepayments	**538,158**	**538,158**	322,115	322,115
Other receivables	**1,397,457**	**1,397,457**	416,446	411,150
	2,363,857	**2,363,857**	1,503,605	1,497,142

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

33 DEPOSITS FROM BANKS

Group and Company

	2011 KShs '000	2010 KShs '000
Balances due from local banks	4,983,727	3,565,307
Balances due from foreign banks	2,755,260	647,373
	7,738,987	4,212,680

The weighted average effective interest rate on deposits from banks at 31 December 2011 was 20.81% (2010 – 1.41%).

34 DEPOSITS FROM CUSTOMERS

Group and Company

	2011 KShs '000	2010 KShs '000
From government and parastatals		
Payable on demand	5,259,472	5,023,015
Payable within 3 months or less	4,669	–
	5,264,141	5,023,015
From private sector and individuals		
Payable on demand	89,639,249	84,823,777
Payable within 3 months or less	18,644,729	5,067,738
Payable after 3 months	8,774,930	5,589,535
	122,323,049	100,504,065
Current and demand accounts	77,585,936	69,999,682
Savings deposits	12,085,756	14,931,142
Time deposits	31,306,470	14,677,186
Other	1,344,887	896,055
	122,323,049	100,504,065

The weighted average effective interest rate on interest bearing deposits from customers at 31 December 2011 was 4.10% (2010 –1.49%).

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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

35 RETIREMENT BENEFIT OBLIGATIONS (Continued)

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 Bank's actuary did a review for the year ended 31 December 2011. 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:

Group and Company	2011 KShs '000	2010 KShs '000
Fair value of plan assets	808,158	810,624
Present value of funded obligations	(611,000)	(975,700)
Retirement benefit obligations before asset ceiling	197,158	(165,076)
Irrecoverable surplus	(197,158)	–
Additional liability for minimum funding requirements	(49,000)	–
Retirement benefit obligations as at 31 December	(49,000)	(165,076)

Plan assets consist of the following:

	2011 KShs '000	2010 KShs '000
Offshore investments	29,160	131,081
Government bonds	303,030	316,639
Corporate bonds	141,537	125,355
Other	334,431	237,549
	808,158	810,624

Movement in plan assets		
Fair value of plan assets at 1 January	810,624	710,587
Expected return on plan assets	68,524	79,397
Benefits paid by the plan	(124,973)	(108,787)
Employer contributions	52,900	26,400
Recognised actuarial gains	1,083	103,027
Fair value of plan assets at 31 December	808,158	810,624

Movement in the present value of the retirement benefit obligations		
Retirement benefit obligations at 1 January	975,700	832,000
Interest cost	82,071	92,800
Past service cost	26,400	–
Benefits paid by the plan	(124,973)	(108,787)
Recognised actuarial (gains)/losses	(348,198)	159,687
Retirement benefit obligations at 31 December	611,000	975,700

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

35 RETIREMENT BENEFIT OBLIGATIONS (Continued)

The net credit/(charge) recognised in profit or loss is as follows:-

	2011 KShs '000	2010 KShs '000
Interest cost	(82,071)	(92,800)
Expected return on plan assets	68,524	79,397
Past service cost	(26,400)	–
Irrecoverable surplus	(197,158)	–
Additional liability for minimum funding requirements	(49,000)	–
Recognised actuarial gains/(losses)	349,281	(56,660)
Total credit/(charge) included in staff costs	63,176	(70,063)

The principal actuarial assumptions at the reporting date are as follows:

Group and Company

	2011 % pa	2010 % pa
Discount rate	17	9
Expected return on plan assets	17	9
Future pension increases	0	3

The overall expected long-term rate of return on the assets is 17% (2010 – 9%) based on the portfolio as a whole and not on the sum of the returns on the individual assets.

The movement in the retirement benefit obligations in the statement of financial position is as follows:

	2011 KShs '000	2010 KShs '000
At 1 January	(165,076)	(121,413)
Employer contributions	52,900	26,400
Credit/(charge) to profit or loss	63,176	(70,063)
At 31 December	(49,000)	(165,076)

Historical information	2011 KShs '000	2010 KShs '000	2009 KShs '000	2008 KShs '000	2007 KShs '000
Fair value of plan assets	808,158	810,624	710,587	727,893	785,700
Present value of funded obligations	(611,000)	(975,700)	(832,000)	(862,900)	(831,000)
Retirement benefit obligations before asset ceiling	197,158	(165,076)	(121,413)	(135,007)	(45,300)
Irrecoverable surplus	(197,158)	-	-	-	-
Additional liability for minimum funding requirements	(49,000)	-	-	-	-
Retirement benefit obligations	(49,000)	(165,076)	(121,413)	(135,007)	(45,300)

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

36 OTHER LIABILITIES

	2011		2010	
	Group	**Company**	Group	Company
	KShs '000	**KShs '000**	KShs '000	KShs '000
Bills payable	**474,145**	**474,145**	1,755,709	1,755,709
Dividends payable	**427,094**	**427,094**	572,692	572,692
Other trade payables	**3,225,701**	**3,206,656**	3,386,684	3,365,277
	4,126,940	**4,107,895**	5,715,085	5,693,678

37 SHARE CAPITAL AND RESERVES

Company

(a) Share capital

Authorised

The authorised share capital of the Company at 31 December 2011 was KShs 1,780 million (2010 – KShs 1,780 million) made up of 300 million (2010 – 300 million) ordinary shares of KShs 5.00 each and 56 million (2010 – 56 million) non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares of KShs 5.00 each.

All shares rank equally with regard to the Company's residual assets, except that preference shareholders have priority over ordinary shareholders but participate only to the extent of the face value of the shares plus any accrued dividends.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company, subject to any rights or restrictions for the time being attached to any class or classes of shares. Holders of preference shares receive non-cumulative discretionary dividends on the preference shares at the rate of 6% per annum on the issue price of KShs 50.00 per share. Preference shares do not carry the right to vote.

	Number of ordinary shares	Number of preference shares	Authorised share capital KShs'000
2011:			
At 1 January 2011 and 31 December 2010	300,000,000	56,000,000	1,780,000
Increase during the year	-	-	-
At 31 December 2011	**300,000,000**	**56,000,000**	**1,780,000**
2010:			
At 1 January 2010 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**

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2011

37 SHARE CAPITAL AND RESERVES (Continued)
Company
(a) Share capital (Continued)
Issued and fully paid

	Number of ordinary shares	Number of preference shares	Authorised share capital KShs'000
2011:			
At 1 January 2011 and 31 December 2010	287,077,134	56,000,000	1,715,386
Rights issue during the year	-	-	-
At 31 December 2011	**287,077,134**	**56,000,000**	**1,715,386**
2010:			
At 1 January 2010 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 2011 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	1,882,538	0.66
4. National Social Security Fund A/C 71258	1,454,871	0.51
5. Standard Chartered Africa Holdings Limited	1,306,800	0.46
6. Standard Chartered Nominees Limited – A/C 9230	1,075,997	0.37
7. Kenya Commercial Bank Nominees Limited – A/C 769G	1,067,243	0.37
8. Standard Chartered Nominees Limited – A/C 9389	1,015,058	0.35
9. Old Mutual Insurance Company Limited	827,803	0.29
10. Kenya Commercial Bank Nominees Limited – A/C 744D	583,190	0.20
11. Others	62,843,861	21.89
	287,077,134	**100.00**

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2011

37 SHARE CAPITAL AND RESERVES (Continued)
Company
(a) Share capital (Continued)
Issued and fully paid (Continued)

The distribution of shareholders as at 31 December 2011 and 2010 was as follows:

	2011			2010		
Share range	Number of shareholders	Shares held	%	Number of shareholders	Shares held	%
Less than 500	9,495	1,916,402	0.67	9,258	1,926,048	0.67
501 to 5,000	21,533	26,524,474	9.24	22,017	27,035,172	9.42
5,001 to 10,000	388	2,739,326	0.95	377	2,646,787	0.92
10,001 to 100,000	448	12,860,556	4.48	454	12,704,649	4.43
100,001 to 1,000,000	85	20,214,096	7.04	82	19,713,804	6.87
Above 1,000,000	8	222,822,280	77.62	8	223,050,674	77.69
Total	**31,957**	**287,077,134**	**100.00**	**32,196**	**287,077,134**	**100.00**

(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.

	2011 KShs '000	2010 KShs '000
At 1 January	4,836,258	2,520,000
Rights issue during the year	-	2,424,291
Issue costs	-	(108,033)
At 31 December	4,836,258	4,836,258

In 2010, the Company 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 the purchase of the custody services business from Barclays Bank of Kenya Limited and to further shore up the capital base in anticipation of continued growth.

(c) 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.

(d) Revaluation reserve
Revaluation reserves arose from the periodic revaluation of freehold land and buildings. The carrying amount of these assets are adjusted to the revaluations. Revaluation surpluses 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

37 SHARE CAPITAL AND RESERVES (Continued)

Company

(f) Statutory credit risk reserve

Where impairment losses required by legislation or regulations exceed those calculated 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.

38 NOTES TO THE STATEMENT OF CASH FLOWS

Group

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

	2011 KShs '000	2010 KShs '000
Profit before taxation	8,255,135	7,681,884
Depreciation	341,857	205,506
Amortisation of intangible assets	366,374	93,851
Profit on sale of non-current asset held for sale	(356,427)	-
Profit on sale of property and equipment	(51)	(2,508)
Amortisation of prepaid operating lease rentals	2,908	2,916
Retirement benefit obligations	(63,176)	70,063
(Increase)/decrease in operating assets		
Balances with Central Bank of Kenya		
– Cash Reserve Ratio	(2,041,045)	(1,082,298)
Government and other securities held for trading	610,190	1,675,288
Derivative financial instruments	(101,773)	(212,996)
Loans and advances to banks	200,000	(300,000)
Loans and advances to customers	(35,760,994)	(3,641,953)
Investment securities	20,048,014	(6,087,111)
Amounts due from group companies	(2,585,559)	548,528
Other assets	(860,252)	472,397
Increase/(decrease) in operating liabilities		
Deposits from banks	320,666	152,936
Deposits from customers	21,818,984	13,730,413
Derivative financial instruments	537,315	42,561
Amounts due to group companies	(1,206,153)	4,202,876
Defined benefit obligations	(52,900)	(26,400)
Other liabilities	(1,588,145)	1,754,646
Cash flows from operating activities	7,884,968	19,280,599
Income taxes paid	(2,504,104)	(2,606,196)
Net cash flows from operating activities	5,380,864	16,674,403

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

38 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

Group

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

	2011	2010
	KShs '000	KShs '000
Cash on hand	2,926,464	2,663,148
Unrestricted cash balances with Central Bank of Kenya	1,948,832	458,961
Treasury bills	2,403,388	7,508,604
Loans and advances to banks	992,427	1,493,868
Deposits from banks	(7,265,385)	(4,059,744)
Amounts due from group companies	9,339,721	455,414
Amounts due to group companies	(3,416,025)	(4,424,615)
	6,929,422	4,095,636

39 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:

	2011	2010
	KShs '000	KShs '000
Guarantees and standby letters of credit	17,874,180	16,166,650
Letters of credit, acceptances and other documentary credits	14,435,415	8,199,403
	32,309,595	24,366,053

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.

40 OTHER CONTINGENT LIABILITIES

In the ordinary course of business, the Company 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 Company'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.

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2011

40 OTHER CONTINGENT LIABILITIES (Continued)

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 Company was sued by over 629 ex-employees. The claimants filed a lawsuit against the trustees of the pension fund and the Company for a claim of KShs 14.6 billion on grounds that the lump sum benefits paid to them, over 10 years ago following their retrenchment, were miscalculated.

In addition, the Company has some on-going matters with the Kenya Revenue Authority. As at 31 December 2011, the directors have not made provisions for tax demand letters amounting to KShs 136 million (2010 - KShs 221 million) as they are of the view, based on advice received, that these amounts are not payable.

41 ASSETS PLEDGED AS SECURITY

As at 31 December 2011, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities.

42 FIDUCIARY ACTIVITIES

The Group holds asset security documents on behalf of customers with a value of KShs 246,788,651,617 (2010 – KShs 256,460,864,699). Most of these securities are held by the Security Services department of the Company. The assets held comprise of deposits, government securities, debentures, title deeds, quoted and unquoted shares.

43 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 Company 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 2011, deposits from SCKPF and SCKSRBS 2006 amounted to KShs 39,474,239 (2010 – KShs 12,643,784).

At 31 December 2011, balances relating to deposits from directors, employees and associates amounted to KShs 642,861,132 (2010 – KShs KShs 669,620,108).

The interest expense paid on deposits from directors, employees and associates amounted to KShs 2,830,528 (2010 – KShs 4,703,867).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2011

43 RELATED PARTY TRANSACTIONS (Continued)

Group and company

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

	2011	2010
Loans and advances to directors, employees and their associates	KShs '000	KShs '000
At start of the year	2,437,248	1,901,323
Amounts advanced during the year	1,615,652	1,711,039
Amounts repaid during the year	(1,288,001)	(1,175,114)
At end of the year	2,764,899	2,437,248
Loans and advances to directors or companies controlled by directors or their families	65,570	32,384
Loans and advances to employees	2,699,329	2,404,864
	2,764,899	2,437,248

The interest income earned during the year on loans and advances to directors, employees and associates amounted to KShs 164,147,545 (2010 – KShs137,834,681). The above loans and advances were given on commercial terms and conditions.

None of the loans and advances above are impaired at 31 December 2011 (2010 – Nil).

	2011	2010
Key management compensation	KShs '000	KShs '000
Salaries and other employee benefits	320,367	279,774

Salaries and other employee benefits include those relating to the executive directors which are disclosed in Note 14.

44 CAPITAL COMMITMENTS

Group and company	2011	2010
	KShs '000	KShs '000
Authorised	-	495,067

45 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

Group and Company

The Group's commitments under non cancellable operating leases expiring:	2011		2010	
	Premises	Equipment	Premises	Equipment
	KShs '000	KShs '000	KShs '000	KShs '000
Within 1 year	188,603	187,359	126,290	38,217
After 1 year but less than 5 years	339,829	230,666	201,215	102,993
After 5 years	118,480	-	4,566	36,235
	646,912	418,025	332,071	177,445

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

46 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 sixth Annual General Meeting of the Company will be held at the Safari Park Hotel, Thika Road, Nairobi on Thursday, 24 May 2012 at 11:30 a.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and consider the Report of the Directors and Statement of Accounts and Statement of Financial Position of the Company for the year ended 31 December 2011 with the Auditors' report thereon.
2. To approve the payment of a final dividend of KShs 11.00 for each ordinary share of KShs 5.00 on the issued share capital of the Company in respect of the year ended 31 December 2011.
3. To elect the following directors:
   (a) Mrs. Anne Mutahi, a director retiring by rotation who being eligible offers herself for re-election in accordance with Article 96(1) of the Memorandum and Articles of Association.
   (b) Mr. Patrick Obath, a casual director, who being eligible offers himself for re-election in accordance with Article 98(1) of the Memorandum and Articles of Association.
   (c) Mr. Robin Bairstow, a casual director, who being eligible offers himself for re-election in accordance with Article 98(1) of the Memorandum and Articles of Association.
4. To authorise the Board to fix the Directors' remuneration.
5. To note the continuance in office of KPMG Kenya in accordance with Section 159(2) of the Companies Act, CAP 486 of the Laws of Kenya, and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

6. (i) Increase of authorised share capital
To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

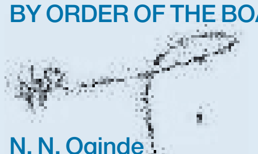
"THAT the authorised share capital of the company be and is hereby increased from Kenya Shilllings 1,500 million divided into 300 million ordinary shares of Kenya Shillings 5.00 each to Kenya Shillings 1,625 million divided into 325 million ordinary shares of Kenya Shillings 5.00 by the creation of 25 million new ordinary shares of Kenya Shillings 5.00 each ranking pari passu in all respects with the existing ordinary shares in the capital of the Company."

NB: This will bring the total authorised share capital of the Company to Kenya Shillings 1,905 million made up of 325 million ordinary shares of Kenya Shillings 5.00 each and 56 million non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares of Kenya Shillings 5.00 each.

(ii) Rights Issue
To consider and, if thought fit, pass the following as an ordinary resolution:

"THAT subject to the passing of resolution 6(i) above, the Directors are hereby authorised and directed that up to 37 million ordinary shares of Kenya Shillings 5.00 each in the capital of the Company be offered subject to any required regulatory approvals at a price to be determined by the Directors to and amongst the holders of the issued ordinary shares of Kenya Shillings 5.00 each in the capital of the Company registered at the close of business on such date and at such price as shall be determined by the Directors and notified to the members through the press or otherwise in proportion to the Members' respective holdings in the issued share capital of the Company, subject to the Articles of Association of the Company, at such rate and upon such terms as the Directors shall think fit and that the Directors be and are hereby authorised to issue such shares and pursue the listing of such shares upon issue on the Main Investment Market Segment of the Nairobi Securities Exchange and to do all such things as may be necessary to give effect to this resolution and to deal with fractions of shares in such a manner as they think fit subject to the Articles of Association of the Company."

BY ORDER OF THE BOARD



N. N. Oginde
Company Secretary
P.O. Box 30003, 00100 Nairobi GPO
19 April 2012

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 24, May 2012 at the Safari Park Hotel, Thika Road, Nairobi at 11.30 a.m. or any adjournment thereof.

As witness my/our hand/hands this day of ____________________________________2012

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 Tuesday 22 May 2012, 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 24 2012, Safari Park Hotel, Thika Road, Nairobi na wakati wa ahirisho lolote litakalotokea baadaye, kama

shahidi siku hii: ____________________________________2012

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 Jumanne saa tisa alasiri Mei 22 2012. 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.**

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