Standard Chartered

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in Kenya

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Standard Chartered Bank Kenya Limited is regulated by Central Bank of Kenya.

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Strong foundations, consistent growth

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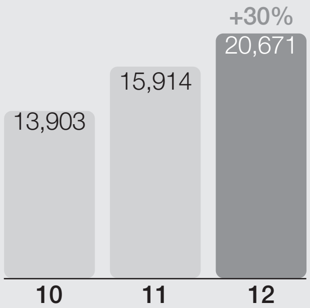
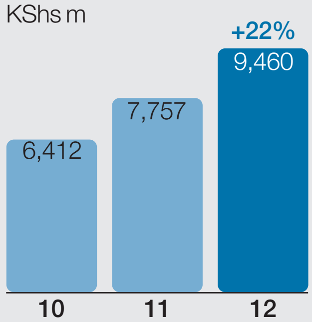
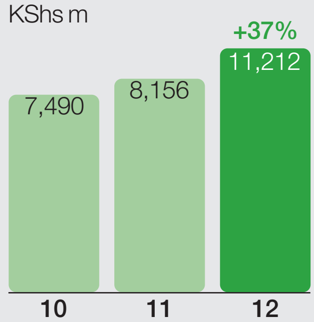
Operating income
KShs m



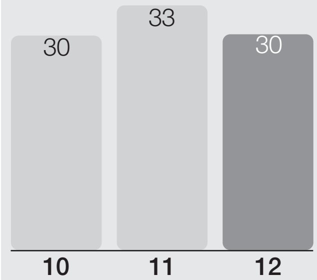
Consumer Banking Operating income
KShs m



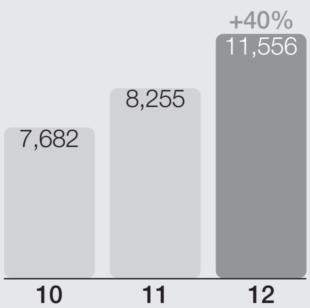
Wholesale Banking Operating income
KShs m



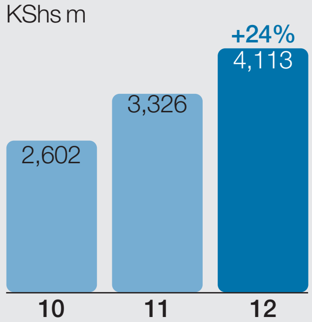
Return on equity
%



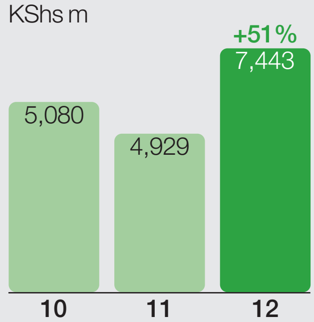
Profit before taxation
KShs m



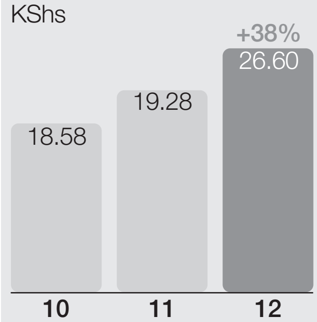
Consumer Banking profit before taxation
KShs m



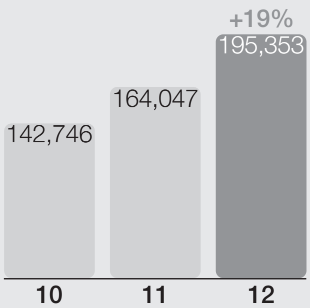
Wholesale Banking profit before taxation
KShs m



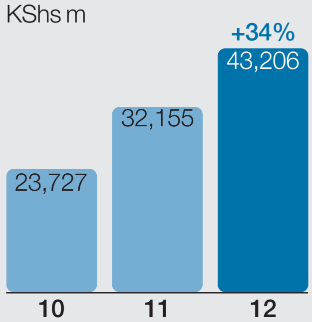
Earnings per share
KShs



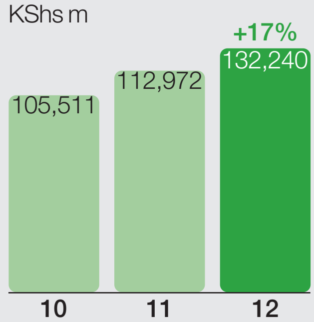
Total assets
KShs m



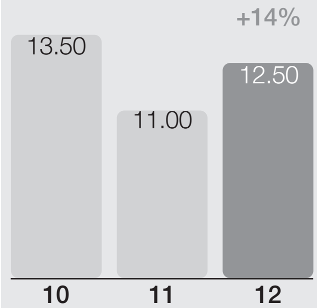
Consumer Banking total assets
KShs m



Wholesale Banking total assets
KShs m



Dividend per share
KShs m



Non-financial Highlights

Employees
1,903
2011: 1,743 2010: 1,554

Branches
34
2011: 32 2010: 31

ATMs
97
2011: 90 2010: 85

Five Year Summary

	2012 KShs '000	2011 KShs '000	2010 KShs '000	Restated 2009 KShs '000	2008 KShs '000
Income Statement					
Operating income	**20,671,436**	15,913,511	13,902,729	12,246,432	10,110,070
Impairment losses on loans and advances	**(716,650)**	(412,739)	(332,321)	(474,936)	(365,349)
Operating expenses	**(8,398,595)**	(7,245,637)	(5,888,524)	(5,043,049)	(5,024,907)
Profit before taxation	**11,556,191**	**8,255,135**	**7,681,884**	**6,728,447**	**4,719,814**
Taxation	**(3,486,658)**	(2,418,314)	(2,305,693)	(1,995,693)	(1,469,001)
Profit after taxation	**8,069,533**	**5,836,821**	**5,376,191**	**4,732,754**	**3,250,813**
Information per ordinary share					
Basic earnings per share (EPS) (2011 Restated)	**26.60**	**19.28**	**18.58**	**16.45**	**11.11**
Dividend per share on each ordinary share (DPS)	**12.50**	**11.00**	**13.50**	**12.00**	**10.00**
Statement of Financial Position					
Loans and advances to customers (gross)	**114,534,987**	97,417,343	61,599,405	58,016,010	44,857,772
Impairment losses on loans and advances	**(1,840,464)**	(1,319,520)	(1,262,576)	(1,321,134)	(1,558,953)
Government securities	**45,320,968**	24,584,908	54,540,817	43,357,357	23,251,930
Other assets	**37,337,265**	43,363,893	27,868,603	23,726,739	32,468,822
Total assets	**195,352,756**	**164,046,624**	**142,746,249**	**123,778,972**	**99,019,571**
Deposits from customers	**140,524,846**	122,323,049	100,504,065	86,773,652	76,898,456
Other liabilities	**24,075,096**	21,029,119	21,911,062	23,013,165	10,622,308
Total liabilities	**164,599,942**	**143,352,168**	**122,415,127**	**109,786,817**	**87,520,764**
Net assets	**30,752,814**	**20,694,456**	**20,331,122**	**13,992,155**	**11,498,807**
Shareholders' funds	**30,752,814**	**20,694,456**	**20,331,122**	**13,992,155**	**11,498,807**
Ratios					
Cost:income ratio	**41%**	46%	42%	41%	50%
Return on capital employed	**30%**	33%	30%	39%	32%
Gross non performing loans and advances/total gross loans and advances	**2%**	1%	2%	3%	4%
Impairment charge/gross loans and advances	**1%**	1%	1%	1%	1%
Gross loans and advances to deposits ratio	**82%**	80%	61%	67%	58%
Core capital/total deposit liabilities	**15%**	12%	11%	12%	12%
Core capital/total risk weighted assets	**16%**	12%	14%	14%	16%
Total capital/total risk weighted assets	**18%**	14%	14%	14%	16%

Chairperson's Statement

Here for good

Here for good

"Here for good, our brand promise is all about commitment to our customers and clients, to our people and to the communities where we work. In 2012, in what continued to be a challenging and changeable global environment, we stood firm in our determination to create long-term value for society as well as our shareholders. One of the ways that we continue to do this is by actualising our values of courageous, responsive, international, creative and trustworthy, in our conduct, interactions and our way of doing business".

I am delighted to report that Standard Chartered Bank has once again recorded another year of excellent financial performance in 2012 despite the challenging macroeconomic environment. Our performance continues to demonstrate 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

Kenya withstood another difficult year in 2012 as policy tightening and weaker global demand slowed economic activity. With decisive fiscal and monetary policies, the government managed to restore confidence in Kenya's medium term prospects. During 2012, inflation declined sharply, the exchange rate stabilised and debt levels remained sustainable. But creating this strong macroeconomic foundation came at a cost. Projected GDP growth will not meet earlier expectations of 5 per cent.

Economically, 2012 has been almost a mirror image of 2011. In 2011, the economy started out strongly, but by mid-year, high fuel and food prices led to a rapid rise in inflation, a weakened exchange rate, and ultimately a radical increase in interest rates towards the end of the year. Tightened monetary policy, together with an easing in global food and fuel prices, have brought inflation under control and stabilised the economy in 2012. But the high interest rate regime cooled the economy and resulted in the low growth of 3.5 per cent in the first half of 2012. With the decline in inflation and interest rates the economy experienced strong recovery and the World Bank estimates a growth of 4.3 per cent in 2012. The recovery is largely attributed to strong performances in agriculture, forestry, fishing, manufacturing, transport and communications and the electricity and water supply sectors.

The banking sector had a good year on the backdrop of innovations, adoption of cost effective channels and continued expansion through new branches and subsidiaries operating in the EAC region. The sector recorded improved growth in assets driven by growth in deposits and retention of profits. The Credit Information Sharing (CIS) mechanism which was launched in July 2010, continued to be used by both commercial banks and individuals and this was marked by an increase in the number of credit reports requested by institutions and customers. The introduction of the CIS mechanism has further strengthened credit appraisal standards. Banks have now incorporated credit reference reports in the credit risk appraisal process. It is also expected that credit referencing will go a long way in inculcating credit discipline in borrowers.

The Central Bank of Kenya also conducted a comprehensive review of the banking sector's legal and regulatory framework. The revised prudential and risk management guidelines were

Chairperson's Statement (Continued)

issued in the second half of 2012 and are intended to address emerging risks and ensure the continued stability and integrity of the sector as the number of Kenyans included in the banking sector continues to grow rapidly. The enhanced regulatory framework will strengthen corporate governance and risk management frameworks to deal with cross border risks as Kenyan banks expand regionally. The new framework will also enable banks to boost their liquidity management, loans management and enhance their resilience to withstand macro-economic shocks. The capital management framework will be strengthened to ensure banks hold adequate capital in relation to their risk profile and have adequate buffers to ride out periodic macro-economic shocks.

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 good income and profit growth in 2012.

- Profit before taxation rose by 40% to KShs 11.6 billion (2011: KShs 8.3 billion)
- Total income rose 30% to KShs 20.7 billion (2011: KShs 15.9 billion) as a result of strong growth in interest income which increased by 40% from KShs 9.9 billion to KShs 13.7 billion;
- Non interest income increased by 14% to KShs 6.9 billion due to good growth in net trading income that increased by 55% to KShs 3.5 billion (2011: KShs 2.3 billion);
- Net bad debt charge increased from KShs 413 million to KShs 717 million and is in line with the growth in our loans and advances portfolio. We continue to have a proactive approach to risk management and remain watchful;
- Total operating costs grew by 16% to KShs 8.4 billion (2011: KShs 7.3 billion) as we continued to invest in infrastructure, technology and talent to support our business growth;
- Loans and advances increased by 17% to KShs 112.7 billion (2011: KShs 96.1 billion) while customer deposits increased by 15% to KShs 140.5 billion (2011: KShs 122.3 billion);

The Board is recommending a dividend for the year of KShs 12.50 for every ordinary share of KShs 5.00. This compares to KShs 11.00 per ordinary share in 2011. This dividend payout gives us the right balance between bolstering our capital base to enable us pursue growth in loans and advances as well as continue to deliver attractive returns to our investors and to ensure we meet the enhanced capital requirements.

Corporate Governance

Strong management and governance continue to be key components to our business model. In November 2012, Mr. Wilfred Kiboro stepped down from the Board after five and a half years of dedicated service both as a Chairman and a non-executive director. During his tenure as the Chairman, he led the Bank during a period of strong strategic and financial progress. We are extremely grateful to him for the immense contribution he made to the Bank's success.

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 Board Audit Committee in 2012 was monitoring of the liquidity and capital management controls in place to ensure compliance with necessary regulatory requirements. The committee also approved the Regulatory Reporting and Non-Audit Services policies. The Board Risk Committee focused on reviewing the Company'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.

Rights Issue

In June 2011, the Board of Directors approved the Bank's 2012 to 2015 strategy. The focus of this strategy is for the Bank to be a dominant player in its chosen market segments in Kenya through asset growth, investment in a strategic branch network and alternative channels.

Secondly, following the global financial crisis banks are witnessing significant changes to the international banking system and an increasingly stringent regulatory environment that will continue to constrain banks' ability to leverage their balance sheets. As mentioned earlier, the Central Bank of Kenya released revised Prudential Guidelines in November 2012 to be effective from 1 January 2013. The capital requirements have been significantly enhanced requiring additional capital to ensure compliance. There are a number of transitional arrangements which will culminate in full compliance by 31 December 2014. The Banks are now required to set aside capital for operational and market risk in addition to credit risk. Further, a capital conservation buffer of 2.5% has been introduced taking total capital adequacy ratio up to 14.50%.

In October last year, we had a Rights Issue to raise KShs 3.2 billion to enable us support our strategy as well as ensure that the Bank is in a sound position to meet any impending regulatory

Chairperson's Statement (Continued)

changes that may include increases in bank's statutory capital requirements.

We are delighted by the way our shareholders demonstrated their confidence in the Bank and brand proposition which resulted in an oversubscription rate of 158 per cent. I would like to thank our shareholders for their continued support throughout the year, and for the confidence they have shown in our future. This has given us excellent balance sheet strength as a foundation for further growth. Indeed, the strength of our capital position, combined with the depth of our liquidity gives us a balance sheet that is a powerful source of competitive advantage.

Community partnership

To us, being a sustainable bank means looking beyond philanthropy, beyond corporate social responsibility and reputation management; it means embedding sustainability deeply into our processes and in the way we work. Sustainable banks are not merely financially responsible, but socially useful too. We believe they will come to play an important role in helping to steer Kenya sustainably through the next few decades of rapid growth.

As we see it, helping communities is not at odds with creating long-term value for shareholders. On the contrary, it is now well understood that the sustained performance of a business is linked to the prosperity of the societies in which it operates.

Here for good, our brand promise is all about commitment to our customers and clients, to our people and to the communities where we work. In 2012, in what continued to be a challenging and changeable global environment, we stood firm in our determination to create long-term value for society as well as our shareholders. One of the ways that we continue to do this is by actualising our values of courageous, responsive, international, creative and trustworthy, in our conduct, interactions and our way of doing business. As you hold us accountable, our hope and desire is that these values and those highlighted in the Constitution will become integrated in the way Kenyans work and relate to one another.

As part of our commitment to our stakeholders we progressed in all three of our sustainable business priorities:

- 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;
- 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 above. In the Review we set out our performance in 2012, 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

The pace of change in Kenya and the world over will create major social, environmental and economic challenges. These changes will pose risks, but also significant opportunities. Businesses, the government and regulators will increasingly need to work together to manage these challenges, and we are ideally placed to be the right partner.

Through our strategy to provide responsive, innovative and creative financial solutions to our customers through marrying local expertise with international experience, we can lead by example to build a sustainable business to set us apart from our competitors.

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, 2012 was another year of excellent 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 2013 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 excellent performance.

Mrs. Anne Mutahi
Acting Chairperson

14 March 2013

Taarifa ya Mwenyekiti

Tuko hapa daima

Tuko hapa daima

"Tuko hapa daima (Here for good), ambayo ni ahadi na mwito wetu wa kibiashara unaashiria jinsi tunavyojitolea kwa wateja wetu wote, kwa watu wetu na katika jumuiya ambamo tunaendesha biashara yetu. Katika 2012, ile hali ya mazingira ya kiuchumi yenye changamoto na ya kubadilika ikiendelea ulimwenguni kote, sisi tulisimama imara na kuendelea kubuni thamani bora ya kudumu katika jumuiya na kwa wanahisa wetu. Miongoni mwa njia zilizotuwezesha kuendelea kutimiza haya ni kuhakikisha tunatekeleza maadili yetu ya ujasiri, kuitikia, haadhi ya kimataifa, ubunifu na kutegemewa, katika utendakazi wetu, maingiliano na jinsi tunavyoendesha shughuli zetu za kibiashara."

Nina furaha kuu kuwaripotia kuwa benki ya Standard Chartered kwa mara nyingine tena imefanikiwa kuwasilisha matokeo mengine bora zaidi ya kifedha katika mwaka wa 2012 licha ya kuwepo changamoto tele katika mazingira ya uchumi. Kufanikiwa kwetu kunazidi kuonyesha kuwa tupo katika kitengo kinachotufaa, tuko na mkakati sawa, na tuna uongozi ulio sawa wa kutuwezesha kuendelea kuwasilisha thamani bora kwa wanahisa wetu kila mara.

Mazingira ya shughuli

Kenya ilihimili mwaka mwingine mgumu katika 2012 wakati ambapo sera ziliendelea kukazwa huku kufifia kwa mahitaji kote ulimwenguni kukizidi kupunguza zaidi shughuli za kiuchumi. Kupitia uamuzi wa busara wa sera za kifedha, serikali iliweza kusimamia na kurudisha matumaini katika matarijio ya kipindi cha kati cha Kenya. Katika mwaka wa 2012, kupanda kwa gharama ya maisha kulipungua sana, ubadilishanaji wa fedha za kigeni ukaimarika na viwango vya madeni vikawa ni vyenye kuhimilika. Lakini hata hivyo kubuni taasisi hii imara ya uchumi kulikuja na gharama zake. Ukuaji wa kiuchumi (GDP) ulivyotarajiwa hapo mbeleni wa asilimia 5 hautaweza kufikiwa.

Kiuchumi, 2012 ungeweza kufananishwa na ule wa 2011. Katika 2011, hali ya kiuchumi ilianza ikiwa thabiti, lakini ilipofika katikati ya mwaka, kupanda kwa bei za petroli na chakula kulisababisha kuongezeka kwa gharama za maisha, kudorora kwa ubadilishanaji wa fedha za kigeni, na mwishowe kusababisha kupanda sana kwa wiwango vya riba hasa ilipokaribia mwishoni mwa mwaka huo. Sera za kifedha zilizobanwa, pamoja na kulegea kidogo kwa bei za petroli na chakula ulimwenguni, kumesusha gharama za maisha na kuimarisha uchumi katika 2012. Lakini ule mfumo wa viwango vya juu vya riba ulituliza uchumi na matokeo yake ikawa ni viwango duni vya ukuaji vya asilimia 3.5 katika kipindi cha kwanza cha mwaka wa 2012. Kukiwa na upunguaji katika gharama za maisha na viwango vya riba uchumi ulipata afaueni kubwa na Benki ya Dunia inakadiria kupatikana kwa ukuaji wa asilimia 4.3 katika 2012. Afueni hii hasa zaidi inatokana na kuimarika kwa sekta za kilimo, misitu, uvuvi, uzalishaji viwandani, usafiri na mawasiliano pamoja na sekta za nguvu za umeme na usambazaji maji.

Sekta ya benki ilikuwa na mwaka mzuri ikiegemea bidhaa bunifu, kutumia njia zinazopunguza gharama katika utenda kazi wake na kuendelea kupanuka kupitia uzinduzi wa matawi mapya na washirika tanzu walioko kote katika eneo la Afrika Mashariki. Sekta hii ilifikia ukuaji uliyoimarika wa rasilimali uliochochewa na kuongezeka kwa uwekaji fedha benki na kurejesha faida. Ule utaratibu wa ushirikiano wa Kutoa habari za Muamana (CIS) uliozinduliwa mnamo Julai 2010, uliendelea kutumiwa na benki zote pamoja na watu binafsi na hii iliongeza kuhitajika kwa taarifa hizo za muamana na taasisi pamoja na wateja. Kuanzishwa kwa utaratibu wa ushirikiano wa kutoa habari za muamana kulizidi kuimarisha viwango vya kutathmini muamana wakati wa kutoa mikopo. Sasa benki zinaitisha ripoti za uthamini wakati wa kutathmini dhima ya mkopo. Inatarajiwa pia kuwa tathmini hii ya dhima ya mkopo itawasaidia mno kuwafundisha wanaotaka kukopa kuwa na nidhamu ya ukopaji.

Taarifa ya Mwenyekiti (Yaendelea)

Benki kuu ya Kenya vile vile imefanya ukariri wa kina wa sheria na vigezo vya kufuatwa na sekta ya benki. Ukariri huu wa busara na muongozo wa usimamizi wa dhima ulitolewa katika kipindi cha pili cha mwaka wa 2012 na unatarajiwa kuangazia dhima zinazotokea na kuhakikisha kuendelea kwa uthibiti na uadilifu katika sekta hii wakati huu ambapo idadi ya wakenya wengi waliojumuishwa katika sekta ya benki wanaendelea kuongezeka.

Uboreshaji huu wa mfumo wa kanuni utaimarisha usimamizi wa shirika na usimamizi wa mifumo ya uongozi wa dhima kuweza kushughulikia dhima za nje ya mipaka ya Kenya wakati huu ambapo benki za Kenya zinaendelea kustawi katika eneo hili. Mfumo huu mpya vile vile utawezesha benki kuongeza nguvu katika usimamizi wa ukwasi wao, usimamizi wa mikopo na kuboresha uthibiti wao wa kuhimili misukosuko ya kiuchumi. Mfumo wa usimamizi wa mtaji utashadidiwa ili kuhakikisha benki zinashikilia mtaji wa kutosha kulingana na hali yake ya dhima na kuwa na kinga ya kutosha kuweza kuhimili misukosuko ya mara kwa mara ya kiuchumi.

Matokeo ya Kifedha

Licha ya kuwepo kwa hali ya kiuchumi yenye changamoto Standard Chartered tuliendelea kutoa matokeo thabiti tukionyesha uwezo wetu na kujitolea kwetu kustawisha biashara iliyo thabiti hapa Kenya. Tukiwa tunawatilia maanani zaidi wanahisa wetu wakati wa kubuni mikakati yetu, benki hii iliwasilisha ukuaji mzuri wa mapato na faida katika 2012.

- Faida kabla ya kodi ilipanda kwa asilimia 40 hadi Shilingi bilioni 11.6 (2011: Shilingi bilioni 8.3)
- Jumla ya mapato yalizidi kwa asilimia 30 hadi Shilingi bilioni 20.7 (2011: Shilingi bilioni 15.9) iliyosababishwa na ukuaji imara wa mapato kutokana na riba ambayo iliongezeka kwa asilimia 40 kutoka Shilingi bilioni 9.9 hadi Shilingi bilioni 13.7;
- Mapato yasiyo ya riba yaliongezeka kwa asilimia 14 hadi Shilingi bilioni 6.9 kutokana na ukuaji mzuri wa mapato mengine;
- Jumla fedha za madeni yasiolipika yaliongezeka kutoka Shilingi milioni 413 hadi Shilingi milioni 717 na ni iko sawia na ukuaji katika orodha ya fedha za mikopo yetu midogo na mikubwa. Tunaendelea kuwa na mbinu makini katika usimamizi wa dhima na bado tutaendelea kuwa waangalifu;
- Jumla ya fedha za gharama ya utekelezaji shughuli iliongezeka kwa asilimia 16 hadi Shilingi bilioni 8.4 (2011: Shilingi bilioni 7.3) tulipokuwa tunaendelea kuwekeza katika muundo msingi, teknolojia na wafanyikazi wenye ujuzi ili kukuza ukuaji wa biashara hii yetu;
- Utoaji mikopo mikubwa na midogo uliongezeka kwa asilimia 17 hadi Shilingi bilioni 112.7 (2011: Shilingi bilioni 96.1) huku uwekaji pesa za wateja ukizidi kwa asilimia 15 hadi Shilingi bilioni 140.5 (2011: Shilingi bilioni 122.3 billion).

Bodi hii inapendekeza mgao wa mwisho wa faida wa mwaka huu kuwa Shilingi 12.50 kwa kila hisa ya kawaida ya Shilingi 5.00. Hii inalinganishwa na Shilingi 11.00 kwa kila hisa ya kawaida katika 2011. Malipo haya ya mgao yanatuweka katika nafasi nzuri baina ya kutilia nguvu msingi wa mtaji wetu ili kutuwezesha kufuatilia ukuaji na vile vile kuendelea kuwasilisha faida za kuvutia kwa wawekezaji wetu na kuhakikisha tunatii mahitaji mapya yaliyorekebishwa ya mtaji.

Usimamizi wa Shirika

Uongozi na usimamizi thabiti wa shirika unaendelea kuwa kiungo muhimu katika mfumo wa biashara yetu. Mnamo mwezi wa Novemba 2012, Wilfred Kiboro alijiondoa kwa hiari kutoka kwenye bodi ya wakurugenzi baada ya miaka mitano ya kujitolea kuitumikia kama Mwenyekiti na mkurugenzi asiye-mtendaji. Wakati wa uongozi wake kama mwenyekiti, aliongoza benki katika kipindi cha usitawi imara wa kimikakati na kifedha. Tunatoa shukrani za dhati kwake kwa mchango wake mkubwa aliotoa kwa ufanisi wa Benki hii.

Kamati mbali mbali za Bodi ziliendelea kutekeleza jukumu kubwa katika kuiunga mkono Bodi kufanikisha majukumu yake. Moja ya maeneo yaliyotazamwa na Kamati ya Ukaguzi wa Hesabu katika 2012 ilikuwa usimamizi imara wa ukwasi na mtaji uliowekwa ili kuhakikisha tunatii mahitaji yaliyowekwa ya kisheria. Kamati pia iliidhinisha sera za Kanuni ya kutoa taarifa na huduma zisizo za ukaguzi hesabu. Kamati ya usimamizi wa dhima ilizingatia mipango ya urekebishaji hamu kuu ya dhima ya Kampuni. Vile vile ilichukua muda mrefu kutathmini dhima zinazodhihirika sasa zitokanazo na sheria, mtaji pamoja na dhima za kiteknolojia. Wakurugenzi wenye wadhifa usio wa utendaji wataendelea kudumisha jukumu lao la uangalizi wa Uongozi wa Benki kupitia mikutano ya bodi na kamati mbali mbali za bodi.

Toleo la Uuzaji Hisa ziada kwa wamiliki hisa

Katika mwezi wa Juni 2011, Bodi ya wakurugenzi iliidhinisha mkakati wa Benki wa 2012 hadi 2015. Mtazamo muhimu wa mkakati huu ukiwa ni kwa Benki hii kufikia kiwango cha kuwa mhusika anayeongoza katika vitengo teule vya soko hili hapa Kenya kupitia ustawishaji wa rasilimali, uwekezaji wa kimkakati katika kusambaza mtandao wa matawi pamoja na njia zingine mbadala.

Pili, kufauatia hali ya wasiwasi mkubwa wa kifedha duniani benki zinashuhudia mabadiliko makubwa ya mfumo wa kimataifa wa shughuli za benki na mazingira yenye sheria zinazozidi kuwa ngumu ambazo zitaendelea kuwa kikwazo kwa uwezo wa benki kutumia mizania zao za hesabu. Kama ilivyotajwa hapo awali, Benki Kuu ya Kenya ilitangaza Muongozo wa Busara uliyorekebishwa katika mwezi wa Novemba 2012 kukiwa na nia ya kuitekeleza kuanzia tarehe 1 Januari 2013.

Kiwango cha Mtaji unaohitajika kiliongezwa mno na ikalazimu kuongeza mtaji zaidi ili kutii sheria. Tuna mipango kadhaa ya muda ambayo itatuwezesha kutii kabisa kanuni hizi kabla ya kufika tarehe 31 Decemba 2014. Benki zote sasa zinahitajika kuweka kando mtaji wa kuendesha shughuli na wa dhima ya soko kuongezea ule wa dhima ya mikopo. Zaidi ya hayo, kuhifadhiwa kwa mtaji wa asilimia 2.5 kama kinga, kulizinduliwa na hivyo basi kuchukua jumla ya dhima ya utoshelezaji ya uwiano wa hadi asilimia 14.50.

Mnamo Octoba mwaka jana, tulikuwa na toleo la uuzaji hisa za ziada kwa wanahisa ili kupata Shilingi Bilioni 3.2 za kutuwezesha kusaidia ufikiwaji wa mkakati wetu na pia kuiweka Benki katika hali

Taarifa ya Mwenyekiti (Yaendelea)

nzuri kuweza kutekeleza mabadiliko yeyote ya kisheria yatakayotekelezwa ambayo yatailazimisha benki kuongeza mtaji wake.

Tunafurahia jinsi wanahisa wetu walivyoonyesha imani yao kwa benki na mwito wa nembo yetu ya kibiashara iliyosababisha utoaji fedha katika toleo kuzidi kwa kiwango cha asilimia 158. Ningependa kuwashukuru wanahisa wetu kwa kuendelea kutuunga mkono katika mwaka wa 2012, na kwa kuwa na matumaini katika mstakabala wetu. Hii imetufanya tuwe na mizania imara ya hesabu ya kifedha ikiwa kama msingi madhubuti wa ukuaji zaidi. Bila shaka, uwezo na nafasi ya mtaji wetu, ikijumlishwa na ukwasi wetu mkubwa unatupatia mizania ya hesabu ambayo ni chanzo imara cha kuwa mbele ya washindani wetu.

Ushirikiano na Jumuiya

Kwetu sisi, kuwa benki iliyo imara kunamaanisha kutazama mbele zaidi ya ufadhili, zaidi ya kuwa shirika linalowajibika katika jumuiya na lenye uongozi unaoheshimika; kunamaanisha kuwa na ari ya kustawisha iliyo ndani ya mifumo yetu na jinsi tunavyoendesha shuguli zetu zote. Benki zinazoendelea kuwa imara haziwajibiki tu kifedha, bali pia huleta manufaa katika jumuiya. Tunaamini hizi benki zitakuja kuwa na jukumu muhimu la kusaidia kuipeleka Kenya hadi kwenye ufanisi mkubwa katika miongo michache ya hivi karibuni ya ustawi.

Kwa mtazamo wetu, kusaidia jumuiya hakupingani na kazi yetu ya kuleta thamani ya kudumu kwa wanahisa wetu. Kinyume na hivyo, sasa inaeleweka vyema kuwa kuendelea kufanya vyema kwa biashara yeyote kunaenda sambamba na kusitawi kwa jumuiya ambamo biashara hiyo inakoendeshwa.

Tuko hapa kwa daima (Here for good), ambayo ni ahadi na mwito wetu wa kibiashara unaashiria jinsi tunavyojitolea kwa wateja wetu wote, kwa watu wetu na katika jumuiya ambamo tunaendesha biashara hii yetu. Katika 2012, ile hali ya mazingira ya kiuchumi yenye changamoto na ya kubadilika ulimwenguni kote ikiendelea, sisi tulisimama imara na kuendelea kubuni thamani bora ya kudumu katika jumuiya na kwa wanahisa wetu. Miongoni mwa njia zilizotuwezesha kuendelea kutekeleza haya ni kuhakikisha tunatimiza maadili yetu ya ujasiri, kuitikia, haadhi ya kimataifa, ubunifu na kutegemewa, katika utendakazi wetu, maingiliano na jinsi tunavyoendesha shughuli zetu za kibiashara. Mnapoendelea kutupa jukumu la kuwajibika, matarajio na hamu yetu ni kuwa maadili haya na yale yaliyosistizwa katika katiba yataunganishwa na jinsi Wakenya wanavyofanya kazi zao na wanavyohusiana baina yao.

Kama sehemu ya ahadi yetu kwa wanahisa wetu tuliendelea kustawi katika nyanja za biashara zetu zote tatu tulizozipatia kipaumbele:

- Kuchangia kwa uchumi halisi – kutokana na kuwekeza fedha kuunga mkono ukuaji na kutoa nafasi za kazi na kusaidia kurahisisha ufikiwaji wa huduma za kifedha;
- Kusaidia mipango ya kudumu ya kifedha – kutoa mikopo kwa njia ya kuwajibika na kusaidia kuhamasisha uwekezaji katika teknolojia safi kwa mazingira;
- Kuwa mstari wa mbele katika jumuiya – kupunguza madhara yetu wenyewe katika mazingira, kutoa mahala bora zaidi pa kazi na kuwekeza kimkakati katika jumuiya ili kuongeza faida zaidi kwa jamii.

Nawasihi kusoma Ukariri wa Ustawi uliyopo ndani ya Taarifa ya Mwaka ya Kifedha ili kuona maendeleo Benki hii inayoyawasilisha katika maeneo hayo matatu yaliotajwa hapa juu. Katika ukariri huo tumeonyesha ustawi wetu katika 2012, tukilinganisha maendeleo tuliyoyafikia dhidi ya malengo mapana tuliyojiwekea wenyewe ili kuhakikisha Tuko Hapa kwa Mazuri Daima – tuko hapa kwa watu wetu, tuko hapa kwa maendeleo na tutakuwa hapa kwa muda wote.

Muhtasari

Hatua za mabadiliko hapa Kenya na ulimwenguni kote zitaleta changamoto tele za kijamii, kimazingira na kiuchumi. Mabadiliko haya yataleta sio dhimatu, bali pia fursa nzuri. Biashara, Serikali na washikadau wote watalazimika kushirikiana pamoja kukabili changamoto hizi, nasi tuko katika nafasi muafaka ya kuwa mshirika afaaye kwa hilo.

Kupitia mipango yetu kabambe ya kutoa bidhaa za kifedha zifaazo, bunifu na zilizofikiriwa kwa wateja wetu kupitia mchanganyo wa uzoefu wetu humu nchini na wa kimataifa, tunaweza kuongoza tukiwa mfano wa kuigwa katika kudumisha biashara inayostawi itakayotutofautisha na washindani wetu wa kibiashara. Bado tuko katika nafasi nzuri katika nyanja yetu ya biashara tuliochagua tukiwa na msukumo thabiti wa kukua, unaochochewa na mtazamo wetu wa kufuatilia wateja wanaoongezeka wa mapato ya kati na ustawi unaokua haraka wa uwekezaji katika muundo wa msingi. Tuna mtaji thabiti na ukwasi maridhawa, kukiwa na njia tofauti za mapato bora kote katika Biashara ya reja reja ya benki na ile ya Jumla na mtazamo wa kushikilia maadili halisi ya shughuli za benki. Mwisho, tuna utamaduni uliofungamana na wa kipekee unaosisitiza mno maadili na uongozi. Hapa daima, ambayo ndiyo ahadi ya chapa yetu inashinikiza kwa ufupi jinsi tulivyo na yale tunayowakilisha.

Kwa muhtasari, 2012 ulikuwa mwaka mwingine tena wa matokeo bora ya kifedha kwa Standard Chartered, na Bodi hii bado ina matumaini katika mwaka unaotukabili. Matokeo yetu yanadhihirisha kuendelea kufaulu kwa mikakati yetu ya ukuaji, upanuzi wetu anuwai, utamaduni wetu wa kipekee na, hasa zaidi, utendakazi bora wa watu wetu. Tunaingia 2013 tukiwa katika hali nzuri kabisa.

Kutamatisha, ningependa kutoa shukrani zangu za dhati kwa wateja wetu kwa kuendelea kutuunga mkono bila ya kuchoka. Vile vile ninaishukuru Bodi, wasimamizi na wafanyikazi wa Benki kwa juhudi walizotia zilizotuwezesha kufikia mwaka mwingine wa mafanikio bora zaidi.

Anne Mutahi
Kaimu Mwenyekiti

14 Machi 2013

Chief Executive Officer's Statement

Strategic growth

Strategic growth

"We are continuing to focus on culture and values, on the way we work together across multiple products and segments, combining deep local knowledge with global capability. These fundamentals underscore everything the Bank does, and everything we as a Bank stand for."

Introduction

I am pleased to report Standard Chartered Bank had an excellent performance in 2012. The results represent our fifth consecutive year of record income and profits. Ours continues to be a growth story and we have continued to deliver consistent value for our shareholders.

Over the period we have delivered a compound annual growth rate of 20% in income and 25% at the pre-tax profit level. Our total assets and liabilities have also grown by 19% during this period. We have increased the number of people we employ to over 1,900.

We have been able to achieve this by sticking to our strategy, focusing on the basics of good banking, in markets we know well, with clients and customers with whom we have deep and long standing relationships.

Much of what drives the Standard Chartered story remains constant. Our strategy broadly remains unchanged, and our aspiration remains the same – we want to be the world's best international bank, leading the way in Asia, Africa and the Middle East. We are putting even greater focus on our clients and customers, on building deep and long-standing relationships, on improving the quality of our service and solutions.

We continue to be obsessed with the basics of banking – balancing the pursuit of growth with disciplined management of costs and risks, keeping a firm grip on liquidity and capital. We are continuing to focus on culture and values, on the way we work together across multiple products and segments, combining deep local knowledge with global capability. These fundamentals underscore everything the Bank does, and everything we as a Bank stand for.

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

2012 performance

In 2012, 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 54% and 46% to operating income respectively, demonstrating that

Chief Executive Officer's Statement (Continued)

we have a highly diverse balance sheet, with no material concentration by either business or segment.

Profit before taxation was KShs 11.6 billion compared to KShs 8.3 billion in 2011, an increase of 40%.

Total revenue grew to KShs 20.7 billion, driven mainly by the following:

- Interest income on loans and advances increased by 56% to KShs 14.9 billion on the back of strong asset growth across both businesses and higher interest rates that prevailed for most of the year;

- Interest income from investments in government securities increased by 95% largely on account of increased volumes;

- Total interest expense increased by 161% to KShs 5.6 billion primarily due to an increase in interest expense on customer deposits which grew by 204% in 2012 on account of growth in both volumes and high interest rates occasioned by tight liquidity in the market;

- Income from foreign exchange trading remained relatively flat at KShs 2.6 billion;

- Fees and commissions decreased marginally by 2% from KShs 3.4 billion to KShs 3.3 billion due to a lower number of large value transactions during the year;

Total operating expenses increased by 16% to KShs 8.4 billion mainly due to the following:

- Staff costs grew by 24% to KShs 4.6 billion as we continued to grow staff headcount in line with our business expansion;

- Premises and equipment costs decreased by 13% to KShs 0.6 billion due to the one-off revenue expenditure relating to the head office in 2011;

- Depreciation and amortisation increased by 26% to KShs 0.9 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. In particular we had a full year of depreciation for the head office compared to 9 months in 2011;

- Other costs increased by 7% to KShs 2.2 billion in line with increased operating costs due to increased business and also because of increases in operating expenses such as courier services, hire of equipment among others.

- Non-performing loans were KShs 2.2 billion compared to KShs 1.0 billion in 2011. This translates to 1.9% of gross total loans compared to 1.1% in 2011. The quality of the asset book remains good and is well diversified and conservatively positioned. Wholesale Banking loans continue to remain well diversified and largely short tenor. The consumer book is predominantly secured and we have selectively grown our unsecured portfolio.

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 opportunities in our businesses.

Business Review

In 2012 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 had a record year and continues to deliver good results both on balance sheet, profit and loss and the non-financial metrics. Operating income was up 22% to reach KShs 9.5 billion. This was as a result of strong growth in customer deposits and loans which increased by 11% and 34% to close at KShs 77.7 billion and KShs 43.2 billion respectively. We have a well balanced customer portfolio with SME contributing 36% of Consumer Banking revenues, Priority Banking accounting for 31% and Preferred and Personal Banking contributing 33%.

During the year in review we continued to manage our cost base allowing us to invest in headcount, our digital agenda, new outlets, relocations and refurbishments of our branch network. As a result the Consumer Banking cost income ratio reduced to 50% in 2012 from 52% in 2011.

Consumer Banking delivered a strong financial performance reflecting our increasingly broad based product and customer mix. Operating profit increased by 24% to reach KShs 4.1 billion which is a record performance ever. In 2013, we will continue to invest at

Chief Executive Officer's Statement (Continued)

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.

As a Bank we are deeply committed to providing world class banking services and continue in our quest to be the main digital bank for our customers by providing alternative channels such as mobile, online and ATMs.

We are leveraging on non-traditional physical formats and digital channels for sale and service so as to deliver a differentiated customer experience. Last year, the Remote Banking channel achieved a number of 'firsts' and was recognised at the Middle East, Pakistan and Africa (MEPA) Region Awards Ceremony at Desert Palm Dubai for its strong performance in promoting remote channels activation.

In December, we introduced the first Electronic Banking Unit (EBU) in Kenya - Breeze@theJunction. This is a sales and self service virtual environment that offers customers an opportunity to experience online banking, mobile solutions, video conferencing and intelligent automated teller machines. Breeze@theJunction is a view into future banking.

We also introduced the first 'Pop-up Booth' in Kenya. The booth showcases our product and digital banking offerings and enables existing and potential customers to interact with us in an innovative and creative manner. The booth, is mobile and can be set up in strategic locations such as malls where it is used to capture new customer leads.

As we get into the next phase of growth, our strategic agenda remains clear. We will keep driving up active customers as we continue to focus on high value segments particularly Priority, SME and Wealth Management. We aim to become the main digital bank for our customers as we focus on innovation and increased productivity. We will also sustain the momentum on our balance sheet as it is the measure of growth for our business.

Wholesale Banking

The Wholesale Banking client focused business model continues to deliver strong results. In 2012, we made further progress in strengthening and deepening our client relationships and growing our product capabilities to support local trade and offering short term working capital solutions. As result, our overall client income grew 24%, representing 79% of total Wholesale Banking income. Commercial Banking (Lending, Cash, Trade and Custody) continues to meet our clients' day-to-day financial needs and underpins our business, contributing over 80% of all client income and grew by 31% year on year.

During the year, our Wholesale Banking business executed well on this strategy, delivering a year on year income growth of 37% to KShs 11.3 billion and underlying profit before tax up 51% to KShs 7.4 billion. Disciplined investments in key sales and products teams and control functions delivered good results across all products and customer segments.

In 2012, the cross-sell ratio improved to 3.86 up from 3.40 in 2011 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 increased business opportunities as the country moves into a devolved government structure and gears up to achieving the Vision 2030 goals. In addition, we see growth 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.

People

Key to delivering our strategy is our people. The Bank employs over 1,900 staff and like all businesses, retaining and attracting the best people in a highly competitive industry is always a challenge. In 2012, we continued to engage our staff in various initiatives, including finding creative solutions to improve their working environment.

In 2013, 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. We are confident that this investment in our people will make Standard Chartered Bank not only a great place to work but also the bank of choice for talent in the market.

Outlook

2012 was a difficult year for the country and the economy and 2013 will undoubtedly bring new challenges. However given our track record of resilience, growth and consistent delivery, I am

Chief Executive Officer's Statement (Continued)

confident that the Bank will continue to perform well. We are in the right markets and segments. We have a clear strategy and we are sticking to it. We are investing in our businesses.

Despite the nervousness and anxieties of the just concluded General Election, we expect a change in momentum once the political environment settles down. As a Bank, we remain focused on consistent delivery.

In conclusion, I would like to thank our investors for their support throughout this journey. I would also like to thank the staff of Standard Chartered for their hard work, professionalism and commitment.

I look forward to another excellent performance in 2013.

Richard Etemesi
Chief Executive Officer

14 March 2013

Taarifa ya Afisa Mkuu Mkurugenzi

Mikakati ya ukuaji

Mikakati ya ukuaji

"Tunaendelea kutilia mkazo utamaduni na maadili, katika jinsi tunavyotekeleza shughuli zetu kote kwa bidhaa na vitengo vyote, tukijumuisha ujuzi wetu wa kina wa soko la humu nchini pamoja na uwezo wetu wa kimataifa. Mambo haya ya kimsingi yanatilia mkazo shughuli zote zinazotekelezwa na benki hii, na yote ambayo Benki ina imani nayo."

Utangulizi

Nina furaha kuu ya kuwaripotia kuwa benki ya Standard Chartered ilipata matokeo bora sana katika mwaka wa 2012. Matokeo haya yanawakilisha mwaka wetu wa sita mfululizo wa mapato na faida ya kuvunja rekodi. Kwetu hii ni hadithi ya ukuaji na tumeendelea kuwasilisha thamani bora kwa wanahisa wetu kila mara.

Katika kipindi cha muda huo tumefanikiwa kuwasilisha mchanganyiko wa ukuaji wa mwaka wa kima cha asilimia 20 katika mapato na asilimia 25 kwa kiwango cha faida kabla ya kulipa kodi. Jumla ya rasilimali na dhima zetu imekuwa kwa asilimia 19 katika muda tunaozungumzia. Vile vile tumeongeza maradufu idadi ya wafanyikazi tunaoajiri hadi kufikia zaidi ya 1,900.

Tumefanikiwa kutekeleza haya yote kwa kushikilia mikakati yetu, kutilia mkazo ufauataji wa mipango halisi iliyo mizuri ya shughuli za benki, katika masoko tunayoyaelewa vyema, tukiwa na wateja ambao tayari tumestawisha nao uhusiano wa ndani na wa kudumu.

Mengi yanayotilia nguvu hadithi ya ufanisi wa Standard Chartered yanaendelea kudumu. Mkakati wetu kwa pakubwa haubadiliki, na malengo yetu yanabaki yale yale – tunataka kuwa benki ya kimataifa iliyo bora zaidi, ikiongoza katika Asia, Afrika na Mashariki ya Kati. Tunatilia mkazo zaidi huduma kwa wateja wetu, kwa kujenga uhusiano wa karibu zaidi nao, na kwa kuboresha huduma zetu na kuwapa suluhisho kwa mahitaji yao.

Tunazidi kukariri ufuataji wa maadili halisi ya shuguli za benki – tukiweka sawa hamu yetu ya ukuaji na nidhamu ya usimamizi wa gharama na dhima, huku tukishikilia vyema kabisa ukwasi na rasilimali. Tunaendelea kutilia mkazo utamaduni na maadili, katika jinsi tunavyotekeleza shughuli zetu kote kwa bidhaa na vitengo vyote, tukijumuisha ujuzi wetu wa kina wa soko la humu nchini pamoja na uwezo wetu wa kimataifa. Mambo haya ya kimsingi yanatilia mkazo shughuli zote zinazotekelezwa na benki hii, na yote ambayo Benki ina imani nayo.

Mimi sina shaka kuwa uwazi na udumishaji wa mikakati yetu, nidhamu yetu ya kufuatilia kwa dhati, na kujitolea kwetu kusiotikisika katika utamaduni na maadili yetu ya kipekee yamekuwa na yataendelea kuwa kiungo muhimu cha kuendeleza mafanikio haya yetu.

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

Matokeo ya 2012

Katika mwaka wa 2012 tuliendelea kufuata njia ya ustawi wa haraka, matokeo thabiti ya kifedha na mipango bora zaidi ya kustawi. Tuliweza kuwasilisha dhidi ya kigezo sawia cha ukuaji na utenda kazi bora na usimamizi wa kuthibiti gharama na dhima. Biashara zetu zote mbili za kutoa shughuli za kibenki kwa ujumla na za rejareja zilichangia faida kwa asilimia 54 na asilimia 46 mtawalia, hii ikithibitisha kuwa tuko na mizania ya hesabu anuwai, bila kuzingatia mali ghafi katika biashara au vitengo vyote viwili.

Faida kabla ya kodi ilikuwa Shilingi bilioni 11.6 ikilinganishwa na Shilingi bilioni 8.3 katika mwaka wa 2011, ikiwa ni ongezeko la asilimia 40.

Jumla ya faida ilikua hadi Shilingi bilioni 20.7, hii ikichangiwa zaidi na yafuatayo:

- Mapato kutokana na riba ya mikopo mikubwa na midogo yaliongezeka kwa asilimia 56 hadi Shilingi bilioni 14.9 ikiegemea ukuaji imara wa rasilimali kote katika biashara zetu zote mbili pamoja na kupanda kwa viwango vya riba kuliofanyika katika muda mrefu mwaka huo;

- Faida kutokana na riba ya uwekezaji katika hati za serikali iliongezeka kwa asilimia 95 hasa zaidi kutokana na kuzidi kwa ujazo;

- Jumla ya gharama kutokana na riba iliongezeka kwa asilimia162 hadi Shilingi bilioni 5.6 hasa zaidi kutokana na kuongezeka kwa gharama ya riba kwa fedha za wateja tunazoweka ambayo ilizidi kwa asilimia 228 katika mwaka wa 2012 kutokana na ongezeko la ujazo pamoja na viwango vya juu vya riba vilivyosababishwa na kubanwa kwa ukwasi katika soko hili;

- Mapato kutokana na biashara ya ubadilishanaji wa fedha za kigeni yaliendelea kutulia katika kiasi cha Shilingi bilioni 2.6;

- Mapato kutokana na ada na asilimia ya faida yalipungua kwa kadri ya asilimia 2 kutoka Shilingi Bilioni 3.4 hadi Shilingi Bilioni 3.3 kutokana na uchache wa idadi ya wanaotekeleza shughuli za thamani kubwa katika mwaka tunaozingatia;

Jumla ya gharama za kuendesha shughuli iliongezeka kwa asilimia 16 hadi Shilingi bilioni 8.4 kutokana na yafutayo:

- Gharama dhidi ya wafanyikazi ilipanda kwa asilimia 24 hadi Shilingi bilioni 4.6 wakati tulipoendelea kuwaajiri wafanyikazi zaidi kuambatana na mipango ya kupanua biashara yetu;

- Gharama ya mahala pa kazi na zana za kazi ilipungua kwa asilimia 13 hadi Shilingi bilioni 0.6 kutokana na gharama ya mara moja iliyotumiwa kujenga makao yetu makuu katika mwaka wa 2011;

- Kupungua thamani na utengaji pesa za kulipia deni kulizidi kwa asilimia 26 hadi Shilingi bilioni 0.9 hasa zaidi kutokana na kutengwa kwa gharama ya kufidia rasilimali isiopimika kama ile ihusuyo kumiliki kwetu kwa Biashara ya Usimamizi (yaani Custodial Services) pamoja pia na kuendelea kwetu kuwekeza katika muundo msingi na teknolojia ili kusaidia kukuza biashara yetu. Kwa mahsusi hasa tulikuwa na mwaka mzima wa kupungua thamani kwa makao makuu yetu ikilinganishwa na miezi 9 katika mwaka wa 2011;

- Gharama zingine zilizidi kwa asilimia 7 hadi Shilingi bilioni 2.2 kufuatia kuongezeka kwa gharama za kuendesha shughuli kwa ajili ya kuzidi kwa biashara na pia kuongezeka kwa gharama kama vile za uchukuzi, kukodisha zana miongoni mwa zingine.

- Mikopo iliyobatilika ilifikia hadi Shilingi bilioni 2.2 ikilinganishwa na Shilingi bilioni 1.0 katika mwaka wa 2011. Hii ikiwa ni sawa na asilimia 1.9 ya jumla ya mikopo yote ikilinganishwa na asilimia 1.1 katika mwaka wa 2011. Ubora wa daftari zetu za rasilimali unaendelea kuwa mzuri kwa namna mbali mbali na uliyohifadhika. Utoaji wa mikopo ya jumla ya benki uliendelea kuwa wa aina mbali mbali hasa zaidi wa kipindi cha muda mfupi. Daftari za utoaji huduma za rejareja uko imara kwa kiwango kikubwa na tumepata ustawi thabiti katika itifaki za madeni yasiyo na udhamini.

Benki inaendelea kuwa na ukwasi mkubwa na yenye uwezo wa kugeuza ukwasi huo kuwa mtaji huku uwiano wa mtaji na ukwasi ukiwa umetimiza na hata kuzidi viwango vilivyowekwa na Benki Kuu ya Kenya. Mikakati hii inatuweka katika nafasi nzuri ya kuweza kutekeleza sheria zaidi inapohitajika na pia kufuatilia fursa za ukuaji katika biashara zetu.

Uhakiki wa Biashara

Katika mwaka wa 2012 tulishuhudia msukumo wenye nguvu kote katika biashara zetu, kukiwa na ongezeko kubwa la viwango vya shughuli na uzalishaji miongoni mwa bidhaa zetu huku tukiendelea kuwasaidia wateja wetu kukuza biashara zao na kuwekeza.

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

Utumiwaji wa huduma za Benki za reja reja

Utumiwaji wa shughuli za benki za reja reja ulileta matokeo ya kuvunja rekodi mwakani na unaendelea kuwasilisha matokeo mazuri kote katika mizania ya hesabu, ya faida na hasara na ile ya mfumo usio wa kifedha vile vile. Mapato kutokana na shughuli yalipanda kwa asilimia 22 kufikia Shilingi bilioni 9.5. Hii ikiwa ni kutokana na kuongezeka kwa karadha ya wateja na mikopo ambazo ziliongezeka kwa asilimia 11 na asilimia 34 kufikia Shilingi bilioni 77.7 na Shilingi bilioni 43.2 mtawalia. Tuko na orodha maridhawa ya wateja huku wale wa biashara ndogo ndogo (SME) wakichangia asilimia 36 ya mapato ya kitengo cha shuguli reja reja za benki, wateja wa "Priority Banking" wakiwa ni asilimia 31 na wale wa "Preferred" na "Personal Banking" wakichangia asilimia 33.

Katika kipindi cha mwaka tunaoukariria tuliendelea kuthibiti vyema usimamizi wa gharama hii ikitupatia fursa ya kuwekeza katika kuajiri wafanyikazi zaidi, mpango wetu wa kutarakimu huduma za benki kupitia tarakilishi, matawi mapya, kuhamisha na kukarabati mtandao wa matawi yetu. Kutokana na haya uwiano wa gharama na mapato katika kitengo chetu cha huduma ya reja reja za kibenki ulipungua hadi asilimia 50 katika mwaka wa 2012 kutoka asilimia 52 katika mwaka wa 2011.

Kitengo cha biashara ya reja reja ya shughuli za kibenki kiliwasilisha matokeo imara ya kifedha ikiashiria bidhaa zetu za kila aina na mchanganyiko wa wateja tulio nao. Faida kutokana na shughuli hii iliongezeka kwa asilimia 24 na kufikia Shilingi bilioni 4.1 ambayo ni matokeo ya kuvunja rekodi. Katika mwaka wa 2013, tutaendelea kuwekeza kwa hatua ilio sawa kabisa, tukitilia mkazo katika kuongeza uzalishaji na ubunifu. Shirika hili litaendelea kufuatilia uthamini wa huduma hasa zaidi katika maeneo ya rehani na huduma za uhasibu.

Sisi kama benki tunajitolea kabisa katika kutoa huduma za benki za haadhi ya kimataifa na tunaendelea kufuata nia yetu ya kuwa benki ya kipekee kutarakimu huduma zake zote za benki kupitia tarakilishi kwa wateja kwa kuwatolea njia mbadala kama zile za kupitia simu za mkononi, mtandao wa internet na mashini za ATM.

Tunaendelea kutumia kama wenzo taratibu zisizo za kawaida na njia za dijitali kuuza na kuhudumu ili kutoa huduma zilizo tofauti kwa wateja wetu. Mwaka jana, njia za huduma za kibenki za kuunga kwa mbali (Remote Banking) zilifanikiwa kuwa 'za kwanza' na kutambuliwa katika sherehe za kutoa tuzo za eneo la Mashariki ya Kati, Pakistan na Afrika (MEPA Region Awards Ceremony) kule Desert Palm Dubai kutokana na utendaji kazi bora katika kukuza uzinduzi wa huduma hizi za kuunga kwa mbali.

Tulizindua kwa mara ya kwanza kabisa kitengo cha Huduma za Benki za Kielektroniki yaani Electronic Banking Unit (EBU) hapa Kenya - Breeze@theJunction. Hii ni huduma ya mauzo na ya kujiongoza yenyewe kupitia mtandao wa internet ambao unawapatia wateja fursa ya kujisuluhishia matatizo kwenye mtandao, suluhisho kupitia simu za mkononi, mawasiliano kupitia video, mashini za ATM, ushauri kutoka kwa wataalamu wa mambo ya kifedha na maelezo kupitia mtandao, yote haya yakijumuishwa pamoja ili kutoa njia ya kipekee ya mawasiliano kwa madhumuni ya shughuli za benki ambayo haijawahi kuonekana tena katika matawi. Mteja husajiliwa moja kwa moja katika huduma za benki kupitia simu za rununu au kupitia mtandao wa internet ili kuweza kutekeleza shughuli papo hapo pamoja na kupata usaidizi wa haraka juu ya njia za kutekeleza huduma hizo katika mitambo ya kielektroniki iwe ni ATM, simu za mkononi au kupitia internet. Breeze@theJunction ni mtazamo mpya utakaojiri kwa shughuli katika siku zijazo.

Pia tulizindua huduma ya kwanza kabisa ya vibanda vya huduma vya 'Pop-up Booth' hapa Kenya. Hii huduma ya 'Pop-up Booth' inaonyesha huduma zetu tunazoandaa za kibenki kwa njia ya dijitali na inawezesha wateja waliyoko sasa na watarijiwa kuwasiliana na kujumuika nasi kwa njia ya kisasa na iliyo bunifu mno. Vibanda hivi vya 'Pop-up Booths', vinawezwa kuhamahama na huwekwa mahala maalum katika maduka makubwa ambapo hutumiwa kuwavutia wateja wapya.

Wakati tunapoingia katika awamu inayokuja ya ustawi, ajenda ya mkakati wetu iko wazi. Tutaendelea kukirithisha wateja watumizi wakati huo huo tukiendelea kuwapatia kipa umbele wale walio katika vitengo vya thamani ya juu hasa Priority, Wafanyi biashara wadogo (SME) na Usimamizi wa Mali (Wealth Management). Tunalenga kuwa benki muhimu ya kutumia dijitali kwa wateja wetu wakati huo huo tukitilia mkazo ubunifu na kuongeza uzalishaji. Vile vile tutadumisha msukumo katika mizania yetu ya hesabu kwa vile hiki ndio kigezo cha ukuaji wa biashara hii yetu.

Huduma za benki za Jumla

Biashara ya Benki ya Jumla inapatia umuhimu mteja kama mtindo wa biashara, inaendelea kuwasilisha matokeo thabiti. Katika mwaka wa 2012 tulipiga hatua zaidi katika kuimarisha na kuzidisha uhusiano wetu kwa wateja na kukuza uwezo wa bidhaa zetu kuauni biashara ya humu nchini na kutoa suluhisho za dhima ya muda mfupi. Kutokana na hii biashara ya ujumla mapato kutokana na wateja wetu yaliongezeka kwa asilimia 24, ikiwa ni sawa na asilimia 79 ya jumla yote ya Mapato kutokana na Biashara ya Benki ya Jumla. Biashara ya shughuli za benki ya Commercial Banking (Kutoa mikopo, Fedha taslimu, Biashara na

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

Uthamini) inaendelea kutekeleza mahitaji ya kifedha ya kila siku ya wateja wetu na ndiyo shina la biashara yetu, ikichangia zaidi ya asilimia 80 ya mapato yote yatokanayo na huduma kwa wateja na iliongezeka kwa aslimia 31 mwaka baada ya mwaka. Katika mwaka tunaouzungumzia, biashara yetu ya shughuli za Benki kwa Jumla ilitekelezwa vyema kwa mkakati huu, ikawasilisha ukuaji wa mapato mwakani ya asilimia 37 hadi Shilingi bilioni 11.3 na nadhari ya faida kabla ya kulipa kodi ikizidi kwa asilimia 51 hadi Shilingi bilioni 7.4. Uwekezaji wenye nidhamu katika mauzo muhimu na makundi ya bidhaa na usimamizi wa shughuli ulizalisha faida nzuri kote katika vitengo vya bidhaa na wateja.

Katika mwaka wa 2012, uwiano wa kingamo la mauzo uliimarika hadi 3.86 ikizidi kutoka 3.40 katika mwaka wa 2011 ikithibitisha zidisho la uhusiano mwema na wateja na huduma za ziada tunazowapa wateja wetu. Hata hivyo, bado kuna nafasi ya 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 za kibiashara wakati taifa letu linapojitayarisha kufikia malengo ya ruwaza ya 2030. Zaidi ya hivi, tunaona 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 daima na tuko hapa kwa muda mrefu na kwa ajili ya kufanya biashara nao.

Wafanyikazi wetu

Kiungo muhimu zaidi cha kufikia malengo yetu ni watu wetu. Benki hii imeajiri wafanyikazi zaidi ya 1,900 na kama ilivyo katika biashara zote, kudumisha na kuvutia wafanyikazi bora zaidi hasa katika mazingira yenye ushindani mkubwa wa kibiashara huwa ni changamoto kubwa kila wakati. Katika 2012, tuliendelea kuwahimiza wafanyikazi wetu kupitia shughuli mbali mbali, ikiwa ni pamoja na kutafuta njia bunifu za kuboresha mazingira yao ya kazi na za kuboresha huduma kwa wateja. Katika 2013, tutaendelea kujitolea katika kuwavutia na kuwaendeleza wafanyikazi wenye ujuzi, kuwapa ustadi na uwezo wote wanaouhitaji ili kufaulu, na kuwazawadia kwa kuongeza uwezo wao hadi upeo ndani ya benki. Tuna matumaini kuwa uwekezaji huu katika watu wetu utafanya Benki ya Standard Chartered Bank Kenya sio tu kuwa mahala bora zaidi pa kufanya kazi bali pia benki teule yenye wafanyikazi wenye ustadi katika soko hili.

Mtazamo

Mwaka wa 2012 ulikuwa mwaka mgumu kwa taifa hili na uchumi wake na bila shaka mwaka wa 2013 utakuwa na changamoto zake. Hata hivyo, ukitazama rekodi ya utendakazi wetu inayoonyesha uthabiti, ukuaji na uwasilishaji matokeo bora kila mara, niko na matumaini kuwa Benki hii italeta matokeo mazuri. Tuko katika vitengo vizuri vya soko letu. Tuko na mikakati iliyo wazi na tunaifuatilia kuitekeleza vilivyo. Tunawekeza katika vitengo vya biashara zetu.

Licha ya kuwepo kwa hali ya wasiwasi na shauku kutokana na Uchaguzi Mkuu uliokamilika hivi karibuni, tunatarajia mabadiliko katika msukumo wa maendeleo pindi mazingira ya kisiasa yatakapotulia.

Kutamatisha, ningependa kuwashukuru wawekezaji wetu kwa jinsi walivyotuunga mkono katika safari hii yote ya mafanikio. Ningependa pia kuwashukuru wafanyikazi wa Standard Chartered kwa kazi yao ya bidii, ustadi wao na kujitolea kwao.

Nina matumaini makubwa ya mwaka mwingine wa matokeo bora zaidi katika mwaka wa 2013.

Richard Etemesi
Afisa Mkuu Mtendaji

14 Machi 2013

Sustainability Review

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

About us

Standard Chartered Bank Kenya Limited

Standard Chartered Bank Kenya Limited was established in 1911 with the first branch opened in Treasury Square, Mombasa. Today, 102 years later, Standard Chartered Bank is one of the leading banks in Kenya, with an excellent franchise. It has a total of 34 branches spread across the country, 97 automated teller machines (ATMs) and over 1,900 employees.

The Bank has about 32,000 local shareholders holding 26% of the Bank's total shares. It is a publicly quoted company on the Nairobi Securities Exchange since 1989.

Our capital, deposit base, and lending portfolio is reported in Kenya Shillings, and we offer a variety of local and foreign currency accounts, both deposit and loan, to our customers. We have a diversified portfolio cutting across select sectors that include business services, manufacturing, wholesale and retail trade, transport and communications, real estate, agriculture, energy and water.

Further underpinning its importance, Standard Chartered Bank Kenya Limited hosts the regional Shared Service Centre supporting the Bank's technology operations in Uganda, Tanzania, Zambia and Botswana and South Africa on a real time basis.

Consumer Banking

Consumer Banking serves its customer base through a segmented strategic approach focusing on Priority and International Banking, SME, Preferred and Personal Banking segments. Through this customer centric approach, the customers are able to access wealth management products such as current accounts, savings accounts, Fixed and Call Deposits as well as investment products. They are also able to access loan products such as unsecured loans, overdrafts, mortgages, business loans and business overdrafts. Other off-balance sheet products and services such as letters of credit, trade services and foreign exchange products are available to customers. Other services offered by Consumer Bank include mobile and internet banking.

Wholesale Banking

Wholesale Banking offers lending, trade and cash management in commercial banking. It also offers FX sales and trading, derivatives, options, structured trade finance, assets and liabilities management, syndications and fixed income.

Our highlights in 2012

- Best Foreign Bank in Kenya - EMEA Africa Finance Awards – September 2012;
- Green Building Recognition Award – Kenya Association of Manufacturers - March 2012;
- 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 87 million;
- KShs 21.1 million was raised from the Standard Chartered Nairobi Marathon where over 21,000 people participated. This surpassed the amount raised in the 2011 marathon by KShs 4.1 million. All funds raised from the event will go towards 'Seeing is Believing' (SIB), the Bank's global initiative aimed at combating avoidable blindness; and
- 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.

Our sustainable business priorities

Sustainability Review (Continued)

Since 2003, Standard Chartered has had a clear and bold strategy – to become the world's best international bank, leading the way in Asia, Africa and the Middle East. This strategy has stood us in good stead especially in many turbulent political and economic times. Our focus has been and remains doing business within our chosen markets, with customers we know well and products that we fully understand.

In Kenya, our strategy is aligned to that of the Group. Nevertheless, in deciding on our priorities, we take into account local market and business conditions to ensure that our strategy also addresses the needs and requirements of our customers. Within our chosen segments, we strive to become the right partner to our customers, providing them with innovative products and solutions supported by quality service.

Our overall objective has always been to build a long-term, sustainable business in Kenya. In order to achieve this, we have over the years focused relentlessly on the basics of banking; liquidity and capital management, credit risk management, cost control, efficiency and customer service. Standard Chartered Bank has been doing business in Kenya for over 100 years and during this period we have acquired a deep knowledge and understanding of the local market and customers.

Over the last five years we have completely reshaped our Bank. We have significantly strengthened our infrastructure and technology; we have developed an incredibly robust risk management capability that again mirrors the international standards set by the Group; we have reinvigorated our Brand; and we have significantly increased our talent pool.

Our approach

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.

Our strategy has always been to provide responsive, innovative and creative financial solutions to our customers by leveraging our local knowledge with our international experience. Our innovations have been driven by our customers' needs and a focus on key economic activities in the various countries in which we are present.

Our long heritage and dominant local presence in Africa gives us access to insights enabling us to partner with our clients beyond the normal traditional opportunities offered by global financial services companies. As a result, we remain well positioned in Kenya with a strong, underlying growth momentum, driven by our focus on the rapidly expanding middle class and booming infrastructure investment. We are strongly capitalised and highly liquid and obsessively focus on the basics of banking.

Treasury Square in Mombasa was the first branch established when the Bank set foot in Kenya in 1911. 102 years later, the Bank is still in operation with 34 branches countrywide.

We also 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.

Standard Chartered Bank 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.

Sustainability Review (Continued)

Protecting the environment

Financial institutions may not be carbon intensive, but we can still make a difference in the fight against climate change. Standard Chartered Bank continues to implement a wide range of initiatives, and has set stretching targets, to reduce energy, water, air travel and paper consumption, and mitigate our impact wherever possible.

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

- **Operational impact:** leading by example through reducing the environmental impact of the Bank's own activities;
- **Sustainable lending:** our lending policies are in line with our agenda of contributing towards economic development. We ensure that the organisations we lend to and do business with also make a reasonable contribution to economic development and exercise responsible business practices; and
- **Engagement:** raising awareness among employees and wider stakeholders about the consequences of poor environmental stewardship and the importance of environmental protection through partnerships with the media, government and NGOs. This is achieved through thought-leadership and specific environmental initiatives.

Operational impact

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

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

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

Our Head Office - StandardChartered@Chiromo – is managed on environmentally focused initiatives. We harvest our rain water and treat it for re-use. We 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 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 and elevators that meet all minimum energy objectives. As a result of this the Bank received a Green Building Recognition in March 2012 from Kenya Association of Manufacturers.

In 2012, we celebrated the Earth Hour by switching off lights at our Head Office.

To reduce our use of paper all our printers, scanners and fax machines are multifunctional devices enabled with default double sided printing and pull printing options. We also encourage our staff to have paperless meetings as well as print only when necessary.

We have also invested in audio and video conferencing facilities to reduce the volume of business travel.

Our products

We have continued to promote online and mobile banking services to our retail customers. Electronic banking reduces paper consumption, as well as the energy needed to distribute hard copies of statements and other communications. We have enhanced our remote banking offering through migrating transactions away from the branches to alternative channels. Last year, we increased our Remote Banking active customers by 112 per cent for online banking and 334 per cent for mobile banking. We also achieved an overall 80 per cent penetration for e-statements.

External interventions

Standard Chartered Bank is also involved in re-forestation activities across the country. In partnership with the Green Belt Movement we planted 2,000 trees in 2012. Apart from covering the costs of seedlings and planting, the Bank contributes towards the maintenance of the trees for three years to ensure sustainability.

The staff of the Bank funded and implemented water harvesting and management projects in nine schools and children's homes across the country. They also established two biogas stations as well as constructed five refuse chambers in Kiandutu Slums to clean up the environment and to encourage re-use and recycling of waste.

During the Standard Chartered Nairobi Marathon, over 150,000 bottles were collected for recycling.

Staff plant trees along Nairobi River.

Sustainability Review (Continued)

Tackling financial crime

Financial crime is corrosive to economies, resulting in reduced tax revenues and foreign exchange for governments. As an international bank working in more than 71 countries we are exposed to the risk of financial crime. We work closely with governments, law enforcement agencies and the banking industry to share knowledge and contribute to ongoing initiatives which prevent, detect and investigate financial crime.

We continually improve our systems and controls to ensure we are doing our best to detect and prevent money laundering or terrorist financing, deny sanctioned entities access to our banking systems and guard against fraud and corruption.

In 2012, our focus was on governance concentrating on areas that include, intermediaries, procurement, sponsorships, donations, and gifts and entertainment.

Staff of the Bank undergo training conducted by the Financial Crime Risk Department.

Good governance

- to guard against the risk of financial crime within our business, we focus on training our employees, strengthening our screening systems and ensuring that our policies and procedures are effective and up to date;
- we aligned our existing anti-bribery controls with the requirements of the new UK Bribery Act 2010. All Standard Chartered Bank staff are required to successfully complete an anti-bribery e-learning training;
- we endeavor to ensure our staff meet customers' needs in line with the dictates of Basel II accord, the Customer Due Diligence (CDD) process and the Anti-Money Laundering (AML) law;
- we actively participate as thought leaders in customer and staff education on ATM fraud awareness in partnership with the Kenya Credit and Debit Card Association umbrella association and the Kenya Bankers' Association;
- we maintain the highest level of compliance with local regulations in Kenya;
- we remain an apolitical institution committed to engendering good governance , socio economic development and a better future for all in Kenya in line with our Here for good brand promise; and
- transaction Monitoring & Suspicious Activity Reporting (SAR): On 21 January 2013, Kenya went live on Automated Transaction Monitoring using Detica System under Detica TS version 6.1.

Sustainability Review (Continued)

Responsible selling and marketing

Responsible selling and marketing is a key element of our commitment to supporting our customers and clients. Treating Customers Fairly (TCF) is a core focus to the Bank and thus treat them fairly at all times, truly understanding their needs and providing appropriate solutions aligned to their interests and requirements. Both our Consumer and Wholesale Banking businesses are centred around a customer and client focused approach.

Consumer Banking continued to embed TCF into its culture, Customer Charter, governance and processes. The synergy of the Consumer Banking customer focused strategy with the TCF outcomes ensures that TCF is effectively integrated into all aspects of the business.

Wholesale Banking continued to focus on deepening our relationships with clients, leveraging our international network to provide the solutions they need to achieve their business goals and ambitions.

To ensure that we achieve our sustainability priority of responsible selling and marketing, we have put in place the following measures.

(a) Principles and transparency

Our Consumer and Wholesale Banking businesses are both committed to treating customers and clients fairly, providing products and services based on their specific needs.

Consumer Banking: our Customer Charter

Our Customer Charter underpins our core Consumer Banking strategy of focusing on customers and treating them fairly. The Customer Charter focuses on three areas:

- Providing fast, friendly and relevant service;
- Delivering appropriate solutions to meet our customers' financial needs; and
- Recognising and rewarding our customer relationships.

Wholesale Banking: strengthening client relationships

Wholesale Banking is committed to building strong relationships to achieve our clients' growth ambitions. The key areas of focus for Wholesale Banking are:

- Deepening core bank relationships with our clients;
- Enhancing our coverage through delivering relevant solutions for our clients across our footprint; and
- Maintaining our strong balance sheet to support our existing clients.

(b) Voice of our customers and clients

Consumer Banking: giving customers a greater voice

We continued to expand the scope and remit of our Voice of Customer (VOC) Committees to reflect a broader customer experience agenda covering:

- The existing VOC review – where we use customer feedback to identify areas for improvement in our service, processes and products;
- The Voice of Frontline – where we use staff feedback to identify areas for improvement based on their experience and first hand feedback they have received from customers; and
- Oversight of the Service Quality and Re-engineering remit in response to customer and frontline feedback.

To reflect this broader remit, each VOC Committee has now been enhanced as a single forum under the Customer Experience Council (CEC).

Wholesale Banking: client-centric banking

Our Client Services Group assists Wholesale Banking clients with any enquiries they have. In 2012, a number of initiatives contributed towards an improved complaints resolution process.

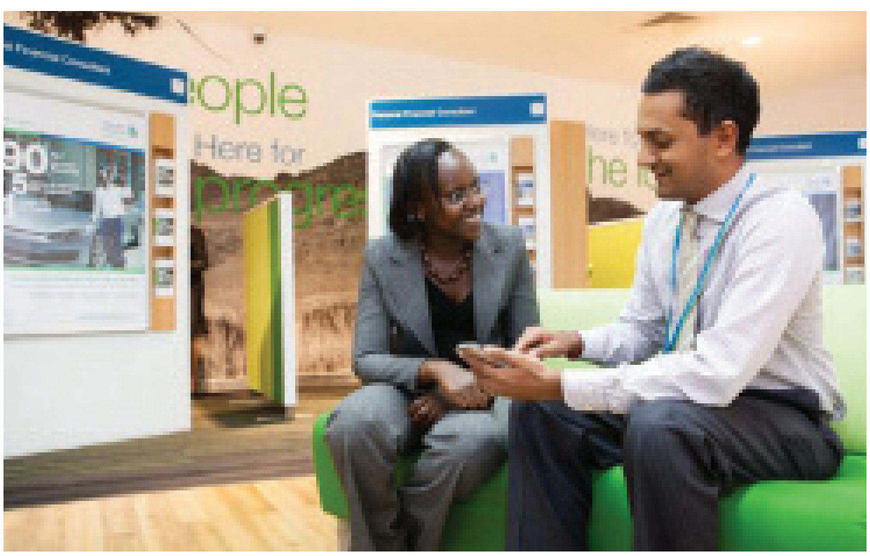
Highlights:

- Carried out in-depth analysis to better understand any material trends, gaps and improvement opportunities that could be identified from complaints and issues;
- Used client relationship tools in Wholesale Banking alongside detailed service reviews and satisfaction surveys to ensure that clients remained at the centre of everything the Bank does; and
- Continued to work with our employees to enhance client and customer experience and further our own commitment to providing exceptional value-adding services.

(c) Sales process

Consumer Banking: the way forward

The Standard Chartered Bank Way (SCB Way) is an approach to sales that enables us to effectively deliver our Customer Charter to our customers. It also helps us to ensure we embed the right sales culture across the leadership, management and frontline staff levels.



A Staff member attends to a customer at Kenyatta Avenue Branch.

Sustainability Review (Continued)

Responsible selling and marketing (Continued)

Highlights:

- Continued to improve the consistency, user-friendliness and transparency of customer facing documentation on a risk-based approach, focusing specifically on the Wealth Management documentation; and
- Continued to enhance our approach to customer suitability through deployment of tools such as the Customer and Business Investment Profiles for individuals and SMEs respectively, product risk rating methodology and automated profile matching capability.

Wholesale Banking: a robust code of conduct

- Treating customers fairly is a requirement of both our Code of Conduct and our Wholesale Banking Financial Markets' Dealers Code of Conduct. A series of procedures and controls ensure that these codes are adhered to at all times;
- We have implemented a suite of policies and procedures designed to embed Here for good in our sales and trading practices with clients, to express our aspiration to be faithful to our strategic intent and our brand promise;
- We assess our procedures against regulatory changes and best practices to ensure they continue to meet our clients' needs;
- We monitor adherence to these procedures to ensure clients are treated fairly; and
- We have established a Distributor Transaction Approval Group (DTAG) to manage the potential risks associated with the sale of structured products to financial intermediaries. We expect that intermediaries are as rigorous in treating their customers as fairly as we are.

(d) Rewards and incentives

Our reward policy is aligned with our One Bank performance-focused culture. It ensures that rewards and incentives relate directly to the performance of the individual employee, as well as to their business unit and the Group's overall performance.

We continued to:

- Take account of how an individual has achieved an objective as well as what has been achieved;
- Reward staff at competitive levels to attract and retain talented employees of the highest quality;
- Embed our values in our review and reward process by aligning performance objectives and rewards to our five corporate values; and
- Put in place a remuneration deferral element to ensure staff focus on delivering value for our customers, clients and shareholders, and drive longer-term sustainable performance.

(e) Training - Consumer Banking (CB) Academy

The East Africa Learning and CB Academy (L&CBA) is part of 15 such academies in 29 countries that Standard Chartered Bank operates in.

The L&CBA was initially set up as a Sales Academy in 2010 to cater for the direct sales staff. Since then, the Academy has grown to include training for Branches, Contact Center, Collection and Operations.

The Academy's main role is to support the Consumer Banking strategy. All new frontline staff are taken through Day 1 readiness, an intensive 10-21 Day programme that prepares them for their roles when they report on duty. The new joiners are trained on Customer Engagement, Product Knowledge, Compliance and Operational Excellence.

The L&CBA has also been at the forefront in rolling out the SCB Way – our way of delivering solutions to our customers through having needs based conversations with them. We have installed systems that measure the number and quality of conversations that our frontline staff are having with customers and we have seen a shift from product pushing to needs based selling. Our customers are now happier that we are taking the time to understand their needs, and delivering solutions, not just products.

L&CBA Kenya hosted the Group SCB Way champions from all over the world on a refresh programme during the year.

At L&CBA, we also run certification programmes to provide a strong, consistent and standardised approach to building core capabilities in key roles. These programmes aptly named 'Powered2Perform' are designed to equip Consumer Banking employees with technical skills and leadership capabilities.

We continue to certify our Branch Managers, Priority, SME and Preferred Banking Relationship Managers for Wealth Management in a bid to equip them to be trusted advisors to our customers. In addition, all Branch Managers are certified Day 1 Ready for SME Banking.

L&CBA has grown into a great resource offering support to the whole of Africa. We will continue to develop and empower our staff as we strive to be responsible in our customer engagement, marketing and selling in line with the bank's brand promise: Here for good.

The SCB Way trainees after completion of the CB Academy refresher module.

Sustainability Review (Continued)

Great place to work

Key to delivering our strategy is our people. The Bank employs over 1,900 staff and like all businesses, retaining and attracting the best people in a highly competitive industry is always a challenge. Over the years we have continued to invest in talent development, providing skills and opportunities to enable our people to grow. We are confident that this investment in our people will continue to enhance Standard Chartered Bank's position as not only a great place to work but also the employer of choice for talent in the market.

Our culture and values – encapsulated in our brand promise, Here for good – are a key reason why employees want to join and stay with us. We focus on creating a working environment that respects our employees as individuals and offers opportunities for them to develop, both personally and professionally. This is reflected in our high levels of employee engagement as measured through the Gallup Organisation's Q12 Employee Engagement Survey.

Human Resources improved the way it serves employees and line managers, putting them in control of driving their transactional people related activities through the manager and employee self services portal. Today both employees and line managers are able to manage Human Resource processes online including application and approval of leave, performance management processes, reward decisions and access to information, on pay, shares and other benefits.

We are proud to state that over 80 per cent of our people related processes are automated and accessible by users without a need to have an intermediary. This has freed the Human Resources team to focus more on strategic activities such as coaching for better performance, organisation design and employee relations.

Leadership development training

As the market becomes more complex and competition increases, Standard Chartered Bank recognises the need to massively multiply its leadership capabilities. Leadership Development is therefore a key focus for the Bank. We have different programmes in place to help us achieve this including Leadership Development Programmes, the Graduate Programme as well as an Internship Programme, where we link with training institutions to help nurture talent at an early stage.

Talent development

In a competitive market like ours the focus on talent is a key strategic human resource component that requires investment of financial resources, time and effort in order to ensure high retention of talent. As a Bank we continue to deploy different tactics to ensure high staff engagement and retention. We use our network to ensure our employees get world class training, exposure to more complex markets through talent exchange programmes or international assignments.Today we have over 40 talented people working outside Kenya. At the same time we are able to tap on the capabilities of our large network to inject technical capabilities in areas that our own market lacks the required skill depth. In the last 3 years we have also established a world class academy that nurtures the skills our business requires and promotes the culture of the Bank.

Employee Wellness

The management of our employees well being 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 in the following areas:

Financial: money management; debt management
Legal: legal matters; maintenance; child custody; divorce law; consumer rights
Relationships: family; work; partners; friends
Substance abuse: alcohol; drugs
Family matters: childcare, care of the elderly; education; benefits and allowances
Health issues: AIDS counseling; support for chronic illnesses
Work: stress management; career matters; maternity; harassment; managing others.

We do engage the expertise of other organisations and consultants to offer and facilitate these programmes. Our Human Resources team is also equipped to handle some of these cases at team or individual levels.

Children spent a day at the Bank to get a feel of what theirs parents do all day at work.

Sustainability Review (Continued)

Community investment

In order to contribute to the sustainability of our business we need to take responsibility in the markets in which we live and work by helping to create healthy and economically vibrant communities. 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; and
- Environment.

Run for a reason

The Standard Chartered Nairobi Marathon, which is the largest sporting event in Kenya, marked 10 years since inception in 2003. The 10th edition of the Marathon took place on 28 October 2012 at the Nyayo National Stadium.

The 2012 Marathon was a success in the following ways:

- **Well organised and executed:** Over **21,000** people took part in the 2012 Marathon, a 30% increase from 2011. The number of corporate organisations who participated increased from 102 to **124.**
- **Staff Volunteering: 500** staff members volunteered towards the 2012 marathon, a 15% increase from the previous year. **425** staff members and their families participated in the various race categories, a 120% increase from 2011.
- **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 at the Marathon. In 2012, we had an increased number of exhibitors as well as spectators. This signifies that more and more organisations want to be associated with the Marathon.
- **Money raised:** one of the objectives of the 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 2012 was **KShs 21.1 million** up from KShs 17 million in 2011.
- **Increased stakeholder support:** the City Council of Nairobi extended to the Bank waivers on all branding; recruitment at malls and supermarkets and activations at roundabouts.

'Seeing is Believing'

'Seeing is Believing' is Standard Chartered Bank's flagship sustainability initiative aimed at eradicating avoidable and curable blindness.

The 'Seeing is Believing' initiative accomplished its overall objectives with respect to contributing to reduction of avoidable blindness in Kenya. The programme provided **869** surgeries for various blinding and potentially blinding conditions for children. The programme was implemented across the five partnering hospitals i.e. Kikuyu Eye Unit, Sabatia Eye Hospital, Tenwek Eye Unit, Lighthouse for Christ Eye Hospital and Kwale District Eye Centre.

A total of 650 paediatric cataract surgeries were delivered in 2012 against a projected target of 636 operations translating to a 102% achievement. In general, all the hospitals reported a busy year particularly in the area of Glaucoma and other blinding conditions.

A cumulative total of 219 surgeries for Glaucoma and other potentially blinding conditions were carried out. This is against a projected target of 140 operations translating to a 156% achievement. Tenwek Eye Unit had the sharpest increase in demand/provision for these surgeries, performing 124 through the year against the initial 50 operations envisioned.

In 2012, a total of 45 children received post surgical follow up through 162 visits. The children were visited post surgically at home, school or at the clinic by a vision therapist or community based worker to monitor good visual development. During the visits, the parents were advised on the right use of medicine, wearing of glasses, stimulation of vision and detection of any complications. Kikuyu Eye Unit acquired an Indirect

Beneficiaries of the 'Seeing is Believing' initiative with their parents at Sabatia Eye Hospital.

Sustainability Review (Continued)

Community investment (Continued)

Ophthalmoscope in the latter part of 2012 for pre and post-operative assessment. It is now used daily in the outpatient clinic and in the operating theatre. It has been useful in differentiating cataracts from other conditions.

The Bank also funded 'Seeing is Believing' eye clinics across the country where 4,958 people were screened and treated. These took place in Nairobi, Thika, Suswa, Kakamega, and Kisumu.

'Seeing is Believing' – East Africa Project

This year, we are moving from a locally developed project to a Group project. Standard Chartered Kenya will be a beneficiary of the USD 5 million 'Seeing is Believing' East Africa project running from 2013 to 2017. The project will contribute to improved child health and the reduction of avoidable blindness in children in the region.

The programme will indirectly benefit millions children, through conducive changes in national policies, strengthening of national coordination and promoting child eye healthcare. The provision of quality, child friendly and child centred eye health services in the catchment areas of the programme, anticipates serving over 1 million children directly.

In November 2012, the Bank's franchise in Kenya, Uganda and Tanzania held a joint official launch of the programme. The event took place is Dar-es-Salaam and was officiated by His Excellency the Vice President of Tanzania, Dr. Mohamed Ghalib Bilal. The Kenya Government was represented by the Assistant Minister for Medical Services – Hon. Samwel Kazungu Kambi.

Girl Child Education

As part of our Diversity & Inclusion strategy, since 2010 the Bank has been supporting girl child education. We do this in two areas:

- **Secondary Education:** every year, we sponsor the secondary education of 5 girls at Starehe Girls Centre through secondary school.
- **Global Give Back Circle:** The Global Give Back Circle (GGBC) seeks to "complete" the educational process of the world's disadvantaged girls, so they gain employable skills and become contributing members of society. It accomplishes this through a transitioning model that recognises an impoverished girl needs mentoring, empowerment and financial enablement to step-change her accessibility to 'Life's Chances'.

The GGBC objective for 2012 was to transition 500 at-risk adolescent girls from marginalised circumstances to contributing global citizens, by embedding a Give Back Ethos. In Kenya it targets girls from Starehe Girls Centre and St. Martins. The programme is designed to integrate volunteer service, community infrastructure and government loan systems to help disadvantaged girls continue their education process, find employment and break out of the circle of poverty.

Research done by GGBC has shown that it costs US$10,000 to cover a girl's costs from the time she leaves high school to the time she graduates from university i.e. a period of five and a half years (includes an unavoidable gap period of 18 months between high school graduation and start of university). This covers accommodation, personal items, food, books and transportation.

Standard Chartered Bank support for this initiative takes the following format:

- Every year we select 5 girls from Starehe Girls Centre who have attained a Grade of B+ and above;
- During the gap period and three months breaks per year, the Bank will offer them employment in the Bank under the internship programme;
- Pay them half the amount of the stipend each working month to cater for their day to day needs; and
- The other half of the stipend to be saved on the girls' behalf to be disbursed to them during the university session.

To date we have 15 girls on the programme.

'Living with HIV'

Despite the progress made over the last decade, HIV remains a serious challenge impacting staff, their families and the broader community. The disease continues to threaten social and economic progress, affecting more than 34 million people worldwide, the majority of whom live in the communities where we operate.

CEO Richard Etemesi holds a child as they undergo an eye check up during the Here for good day at Kiandutu Slum in Thika.

Sustainability Review (Continued)

Community investment (Continued)

With infections predominantly affecting middle-aged adults in their most productive years, the impact of HIV on economies continues to be significant.

Our workplace HIV education programme, launched in 1999 is known as 'Living with HIV' programme. It 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.

Initially the programme focused internally, providing employees with awareness and education on HIV and AIDS to prevent the further spread of the virus; and ensuring an inclusive, non-discriminatory/non-disclosure working environment; and providing access to free testing and treatment.

Recognising the impact of HIV and AIDS across our markets and the need to promote education for prevention, Standard Chartered Bank made a commitment in 2006 at the Clinton Global Initiative (CGI) to educate one million people on HIV over three years. By the end of 2010, through our network of HIV Champions, we had received education pledges totaling 1.6 million. To-date in Kenya, over 17,880 have undergone the training.

In 2011, we reviewed our 'Living with HIV' objectives of the programme to ensure we remain the industry leader in our response to HIV and AIDS.

The Kenya Defence Forces join staff to build refuse chambers at Kiandutu Slum in Thika during the Here for good day with the CEO.

Last year, we were able to deliver on the following:

- We trained 68 staff members of the Bank's suppliers on HIV and AIDS;
- Over 150 people tested and counseled for HIV and AIDS in partnership with HIV Free Generation; and
- On the Marathon day over 1,000 participants were counseled and provided with education.

Our top priority in 2013 is to engage both our internal and external stakeholders.

Internal: We will train our staff Champions using the new and revamped education toolkit in line with the Group's commitment to deliver on the Group Equal Opportunities, Diversity and Dignity at Work Policy. Through the trainings we will carry out training for new joiners as well as refresher training sessions to ensure that our employees receive a comprehensive and holistic response to HIV in the workplace – education for prevention, support and inclusion from stigma and discrimination.

External: In Kenya, our external engagement will include Employee Volunteering (EV) - Support HIV related NGOs through skills-based or other forms of EV, education for prevention and integration of HIV training with other community investment programmes.

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.

Africa Employee Volunteering Month

In October 2012, we launched the inaugural Africa Employee Month. The aim of this was to encourage staff to give back to the communities we live and work in through volunteering.

The chief guest at the launch was the Secretary General of Kenya Red Cross, Mr. Abbas Gullet. His keynote address was on the role of the private sector in delivering the country's development agenda.

To mark the month, the Bank lined up various volunteering opportunities that cut across the Bank's global and country-sponsored community initiatives including 'Seeing is Believing', 'Living with HIV', and the Environment.

Sustainability Review (Continued)

Community investment (Continued)

One such event was the 'Here for good' day with the CEO which was held on 19 October 2012 at Kiandutu slum in Thika. 300 members of staff participated. The activities of the day were carried out at Kiandutu slum in Thika. The activities involved construction of garbage chambers, cleanup of the slum, collection and burning of garbage, 'Seeing is Believing' eye clinics, HIV/AIDS testing and awareness, breast cancer checks, blood donation and tree planting.

Unique to this event is that the Bank partnered with various organisations to make the day a success. The organisations included The Kenya Defence Forces, Thika Municipal Council, Ministry of Public Health and Sanitation, Kikuyu Eye Hospital and Blood Link.

Employee Volunteering 2012 highlights

- 2,040 employee volunteering days achieved against a target of 1,384 exceed the target by 47 per cent;
- 35 shilling-for-shilling staff projects carried out;
- 500 staff volunteered in the Marathon;
- A financial literacy programme was piloted at Moi Girls Vokoli. The programme dubbed ***'Making Girls Money Savvy'*** reached 250 secondary school girls;
- Financial training at St.Georges High School reached 200 girls;
- Financial training for 68 staff members of the Bank's suppliers. They included cleaners, security staff, maintenance staff and catering staff;
- Conducted two 'Women in Leadership' training sessions in partnership with Organisational Learning. The session was attended by a total of 40 high potential women staff members.

Diversity and Inclusion – Workplace

SKIRTS (Sisterhood, Knowledge, Integrity, Respect, Tenacity and Substance) Council used the International Women's Day to introduce the 2012 theme for the year - *Making an impact at Workplace, Community and Family.* The event was attended by over 320 participants who were addressed by Dr Chris Hart a renowned psychologist and expert in relationships.

Significant strides have been made in growing and developing the potential of women with the Management Committee female representation increasing from 30 per cent to 38 per cent and at lower management levels the gender balance is at 50 per cent.

2012 Highlights:

- In partnership with Consumer Banking, SKIRTS hosted a coaching session with Judy Hsu; Global Head of Wealth Management and is a member of Group D&I Council. The session was attended by 50 senior women staff and focused on Judy's career journey, her experience in Standard Chartered Bank and her work-life balance. She also highlighted the D&I priorities and how they fit in the business agenda;
- D&I championed an awareness campaign on Ramadhan month by interviewing the Head of Islamic Banking, Mahat Mohammed on what Ramadhan is, and how other members of staff can support both Muslim colleagues and customers. This was circulated to all members of staff through the weekly newsletter;
- D&I continues to be part of the Right Start Induction programme for new joiners with the aim of briefing the new joiners on the D&I agenda and inviting them to participate in D&I related activities; and
- The D&I team continues to support the wheelchair and tricycle races in the Marathon. A team of 36 staff volunteers and the Association of the Physically Disabled (APDK) worked with the 87 participants offering logistics and mechanical support.

The SKIRTS Council with Judy Hsu, Global Head of Wealth Management during her visit to Kenya.

Sustainability Review (Continued)

Access to Financial Services

Consumer Banking

Through our total branch network of 34 branches and 97 ATMs in Kenya, we have remained in the forefront of providing access for financial services to our customers.

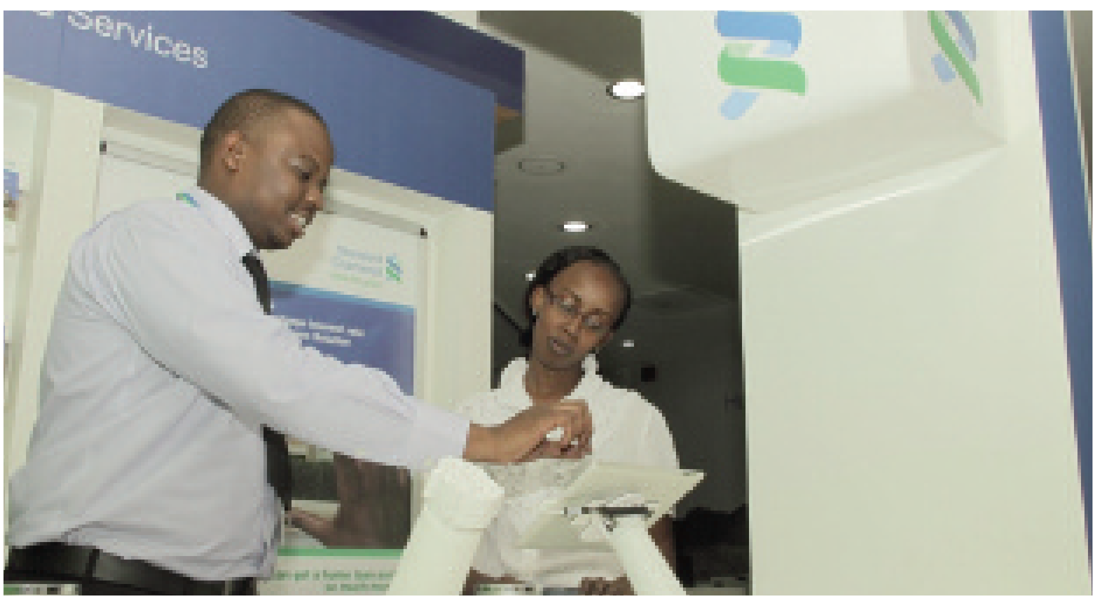
The Remote Banking channel achieved a number of 'firsts'. We are putting a strong emphasis on digitising the Bank through providing alternative channels for customers to undertake routine transactions traditionally done at branches.

We launched the first Breeze branch of its kind in Kenya; a branch that allows customers to perform transactions at the branch using new to the world technologies, online and mobile. The digital breeze branch does not have any tellers and has intelligent ATMs that perform real time cash and cheque deposits, as well as withdrawals. The branch is also equipped with digital TV walls and touch TV screens to demonstrate product information.

We launched 'Pop-up Booths', which is a booth set up in strategic locations such as malls, used to capture new customer leads and promote digital channels.

During the year, Kenya won the top award in customer activation for Remote Banking at the Middle East, Pakistan and Africa (MEPA) Region Awards Ceremony at Desert Palm Dubai for its strong enthusiasm and performance in promoting remote channels activation.

We also increased our Remote Banking active customers by 112 per cent for online banking and 334 per cent for mobile banking. We achieved an overall 80 per cent penetration for e-statements.



Breeze@theJunction where customers transact online was opened in December 2012.

SME Banking

Small and medium-sized enterprises (SMEs) contribute 70 per cent to 80 per cent of the country's GDP as well as generate jobs making the sector a key driver of Kenya's economy.

We demonstrated our support for SMEs in Kenya by increasing our lending to the sector and enhancing our SME products and services. These include transactional services, lending, trade services, cash management, foreign exchange hedging and relevant trainings on all aspects of running a business.

SME lending grew by 42% and was the main growth driver in customer assets. As a result of this growth, the Bank has repositioned its SME business in line with customer needs and is leveraging off its technology platform to offer a variety of cutting edge products and services. New products introduced during 2012 include: Straight2Bank; Borderless Banking and Asset Financing.

Straight2Bank is an internet banking platform that can be used by all customer segments including the SME segment, offered in more than 50 countries. Straight2bank offers Cash Management, Trade Finance, Securities Services and FX modules for Transaction Initiation and Reporting. Periodic online reporting and transaction alerts for cash and trade transactions with info-manager enhances the overall productivity for the organisation.

Borderless Banking allows our customers to enjoy the convenience of banking from their account in both Kenya and Uganda. Services available include cash withdrawals, balance inquiries, real time cash deposits and statement requests. The customers are able to save time and money on all their transactions as they are processed quickly as if one was making them at their home branch and at no extra cost.

The Bank also sponsored the Top100 SME Awards for the fourth year running.

Standard Chartered Bank recognises that this is a sector in our economy that is growing very fast and in 2013 we will be looking to grow our SME business at an even faster rate by ensuring that we help our customers meet their goals by providing them with the right tools.

Sustainability Review (Continued)

Access to Financial Services (Continued)

Wholesale Banking

The Wholesale Banking business in Kenya continues to support the key sectors of the economy such as agriculture, energy, manufacturing, transport and communications.

Microfinance

Millions of people remain unbanked or have limited access to banking services. Microfinance provides credit and other financial services to the unbanked population, helping them to get access to finance.

At Standard Chartered Bank we recognise that inclusive financial sectors are vital for broad-based economic and social growth and poverty reduction. By providing access to finance, we directly contribute to economic development in Kenya.

Standard Chartered Bank's Global Head of Solution Delivery and Service, Russell Graham, explains how the Bank has streamlined and simplified the transaction process through an automatic transfer initiated from Straight2Bank.

We support the sector by providing a range of financial services to microfinance institutions (MFIs) that help them multiply their outreach and impact.

Standard Chartered's Razia Khan, Head of Research in Africa, engages corporate leaders during the Africa Summit held in Nairobi.

Sustainability Review (Continued)

Sustainable Finance

Our main impact on people and the environment stems from the business activities we finance. Our approach is to manage the environmental, social and governance risks that come with our financing decisions, working with our clients to encourage compliance with international standards. We seek to challenge the way our customers operate by ensuring the projects we finance, across all markets, meet international environmental and social standards, such as the Equator Principles and those set by the International Finance Corporation.

We have developed a series of position statements, setting out our approach and standards on social and environmental issues and high risk industries. Our polices apply to all our lending, debt, capital markets activities, project finance, principal finance and advisory services.

Tea picking in Kericho

The Port of Mombasa

With our financial expertise and global footprint, we are well placed to identify market opportunities that tackle global challenges, such as access to clean and affordable energy, clean water, food security and climate change.

Board of Directors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Board of Directors Profiles

1. Anne Mutahi
Acting Chairperson

Appointed to the Board on 24 February 2009 and appointed as interim chairperson on 1 November 2012. 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 52.

2. Richard Etemesi
Managing Director and 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 50.

3. Michael C. Hart
Non-Executive Director

Appointed to the Board on 20 February 2003. His previous senior appointments include Vice Chairman and 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 61.

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 46.

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

Appointed to the Board on 1 March 2007. She has been with the Bank for 12 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 43.

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 60.

7. Nancy Oginde
Board Secretary

Appointed on 1 March 1999 as Secretary to the Board. She served the Bank in various capacities before her appointment. She is an Advocate of the High Court and served as a resident magistrate before joining the Bank. Age 52.

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 Chief Investor Relations Officer at Safaricom Limited. Age 58.

9. 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 58.

10. Robin Bairstow
Executive Director, Origination and Client Coverage

Appointed to the Board on 24 January 2012. He has been with the Bank for 10 years and his immediate previous appointment was Director Origination and Client Coverage, Zambia. He has wide experience in corporate finance and banking spanning over 22 years. Prior to joining Standard Chartered Bank, Robin worked with Citibank NA South Africa, BOE Bank Limited, ABSA Bank Limited and Nedbank. Age 47.

Management Committee

Management Committee Profiles

1. Richard Etemesi
Chief Executive Officer

He has been with the Bank for 21 years. He was appointed Chief Executive Officer in November 2006. 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. 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 12 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 and Client Coverage

He has been with the Bank for 10 years and has held various positions within the Bank. He has over 22 years experience 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 15 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 Head of Financial Markets 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. Nancy Oginde
Head, Legal

She has been with the Bank for 21 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.

8. Rebecca Lwebuga-Kaggwa
Head, CB Legal and Compliance

She joined the Bank in 1994. She has held various positions within the Bank including Head Africa Finance Shared Services Centre, Executive Director Finance, Head of Business Technology (renamed Technology & Operations), and Company Secretary, Standard Chartered Bank, Uganda.

9. Annie Kigira-Kinuthia
Head, Corporate Affairs

She joined the Bank in 2007. She is the Head of Corporate Affairs. She has over 17 years of experience in corporate affairs having worked at Equity Bank, World Vision Kenya and Unga Group in senior positions.

10. 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.

11. Reuben Mbindu
Head, Human Resources

He has been with the Bank for over 17 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.

12. Paul Sagnia
Chief Information Officer

He has been with the Bank for 33 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.

The Board and Statutory Information

Directors

A. Mutahi	Acting Chairperson (Appointed 1 November 2012)
W. Kiboro	Chairman (Resigned 1 November 2012)
R. Etemesi	Chief Executive Officer
M. Hart*	
K. Shah*	
C. Murgor	
K. Ngari	
L. Baillie*	
R. Bairstow**	
P. Obath	

* British **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

Members

K. Shah	Chairman
L. Baillie	
P. Obath	
N. Oginde	Secretary
C. Murgor*	
D. Mwindi*	Head of Internal Audit
R. Kaggwa**	Head of Compliance and Assurance
KPMG Kenya*	

*By invitation.

**R. Kaggwa was appointed as Head of Compliance on 1 November 2012 and is an invitee to the committee.

Board Committees (Continued)

Board Risk Committee

Members

A. Mutahi	Chairperson
L. Baillie	
P. Obath	
M. Hart	
G. Akello*	Country Chief Risk Officer
R. Etemesi	
N. Oginde	Secretary
K. Ngari*	
R. Bairstow*	
C. Murgor*	

*By invitation.

Board Nomination, Evaluation and Remuneration Committee

Members

A. Mutahi	Chairperson
L. Baillie	
R. Etemesi	
R. Mbindu	
N. Oginde	Secretary

Asset and Liability Committee (ALCO)

Members

R. Etemesi	Chairman
K. Ngari	
R. Bairstow	
S. Gitwekere	
C. Murgor	
G. Akello	
G. Makoko	Secretary

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	
R. Kaggwa	

Report of the Directors
for the year ended 31 December 2012

The directors are happy to submit their report together with the audited financial statements for the year ended 31 December 2012 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which discloses the state of affairs of the Group and Company.

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

2. Results
The results for the year are set out in the attached financial statements on pages 48 to 113.

3. Dividends
The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of KShs 12.50 for every ordinary share of KShs 5.00.

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

The total dividend for the year is therefore KShs 12.50 (2011 - KShs 11.00) for every ordinary share.

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 (2011 - KShs 168,000,000).

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

The dividends will be payable to shareholders registered on the Company's Register at the close of business on 17 April 2013 and will be paid on or after 31 May 2013. The Register will remain closed on 18 April 2013 for the preparation of dividend warrants.

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

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

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

5. Auditors
The auditors, KPMG Kenya, 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 14 March 2013.

BY ORDER OF THE BOARD

N. N. Oginde
Company Secretary

14 March 2013

Statement on Corporate Governance

for the year ended 31 December 2012

We believe that good corporate governance is about creating the right culture throughout the organisation. It contributes to the long-term success of a company, creating trust and engagement between the company and its stakeholders. It is our responsibility as the Board of Standard Chartered Bank Kenya Limited to practice high standards of corporate governance.

For good corporate governance to exist there must be robust processes underpinned by the right culture, values and behaviours permeating throughout the company. Our culture and values are deeply embedded within the organisation.

Highlights for 2012

- continued to vigilantly monitor external conditions and the potential impact on the business strategy;
- created space for the Board to focus on key strategic opportunities and risks; and
- created space for deeper and broader discussions on risk and strategy issues.

Our priorities in 2013

- to embed the revised Prudential Guidelines issued by the Central Bank of Kenya and ensure compliance;
- enhance focus on key strategic and risk issues;
- maintain the right balance in pursuing growth opportunities in tandem with appropriate governance systems, controls, processes and information flows; and
- maximise further opportunities for external input and perspectives during Board conversations.

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. The experience of directors is as follows:

Name	Areas of expertise
A. Mutahi	Financial Services
K. Shah	Manufacturing and Financial Management
L. Baillie	Telecommunications and Financial Management
M. Hart	Banking
P. Obath	Oil industry, Private Sector and Financial Management
R. Etemesi	Banking
C. Murgor	Banking and Financial Management
K. Ngari	Banking
R. Bairstow	Banking

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.

The Board continues to review the matters reserved for the Board, key being the review of the Company's strategy, financial performance, approving any changes to capital, ensuring there is a sound system of internal controls and risk management, approval of delegation of authorities for expenditure and lending and any other material commitments.

Board composition: Who is on our Board?

We have nine Board members; the Chair, four executive directors and four non-executive directors. 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 corporate governance.

The Board wishes to thank Mr. Wilfred Kiboro, the immediate former Chairman, who stepped down during the year, for his great contribution. He left the Bank after he was appointed Chairman of Family Bank Limited. Mrs. Anne Mutahi was appointed as Acting Chairperson on 1 November 2012. There were no other changes in the board composition during the year.

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

Induction and ongoing development

We have a very comprehensive and tailored induction covering the Company's business and operations as well as the legal, regulatory and other personal obligations of a director of a listed company. Our ongoing development programme continues to evolve. We are also in the process of preparing an engagement plan for each director, which will consist of a mix of briefings on specialist topics and also cover key risks. The Board Committees are also trained on key issues where they require more understanding. The key areas of focus for the Board and Committees in 2012 were market risk, human resources management, regulatory changes and the general environment among others.

The directors are advised of the legal, regulatory and other obligations of a director of a listed company on an ongoing basis. 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.

Statement on Corporate Governance (Continued)

for the year ended 31 December 2012

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.

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?

The Board refreshed the three year strategy for both the Wholesale Bank and Consumer Bank businesses and as a result, the Board decided to raise capital through a Rights Issue. The Rights Issue for KShs 3.2 billion was a huge success and was oversubscribed by 158%, which serves to underline the market value of the Standard Chartered Bank brand.

How do we ensure that we have an effective Board?

The Board Charter and structure is designed to encourage open, transparent and constructive dialogue amongst the members. In addition to this, the Board has a carefully structured Board agenda. The Board held a two day meeting in November 2012 to focus on the strategy of the Company for the next three years. There was sufficient time to examine the emerging risks and opportunities in detail. The directors benefited from discussions held with one of the leading economists in the country and this helped them understand the environment we are operating in.

The non-executive directors are fully supported by the Company Secretary who provides legal 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 effectiveness review was conducted in March 2012 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 for each director, evaluation of the Chairman and of the overall Board interactions, conduct of business meetings and scope of control exercised by the directors.

The Board believes that it continues to operate effectively. There is a high level of engagement from the non-executive directors and meaningful interaction with the executive directors. Following the review, the directors identified areas that required further consideration by the Board and these issues have been captured in the rolling agenda.

Board meetings and attendance

The full Board meets regularly, with at least five formal meetings 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 Board also has opportunities to interact with the staff.

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 the directors:

	Scheduled 5	Ad hoc* 2
A. Mutahi (Acting Chairperson) **	4/5	2/2
W. Kiboro (Chairman) **	5/5	2/2
R. Etemesi	5/5	2/2
M. Hart	5/5	0/2
K. Shah	5/5	2/2
P. Obath	5/5	2/2
C. Murgor	5/5	2/2
K. Ngari	5/5	1/2
L. Baillie	5/5	1/2
R. Bairstow	4/5	0/2

* The ad-hoc meetings were in relation to approvals for the Rights Issue.

** Mr. Wilfred Kiboro stepped down as Chairman on 1 November 2012 and Mrs. Anne Mutahi was appointed as Acting Chairperson on 1 November 2012.

Statement on Corporate Governance (Continued)

for the year ended 31 December 2012

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. The respective Chairpersons present their reports to the Board at each scheduled meeting.

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 Company 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.

Current membership of the Board committees

	Board Audit Committee	Board Risk Committee	Board Nomination, Evaluation and Remuneration Committee
A. Mutahi		◉	◉
K. Shah	◉		
L. Baillie	●	●	●
P. Obath	●	●	
M. Hart		●	
R. Etemesi		●	●

◉ Chair ● Member

Details of these committees and membership are indicated below.

Board Audit Committee

Members

K. Shah	Chairman
L. Baillie	
P. Obath	
N. Oginde	Secretary
C. Murgor*	
D. Mwindi*	Head of Internal Audit
R. Kaggwa**	Head of Compliance
KPMG Kenya*	

* By invitation
** R. Kaggwa was appointed as Head of Compliance on 1 November 2012 and is an invitee to the committee.

Highlights for 2012

- continued to robustly monitor the controls in place for management of capital and liquidity positions, especially in line with the regulatory requirements;
- approved the Regulatory Reporting Policy and Non-Audit Services Policy; and
- closely monitored audit findings and the actions thereon from the external and internal auditors.

Role and function

Financial reporting

The Committee reviews the integrity of the financial statements of the Company and its subsidiaries and recommends the statements for approval to the Board. In 2012, KPMG Kenya, our external auditors, were also engaged to review the financial statements up to 30 April 2012 for purposes of the Rights Issue in order to comply with the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations. The Committee considered management's recommendations in respect of provisions for bad and doubtful debts especially owing to the market operating environment.

Statement on Corporate Governance (Continued)

for the year ended 31 December 2012

Oversight of internal controls
The Committee regularly reviews and reports to the Board on the effectiveness of the Company's system of internal control. The Committee discusses the root causes of the issues and reviews management's responses and follow-up activities.

Internal and external audit reports
The Committee receives reports on the findings of the internal and external audits and tracks the actions on audit findings.

The Committee also reviews the proposed work plans for the Country Internal Audit and Compliance functions at the beginning of each year.

All the Committee members have relevant experience. The Board is satisfied that Mr. Kaushik Shah, as Chairman, has the 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 Head of Compliance also submits reports on regulatory compliance. The Director in charge of Finance, Head of Internal Audit, Head of Compliance, the external auditors and the Business Heads are regularly invited to the meetings. The non-executive directors hold meetings with the Head of Internal Audit without management to discuss freely issues arising from the audits and monitor progress on the audit plan for the year.

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

- review of the enhanced regulatory reporting;
- approval of Compliance Policy, Regulatory Reporting Policy and Non-Audit Services Policy;
- integrity of the Company's financial statements;
- approval of the audit and compliance monitoring plans; and
- monitoring the Company's capital and liquidity positions.

Attendance

Number of meetings scheduled in 2012		4
K. Shah	(Chairman)	4/4
A. Mutahi*		2/2
L. Baillie		3/4
P. Obath**		3/3

* Mrs. Anne Mutahi was appointed as Acting Chairperson on 1 November 2012 and ceased being a member of this commitee.

** P. Obath was appointed to the Board Audit Committee in May 2012.

Board Risk Committee

Members

A. Mutahi	Chairperson
L. Baillie	
P. Obath	
M. Hart	
G. Akello*	Country Chief Risk Officer
R. Etemesi	
N. Oginde	Secretary
K. Ngari *	
R. Bairstow*	
C. Murgor*	

* By invitation

Highlights for 2012

- enhanced focus on emerging risks;
- comprehensive review of the Bank's risk appetite;
- reviewed its membership and revised its rolling agenda to ensure all risks are reviewed by the Committee; and
- monitored the Company's capital adequacy and liquidity positions.

Role and function

Risk management
The Country Chief Risk Officer presents a report to the Committee at every scheduled meeting and the Committee discusses the major risks faced by the Bank across the businesses. The Committee also reviews the Company's risk appetite periodically. The directors provide critical feedback to management.

The Committee reviews various risks, 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.

Capital and liquidity
Given the criticality of capital and liquidity matters in 2012, the Committee maintained its focus on this area. The Director in-charge of Finance presents a report at every scheduled meeting and the members have an opportunity to consider the Company's capital and liquidity positions and the regulatory environment and expectations.

Statement on Corporate Governance (Continued)
for the year ended 31 December 2012

Attendance

Number of meetings scheduled in 2012	4
A. Mutahi (Chairperson)	4/4
L. Baillie	4/4
P. Obath	3/4
M. Hart	4/4

Board Nomination, Evaluation and Remuneration Committee
Members

A. Mutahi	Chairperson
L. Baillie	
R. Etemesi	
R. Mbindu	
N. Oginde	Secretary

Highlights for 2012
- reviewed the salary survey details and the general policy and banding for the entire Bank; and
- adopted an enhanced board evaluation process.

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

The Committee reviewed the annual reviews for staff salaries and variable compensation awards for eligible staff. The Committee believed that it was appropriate to make these awards to those that contributed to the continued success of the Company.

The Committee adopted an online evaluation process, which is undertaken by Lintstock Limited, a company engaged by the Group. The directors were impressed by the contents of the report.

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. The Chief Executive Officer, with the support of the Head of Financial Markets, presents the ALCO report to the Board at each scheduled meeting.

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	
R. Kaggwa	

Role and function
The Management Committee is the link between the Board and management. The Committee assists the Chief Executive Officer in the day-to-day management of the Company. The Committee is responsible for 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. A report on the Management Committee's activities is presented to the Board by the Chief Executive Officer at each scheduled meeting.

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 in Note 14 of the financial statements.

Directors' shareholding
One director holds 2,625 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

Statement on Corporate Governance (Continued)

for the year ended 31 December 2012

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.

The provisions on conflict of interest as outlined in the Central Bank of Kenya (CBK) Prudential Guidelines are embodied in the directors' letters of appointment. A copy of the CBK's Code of Conduct is also provided to the directors. The Company has a comprehensive policy on Conflicts of Interest and staff are required to comply with it.

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 Company has a process in place to ensure that any changes in legislation are captured and monitored effectively. The Legal Department reviews and undertakes a comprehensive gap analysis once the laws are in place and advises the impact of the changes to the Company. The Compliance Department ensures that the business units put in place controls to ensure compliance with the various laws and regulations. The Compliance department also performs compliance monitoring reviews and submits its findings to the Board Audit Committee.

The effectiveness of the Company's internal control system is reviewed regularly by the Board through a management framework and the Internal Audit function.

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

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

The performance of the Company's businesses is reported to management and the Board. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

Code of Conduct

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

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

Insider trading

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

Going concern

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

Relations with shareholders

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

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 48 to 113 which comprise the statement of financial position at 31 December 2012, 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 misstatements, 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 14 March 2013 and were signed on its behalf by:

Director: A. Mutahi

Director: R. Etemesi

Director: C. Murgor

14 March 2013

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 48 to 113 which comprise the statements of financial position of the Group and the Company at 31 December 2012, 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 46, 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 the 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 2012, 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.

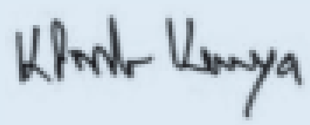
Report on other legal requirements

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.

14 March 2013

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	Note	2012 KShs '000	2011 KShs '000
Interest income	8	19,375,477	12,011,253
Interest expense	9	(5,633,275)	(2,159,959)
Net interest income		13,742,202	9,851,294
Fee and commission income	10	3,679,168	3,613,182
Fee and commission expense	10	(345,664)	(210,746)
Net fee and commission income		3,333,504	3,402,436
Net trading income	11	3,486,140	2,246,685
Other operating income	12	109,590	413,096
OPERATING INCOME		20,671,436	15,913,511
Staff costs	13	(4,649,299)	(3,736,746)
Premises and equipment costs	13	(637,266)	(733,730)
General administrative expenses		(2,213,458)	(2,064,022)
Depreciation and amortisation	13	(898,572)	(711,139)
OPERATING EXPENSES		(8,398,595)	(7,245,637)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		12,272,841	8,667,874
Net impairment losses on loans and advances	22(b)	(716,650)	(412,739)
PROFIT BEFORE TAXATION	14	11,556,191	8,255,135
INCOME TAX EXPENSE	15	(3,486,658)	(2,418,314)
NET PROFIT FOR THE YEAR		8,069,533	5,836,821
OTHER COMPREHENSIVE INCOME/(LOSS)			
Change in fair value of available-for-sale investments		3,212,461	(4,616,524)
Deferred tax on change in fair value of available-for-sale investments		(963,738)	1,372,529
Revaluation surplus		–	401,412
Deferred tax on revaluation surplus		–	(104,614)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		2,248,723	(2,947,197)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		10,318,256	2,889,624
BASIC AND DILUTED EARNINGS PER SHARE (2011 Restated) - (KShs)	16	26.60	19.28

The notes set out on pages 56 to 113 form an integral part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2012

ASSETS	*Note*	**2012 KShs '000**	2011 KShs '000
Cash and balances with Central Bank of Kenya	18	**13,575,454**	12,005,054
Government and other securities held for trading	19	**2,914,556**	41,222
Derivative financial instruments	20	**356,588**	384,809
Loans and advances to banks	21	**2,373,580**	2,542,427
Loans and advances to customers	22 (a)	**112,694,523**	96,097,823
Investment securities	23	**42,973,924**	25,012,421
Other assets	24	**2,009,820**	2,363,857
Amounts due from group companies	25	**10,158,076**	16,678,067
Non-current asset held for sale	28	**–**	57,724
Property and equipment	29	**4,034,210**	4,055,767
Intangible assets	30	**3,999,563**	4,373,307
Prepaid operating lease rentals	31	**262,462**	107,042
Deferred tax asset	32 (c)	**–**	327,104
TOTAL ASSETS		**195,352,756**	164,046,624
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	33	**3,514,244**	7,738,987
Deposits from customers	34	**140,524,846**	122,323,049
Derivative financial instruments	20	**607,225**	822,806
Other liabilities	35	**4,906,762**	4,126,940
Amounts due to group companies	25	**13,751,932**	8,183,214
Tax payable		**932,068**	108,172
Deferred tax liability	32(a)	**337,865**	–
Retirement benefit obligations	36	**25,000**	49,000
TOTAL LIABILITIES		**164,599,942**	143,352,168
Shareholders' equity (Pages 51-52)			
Share capital	37	**1,825,798**	1,715,386
Share premium	37	**7,792,427**	4,836,258
Capital contribution reserve	37	**1,889,052**	1,889,683
Revaluation reserve	37	**521,435**	551,300
Fair value reserve	37	**(67,381)**	(2,316,104)
Statutory credit risk reserve	37	**454,017**	452,010
Retained earnings		**14,304,972**	10,240,075
Proposed dividends	17	**4,032,494**	3,325,848
TOTAL SHAREHOLDERS' EQUITY		**30,752,814**	20,694,456
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**195,352,756**	164,046,624

The financial statements set out on pages 48 to 113 were approved by the Board of Directors on 14 March 2013 and were signed on its behalf by:

Director	A. Mutahi	Director	C. Murgor
Director	R. Etemesi	Secretary	N. Oginde

The notes set out on pages 56 to 113 form an integral part of these financial statements.

Company Statement of Financial Position

at 31 December 2012

ASSETS	*Note*	**2012 KShs '000**	2011 KShs '000
Cash and balances with Central Bank of Kenya	18	**13,575,454**	12,005,054
Government and other securities held for trading	19	**2,914,556**	41,222
Derivative financial instruments	20	**356,588**	384,809
Loans and advances to banks	21	**2,373,580**	2,542,427
Loans and advances to customers	22 (a)	**112,694,523**	96,097,823
Investment securities	23	**42,973,924**	25,012,421
Other assets	24	**2,009,820**	2,363,857
Amounts due from group companies	25	**10,158,076**	16,678,067
Investment in subsidiaries	26	**140,243**	140,243
Non-current asset held for sale	28	**–**	57,724
Property and equipment	29	**4,034,210**	4,055,767
Intangible assets	30	**3,999,563**	4,373,307
Prepaid operating lease rentals	31	**262,462**	107,042
Deferred tax asset	32 (d)	**–**	321,875
TOTAL ASSETS		**195,492,999**	164,181,638
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	33	**3,514,244**	7,738,987
Deposits from customers	34	**140,524,846**	122,323,049
Derivative financial instruments	20	**607,225**	822,806
Other liabilities	35	**4,888,613**	4,107,895
Amounts due to group companies	25	**13,751,932**	8,183,214
Amounts due to subsidiaries		**297,098**	265,654
Tax payable		**939,368**	120,027
Deferred tax liability	32(b)	**341,592**	-
Retirement benefit obligations	36	**25,000**	49,000
TOTAL LIABILITIES		**164,889,918**	143,610,632
Shareholders' equity (Pages 53-54)			
Share capital	37	**1,825,798**	1,715,386
Share premium	37	**7,792,427**	4,836,258
Capital contribution reserve	37	**1,889,052**	1,889,683
Revaluation reserve	37	**521,435**	551,300
Fair value reserve	37	**(67,381)**	(2,316,104)
Statutory credit risk reserve	37	**454,017**	452,010
Retained earnings		**14,155,239**	10,116,625
Proposed dividends	17	**4,032,494**	3,325,848
TOTAL SHAREHOLDERS' EQUITY		**30,603,081**	20,571,006
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**195,492,999**	164,181,638

The financial statements set out on pages 48 to 113 were approved by the Board of Directors on 14 March 2013 and were signed on its behalf by:

Director	A. Mutahi	Director	C. Murgor
Director	R. Etemesi	Secretary	N. Oginde

The notes set out on pages 56 to 113 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	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 2012	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
Net profit for the year	–	–	–	–	–	–	8,069,533	–	8,069,533
Other comprehensive income									
Change in fair value of available-for-sale investments	–	–	–	–	3,212,461	–	–	–	3,212,461
Deferred tax on change in fair value of available-for-sale investments	–	–	–	–	(963,738)	–	–	–	(963,738)
Realised revaluation reserves on sale of property	–	–	–	(33,470)	–	–	33,470	–	–
Deferred tax on realised revaluation reserves on sale of property	–	–	–	10,041	–	–	(10,041)	–	–
Excess depreciation transfer	–	–	–	(9,194)	–	–	9,194	–	–
Deferred tax on excess depreciation transfer	–	–	–	2,758	–	–	(2,758)	–	–
Transfer to statutory credit risk reserve	–	–	–	–	–	2,007	(2,007)	–	–
Total other comprehensive income	**–**	**–**	**–**	**(29,865)**	**2,248,723**	**2,007**	**27,858**	**–**	**2,248,723**
Total comprehensive income for the year	**–**	**–**	**–**	**(29,865)**	**2,248,723**	**2,007**	**8,097,391**	**–**	**10,318,256**
Transactions with owners, recorded directly in equity									
Shares issued, net of issue costs	110,412	2,956,169	–	–	–	–	–	–	3,066,581
Share based payments:									
– 2011 paid	–	–	(66,010)	–	–	–	–	–	(66,010)
– 2012 accrual	–	–	65,379	–	–	–	–	–	65,379
Dividends paid:									
– Final 2011	–	–	–	–	–	–	–	(3,325,848)	(3,325,848)
Proposed final dividends:									
– Ordinary shares	–	–	–	–	–	–	(3,864,494)	3,864,494	–
– Preference shares	–	–	–	–	–	–	(168,000)	168,000	–
Total contributions by and distributions to owners	**110,412**	**2,956,169**	**(631)**	**–**	**–**	**–**	**(4,032,494)**	**706,646**	**(259,898)**
At 31 December 2012	**1,825,798**	**7,792,427**	**1,889,052**	**521,435**	**(67,381)**	**454,017**	**14,304,972**	**4,032,494**	**30,752,814**

The notes set out on pages 56 to 113 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	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 56 to 113 form an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2012

	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 2012	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
Net profit for the year	–	–	–	–	–	–	8,043,250	–	8,043,250
Other comprehensive income									
Change in fair value of available-for-sale investments	–	–	–	–	3,212,461	–	–	–	3,212,461
Deferred tax on change in fair value of available-for-sale investments	–	–	–	–	(963,738)	–	–	–	(963,738)
Realised revaluation reserves on sale of property	–	–	–	(33,470)	–	–	33,470	–	–
Deferred tax on realised revaluation reserves on sale of property	–	–	–	10,041	–	–	(10,041)	–	–
Excess depreciation transfer	–	–	–	(9,194)	–	–	9,194	–	–
Deferred tax on excess depreciation transfer	–	–	–	2,758	–	–	(2,758)	–	–
Transfer to statutory credit risk reserve	–	–	–	–	–	2,007	(2,007)	–	–
Total other comprehensive income	**–**	**–**	**–**	**(29,865)**	**2,248,723**	**2,007**	**27,858**	**–**	**2,248,723**
Total comprehensive income for the year	**–**	**–**	**–**	**(29,865)**	**2,248,723**	**2,007**	**8,071,108**	**–**	**10,291,973**
Transactions with owners, recorded directly in equity									
Shares issued, net of issue costs	110,412	2,956,169	–	–	–	–	–	–	3,066,581
Share based payments:									
– 2011 paid	–	–	(66,010)	–	–	–	–	–	(66,010)
– 2012 accrual	–	–	65,379	–	–	–	–	–	65,379
Dividends paid:									
– Final 2011	–	–	–	–	–	–	–	(3,325,848)	(3,325,848)
Proposed final dividends:									
– Ordinary shares	–	–	–	–	–	–	(3,864,494)	3,864,494	–
– Preference shares	–	–	–	–	–	–	(168,000)	168,000	–
Total contributions by and distributions to owners	**110,412**	**2,956,169**	**(631)**	**–**	**–**	**–**	**(4,032,494)**	**706,646**	**(259,898)**
At 31 December 2012	**1,825,798**	**7,792,427**	**1,889,052**	**521,435**	**(67,381)**	**454,017**	**14,155,239**	**4,032,494**	**30,603,081**

The notes set out on pages 56 to 113 form an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2012

	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 56 to 113 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2012

	Note	2012 KShs '000	2011 KShs '000
Net cash (used in)/from operating activities	38 (a)	**(3,155,156)**	5,380,864
Cash flows from investing activities			
Purchase of property and equipment	29	**(471,797)**	(719,272)
Proceeds from sale of non-current asset held for sale		**152,567**	697,032
Proceeds from sale of property and equipment		**1,919**	1,452
Purchase of intangible assets	30	**(29,425)**	–
Purchase of prepaid operating lease rentals	31	**(157,469)**	–
Net cash used in investing activities		**(504,205)**	(20,788)
Cash flows from financing activities			
Ordinary shares issued, net of issue costs		**3,066,581**	–
Share based payments:			
– 2011/2010 settled		**(66,010)**	(67,454)
– 2012/2011 allocated during the year		**65,379**	66,010
Dividends paid on ordinary shares:			
– Final 2011/2010	17	**(3,157,848)**	(2,440,156)
Dividends paid on preference shares:			
– Final 2011/2010	17	**(168,000)**	(84,690)
Net cash used in financing activities		**(259,898)**	(2,526,290)
(Decrease)/increase in cash and cash equivalents		**(3,919,259)**	2,833,786
Cash and cash equivalents at 1 January		**6,929,422**	4,095,636
Cash and cash equivalents at 31 December	38 (b)	**3,010,163**	6,929,422

The notes set out on pages 56 to 113 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2012

1 REPORTING ENTITY

The Bank is incorporated as a limited company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The Company is regulated by the Central Bank of 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 2012 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.

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

(ii) Basis of measurement

The consolidated financial statements set out on pages 48 to 113 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 2012. These subsidiaries are shown in Note 26.

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.

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.

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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 3(k)(ii).

(c) Transactions in foreign currencies

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

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

(iii) Net trading income

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

(iv) Dividends

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

(e) Income tax expense

Income tax expense comprises current and change in deferred tax. Income tax expense is recognised in 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.

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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) Classification

The Group classifies its financial assets into the following measurement categories: financial assets held at fair value through profit or loss; loans and receivables; held-to-maturity and available-for-sale. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition or, where applicable, at the time of reclassification.

In these financial statements, investment securities, trading assets and liabilities and loans and receivables are classified as detailed below:

Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short-term.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis;
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis; and
- the assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

Available-for-sale

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

Financial liabilities held at amortised cost

Financial liabilities, which include borrowings, not classified as held at fair value through profit or loss are classified as amortised cost instruments.

(ii) Initial 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.

(iii) Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the net trading income line in the profit or loss.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to the available-for-sale reserve within equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the profit or loss.

Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

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Financial liabilities are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the profit or loss over the period of the borrowings using the effective interest method.

(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 the following factors in assessing objective evidence of impairment:

- whether the counterparty is in default of principal or interest payments;
- when a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation;
- where the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation;
- where the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments;
- where the Group sells a credit obligation at a material credit related economic loss; or
- where there are observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

Assets carried at amortised cost

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.

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in 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.

Available-for-sale assets
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.

(vii) Reclassifications
Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets must be reclassified to the available-for sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in other comprehensive income prior to the date of reclassification is amortised to the profit or loss over the remaining life of the financial asset, using the effective interest method.

(viii) 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.

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.

(ix) 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 a 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.

(g) Cash and cash equivalents
Cash and cash equivalents comprise balances with less than

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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) Derivative financial instruments

Changes in fair value of any derivative instruments not qualifying for hedge accounting are recognised immediately in the profit or loss. 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.

(i) 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, deferred 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.

(j) Property and equipment

(i) Recognition, measurement and subsequent costs

Freehold land and buildings and buildings on leasehold land subsequently measured using the revaluation model are initially recognised at cost and then are subsequently measured at the fair value on the date of revaluation less subsequent 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 cost of materials and direct labour, any other costs directly attributable to bringing

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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.

(k) 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 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 included in intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgment.

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.

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 30 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

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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.

(l) 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.

(m) 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.

(n) 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.

(o) Employee benefits

(i) Pension obligations

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

For the defined benefit scheme, the pension costs are assessed using the 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.

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

When the defined benefit calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benfits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit or loss.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service costs that had not previously been recognised.

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

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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 up to 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 the number of share awards that do meet the related service and non-market performance conditions at the vesting date.

(p) Ordinary share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Dividends on ordinary shares and preference shares classified as equity are recognised in equity in the period in which they are declared.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(x) 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.

(y) New standards and interpretations not yet adopted

(i) New standards and interpretations effective for the year ended 31 December 2012

- Amendments to IAS 12 *'Deferred Tax: Recovery of Underlying*

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

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.

The application of the amendments has had no effect on the amounts reported in the current year because the Group does not own any investment property.

(ii) New standards and interpretations in issue but not effective for the year ended 31 December 2012

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, 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.

  The Group will apply this amendment prospectively. The directors do not anticipate any material impact to the consolidated financial statements. The Group will continue to disclose such items in the statement of comprehensive income and statement of changes in equity.

- 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.

  IAS 19 changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Group. However, the Group will assess the impact of the change in measurement principles of the expected return on plan assets.

- IFRS 7 *'Disclosures – Offsetting Financial Assets and Liabilities'* (effective 1 January 2013). The amendment introduces disclosures about the impact of netting arrangements on an entity's financial position. Based on the new disclosure requirements the Group will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements.

- 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.

  The directors do not anticipate any material impact to the consolidated financial statements on application of the amendment. However, the Group would have to apply this standard to any such arrangements entered into in the future.

- IFRS 11 – *'Joint arrangements'* (effective 1 January 2013). IFRS 11 supersedes IAS 31 and SIC-13 relating to Jointly 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 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 11 is not expected to have any impact on the Group because the Group does not have interests in 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 interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

  The Group is currently assessing the disclosure requirements for interests in subsidiaries in comparison with the existing disclosures.

- 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

The Group is currently reviewing its methodologies for determining fair values (Note 5). Although many of the IFRS 13 disclosure requirements regarding financial assets and liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3.

- IAS 32 *'Offsetting Financial Assets and Liabilities'* (effective 1 January 2014). The amendment clarifies the offsetting criteria by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement.

  Based on our initial assessment, the Group is not expecting a significant impact from the adoption of the amendments to IAS 32.

- IFRS 9 *'Financial Instruments (2009 and 2010)'* (effective 1 January 2015). IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect to financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value.

  A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All the financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of *held to maturity, available-for-sale and loans and receivables.*

  For investments in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to represent all fair value changes from the investment in other comprehensive income.

  No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date.

  However, dividends on such investments are recognised in profit of loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in the other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

  The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

  IFRS 9(2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

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

  The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

4 FINANCIAL RISK MANAGEMENT

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

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

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

The 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

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2012

the financial management capability of the Group to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, legal, political, environmental and social factors which define the context within which the Group operates. It is intended that stress testing and scenario analysis will help to inform management:

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

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

(a) Credit risk

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

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

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

Wholesale Banking

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

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

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

There is no direct relationship between the Group's internal credit grades and those used by external rating agencies. The Group's credit grades are not intended to replicate external credit grades, although as the factors used to grade a borrower are often similar, a borrower rated poorly by an external rating agency is typically rated in the lower rank of the Group's internal credit grades.
In addition to nominal aggregate exposure, expected loss is used in the assessment of individual exposures and for portfolio analysis. Expected loss is the long-run average credit loss across a range of typical economic conditions. It is used in the delegation of credit approval authority and must be calculated for every transaction to determine the appropriate level of approval. To assist risk officers in monitoring the portfolio, various internal risk management reports are available on a regular basis, providing individual counterparty, counterparty group and portfolio exposure information, the status of accounts showing signs of weakness or financial deterioration and updates on credit markets.

Consumer Banking

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

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

Problem credit management and provisioning

(i) Wholesale Banking

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

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

Loans are considered 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 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.

Notes to the Consolidated Financial Statements (Continued)

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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 the 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 2012

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	2012 KShs '000	2011 KShs '000
Individually impaired		
Grade 13: Impaired	1,129,631	254,331
Grade 14: Impaired	1,051,343	776,496
	2,180,974	1,030,827
Allowance for impairment	(944,208)	(677,314)
	1,236,766	353,513
Loans past due but not impaired		
Past due up to 30 days	2,259,841	3,891,696
Past due 31 – 60 days	566,691	303,058
Past due 61 – 90 days	348,188	150,899
	3,174,720	4,345,653
Loans neither past due nor impaired		
Grade 1	442,449	–
Grade 2	–	–
Grade 3	44	4,060,069
Grade 4	4,671,660	1,324,441
Grade 5	1,390,000	3,313,606
Grade 6	3,473,971	1,708,329
Grade 7	13,369,029	14,300,195
Grade 8	17,148,811	22,644,213
Grade 9	15,711,708	9,787,549
Grade 10	12,103,971	6,499,254
Grade 11	38,363,344	27,130,078
Grade 12 – watch	2,504,306	1,273,129
	109,179,293	92,040,863
Portfolio impairment provision	(896,256)	(642,206)
	108,283,037	91,398,657
Net loans and advances	112,694,523	96,097,823

(iv) Fair value of collateral held

Group and Company		
Against impaired loans	1,185,357	536,417
Against past due but not impaired loans	3,421,973	3,049,531

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

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 2012 and 2011.

	2012	2011
(v) Loans and advances concentration by sector	KShs '000	KShs '000
Group and Company		
Business services	2,659,989	1,982,141
Manufacturing	22,447,883	14,147,506
Wholesale and retail trade	13,299,127	10,986,100
Transport and communication	13,171,340	21,008,715
Real estate	7,079,685	7,872,724
Agriculture	9,230,206	5,315,250
Energy and water	13,271,746	10,537,871
Others	33,375,011	25,567,036
	114,534,987	97,417,343

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.

	2012	2011
(vi) Loans and advances concentration by business	KShs '000	KShs '000
Group and Company		
Consumer Banking	44,154,109	32,792,858
Wholesale Banking	70,380,878	64,624,485
	114,534,987	97,417,343

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2012

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(vii) Other financial assets

Group and Company	2012 KShs '000	2011 KShs '000
Neither past due nor impaired:		
Cash and balances with Central Bank of Kenya	13,575,454	12,005,054
Government and other securities held for trading	2,914,556	41,222
Derivative financial instruments	356,588	384,809
Loans and advances to banks	2,373,580	2,542,427
Investment securities	42,973,924	25,012,421
Other assets - uncleared effects	958,096	428,242
Amounts due from group companies	10,158,076	16,678,067

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 2012

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 2012

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	2012	2011
	%	%
At 31 December	39	34
Average for the year	39	43
Highest for the year	45	54
Lowest for the year	33	34

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 2012 was as follows:

Group and Company

	2012	2011
	KShs '000	KShs '000
Loans and advances to customers	112,694,523	96,097,823
Deposits from customers	140,524,846	122,323,049
	%	%
Advances to deposits ratio	80	79

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2012 to the contractual maturity date.

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

31 December 2012:

Group

LIABILITIES	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Deposits from banks	1,528,409	1,985,835	–	–	–	3,514,244
Deposits from customers	109,144,135	18,778,839	9,425,006	3,162,161	14,705	140,524,846
Derivative financial instruments	607,225	–	–	–	–	607,225
Other liabilities - bills payable	516,105	–	–	–	–	516,105
Amounts due to group companies	5,578,265	3,530,100	1,831,040	1,096,527	1,716,000	13,751,932
At 31 December 2012	**117,374,139**	**24,294,774**	**11,256,046**	**4,258,688**	**1,730,705**	**158,914,352**

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2012

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

31 December 2011:
Group

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
Other liabilities - bills payable	474,145	–	–	–	–	474,145
Amounts due to group companies	3,570,094	–	1,017,600	1,899,520	1,696,000	8,183,214
At 31 December 2011	**115,811,022**	**10,343,129**	**7,463,578**	**4,213,756**	**1,710,716**	**139,542,201**

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 2012.

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 2012

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 2012

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 2012:				
Daily value at risk:	**At 31 December**	**Average**	**High**	**Low**
Foreign exchange risk	10,073	20,102	31,877	5,750
Interest rate risk	94,796	143,539	204,802	73,004
	104,869	**163,641**	**236,679**	**78,754**
31 December 2011:				
Daily value at risk:				
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**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk

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

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

Group

31 December 2012:

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	–	–	–	–	–	–	13,575,454	13,575,454
Government and other securities held for trading	12.04	404,399	2,508,579	–	–	–	1,578	2,914,556
Derivative financial instruments	12.56	356,588	–	–	–	–	–	356,588
Deposits and advances to banks	8.35	255,350	580,314	100,000	1,225,000	–	212,916	2,373,580
Loans and advances to customers	13.05	39,027,935	16,021,258	7,588,401	32,228,336	16,591,828	1,236,765	112,694,523
Investment securities	–	3,278,500	15,075,041	12,385,900	12,215,055	451,700	(432,272)	42,973,924
Other assets - uncleared effects	–	–	–	–	–	–	958,096	958,096
Amounts due from group companies	1.04	1,205,400	2,133,924	1,779,837	861,000	1,722,000	2,455,915	10,158,076
At 31 December 2012	–	44,528,172	36,319,116	21,854,138	46,529,391	18,765,528	18,008,452	186,004,797

LIABILITIES								
Deposits from banks	2.68	1,094,418	1,985,835	–	–	–	433,992	3,514,245
Deposits from customers	5.04	38,273,979	18,577,793	9,182,530	3,154,109	14,702	71,321,733	140,524,846
Derivative financial instruments	–	607,225	–	–	–	–	–	607,225
Other liabilities – bills payable	–	–	–	–	–	–	516,105	516,105
Amounts due to group companies	3.05	3,173,060	3,530,100	1,831,040	1,096,527	1,716,000	2,405,205	13,751,932
At 31 December 2012	–	43,148,682	24,093,728	11,013,570	4,250,636	1,730,702	74,677,035	158,914,353

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

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	14.24	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
Other assets - uncleared effects	–	–	–	–	–	–	428,242	428,242
Amounts due from group companies	1.01	4,321,586	254,400	5,790,865	–	1,696,000	4,615,216	16,678,067
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
Other liabilities – bills payable	–	–	–	–	–	–	474,145	474,145
Amounts due to group companies	1.31	848,000	–	1,017,600	1,899,520	1,696,000	2,722,094	8,183,214
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 2012

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 2012:

Group	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	1,058,475	180,891	44,284	228,650	**1,512,300**
Loans and advances to customers	35,265,225	789,984	215,178	436,458	**36,706,845**
Other assets	7,444,296	1,977,054	159,469	69,338	**9,650,157**
Amounts due from group companies	5,928,061	3,714,468	176,050	79,793	**9,898,372**
At 31 December 2012	**49,696,057**	**6,662,397**	**594,981**	**814,239**	**57,767,674**
LIABILITIES					
Deposits from banks	2,009,600	569,230	47	–	**2,578,877**
Deposits from customers	30,097,092	8,982,378	1,498,603	239,881	**40,817,954**
Other liabilities	9,998,414	1,742,104	144,075	94,084	**11,978,677**
Amounts due to group companies	10,230,665	686,063	33	222,291	**11,139,052**
At 31 December 2012	**52,335,771**	**11,979,775**	**1,642,758**	**556,256**	**66,514,560**
Net statement of financial position exposure	**(2,639,714)**	**(5,317,378)**	**(1,047,777)**	**257,983**	**(8,746,886)**

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**
Other assets	6,256,997	247,520	823,504	27,042	**7,355,063**
Amounts due from group companies	5,367,580	2,007,649	8,370,913	167,719	**15,913,861**
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**
Other liabilities	7,276,892	85,114	793,248	231,099	**8,386,353**
Amounts due to group companies	3,765,344	173	–	–	**3,765,517**
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**

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2012

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 1,000 million.

In 2012, the Central Bank of Kenya issued new guidelines, effective 1 January 2013 that introduce a requirement to set aside capital charges for market and operational risks faced by banks. The guidelines also introduce a capital conservation buffer of 2.5% in addition to the minimum capital adequacy ratios detailed above.

The minimum capital ratios of 8% and 12% will therefore increase to 10.5% and 14.5% (current minimum ratios plus conservation buffer) respectively. Institutions have been granted a period of 24 months from 1 January 2013 to build up the capital conservation buffer.

An observation period of 12 months from 1 January 2013 has been granted for capital on market and operational risks. After the lapse of the observation period, banks are required to comply with the enhanced capital adequacy requirements.

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 2012

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

The Bank's regulatory capital position at 31 December 2012 was as follows:

Company	2012 KShs '000	2011 KShs '000
Core capital (Tier 1)		
Share capital	1,825,798	1,715,386
Share premium	7,792,427	4,836,258
Retained earnings	14,155,239	10,116,625
Capital contribution reserve	1,823,673	1,823,673
	25,597,137	18,491,942
Less deductions from capital:		
Goodwill on acquired intangible asset (Note 30)	(1,112,111)	(1,112,111)
Acquired intangible asset (Note 30)	(2,861,819)	(3,257,376)
	21,623,207	14,122,455
Supplementary capital (Tier 2)		
Revaluation reserves (25%)	130,359	137,825
Statutory credit risk reserve	454,017	452,010
Subordinated debt (Note 25)	1,721,124	1,701,495
	2,305,500	2,291,330
Total capital	23,928,707	16,413,785
Risk weighted assets		
On-balance sheet	114,257,829	101,261,876
Off-balance sheet	18,393,903	13,498,105
Total risk weighted assets	132,651,732	114,759,981
Deposits from customers	140,524,846	122,323,049
Capital ratios		
Core capital/total deposit liabilities (CBK minimum 8%)	15%	12%
Core capital/total risk weighted assets (CBK minimum 8%)	16%	12%
Total capital/total risk weighted assets (CBK minimum 12%)	18%	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 2012

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 2012

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 within 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 2012

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 2012

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.

(i) Goodwill impairment

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.

Goodwill is allocated to cash generating units for the purpose of impairment testing.
Note 30 sets out the major cash generating unit to which goodwill has been allocated.

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 2012

	Consumer Banking KShs '000	Wholesale Banking KShs '000	Total KShs '000
Net interest income	7,161,409	6,580,793	13,742,202
Non funded income	2,298,252	4,630,982	6,929,234
Operating income	**9,459,661**	**11,211,775**	**20,671,436**
Operating expenses	(4,772,208)	(3,626,387)	(8,398,595)
Net impairment losses on loans and advances	(574,276)	(142,374)	(716,650)
Profit before taxation	**4,113,177**	**7,443,014**	**11,556,191**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

6 OPERATING SEGMENTS (Continued)

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**

Group

Statement of financial position as at 31 December 2012

	Consumer Banking KShs '000	Wholesale Banking KShs '000	Unallocated KShs '000	Total KShs '000
Assets				
Segment assets	43,205,518	132,239,659	–	175,445,177
Unallocated assets	–	–	19,907,579	19,907,579
Total assets	**43,205,518**	**132,239,659**	**19,907,579**	**195,352,756**
Liabilities and shareholders' equity				
Segment liabilities	77,730,852	80,649,377	–	158,380,229
Unallocated liabilities	–	–	36,972,527	36,972,527
Inter-segment lending	(34,525,334)	51,590,282	(17,064,948)	–
Total liabilities and shareholders' equity	**43,205,518**	**132,239,659**	**19,907,579**	**195,352,756**
Other segment items				
Depreciation and amortisation	176,909	485,533	236,130	898,572
Capital expenditure	141,681	7,930	239,863	389,474

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

7 FINANCIAL ASSETS AND LIABILITIES

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

Group

31 December 2012:

	Held for trading KShs '000	Held-to-maturity KShs '000	Loans and receivables KShs '000	Available-for-sale KShs '000	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	–	–	13,575,454	–	–	**13,575,454**	**13,575,454**
Government and other securities held for trading	2,914,556	–	–	–	–	**2,914,556**	**2,914,556**
Derivative financial instruments	356,588	–	–	–	–	**356,588**	**356,588**
Deposits and advances to banks	–	–	2,373,580	–	–	**2,373,580**	**2,373,580**
Loans and advances to customers	–	–	112,694,523	–	–	**112,694,523**	**112,694,523**
Investment securities	–	–	–	42,973,924	–	**42,973,924**	**42,973,924**
Other assets - uncleared effects	–	–	958,096	–	–	**958,096**	**958,096**
Amounts due from group companies	–	–	10,158,076	–	–	**10,158,076**	**10,158,076**
Total assets	**3,271,144**	**–**	**139,759,729**	**42,973,924**	**–**	**186,004,797**	**186,004,797**
Liabilities							
Deposits from banks	–	–	–	–	3,514,244	**3,514,244**	**3,514,244**
Deposits from customers	–	–	–	–	140,524,846	**140,524,846**	**140,524,846**
Derivative financial instruments	607,225	–	–	–	–	**607,225**	**607,225**
Other liabilities - bills payable	–	–	–	–	516,105	**516,105**	**516,105**
Amounts due to group companies	–	–	–	–	13,751,932	**13,751,932**	**13,751,932**
Total liabilities	**607,225**	**–**	**–**	**–**	**158,307,127**	**158,914,352**	**158,914,352**

31 December 2011:

	Held for trading KShs '000	Held-to-maturity KShs '000	Loans and receivables KShs '000	Available-for-sale KShs '000	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**
Other assets - uncleared effects	–	–	428,242	–	–	**428,242**	**428,242**
Amounts due from group companies	–	–	16,678,067	–	–	**16,678,067**	**16,678,067**
Total assets	**426,031**	**1,532,592**	**127,751,613**	**23,479,829**	**–**	**153,190,065**	**153,152,485**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

7 FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) Accounting classifications and fair values (Continued)

31 December 2011:

	Held for trading KShs '000	Held-to-maturity KShs '000	Loans and receivables KShs '000	Available-for-sale KShs '000	Financial liabilities at amortised cost KShs '000	Total carrying amount KShs '000	Fair value KShs '000
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**
Other liabilities - bills payable	–	–	–	–	474,145	**474,145**	**474,145**
Amounts due to group companies	–	–	–	–	8,183,214	**8,183,214**	**8,183,214**
Total liabilities	**822,806**	**–**	**–**	**–**	**138,719,395**	**139,542,201**	**139,542,201**

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(f) 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 2012

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 2012 and 2011:

Group 31 December 2012:	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Assets				
Government and other securities held for trading	–	2,914,556	–	**2,914,556**
Derivative financial instruments	–	356,588	–	**356,588**
Investment securities	–	42,973,924	–	**42,973,924**
Amounts due from group companies	54,796	112,699	–	**167,495**
Total assets	**54,796**	**46,357,767**	**–**	**46,412,563**
Liabilities				
Derivative financial instruments	–	607,225	–	**607,225**
Amounts due to group companies	108,059	54,900	–	**162,959**
Total liabilities	**108,059**	**662,125**	**–**	**770,184**
31 December 2011:				
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**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

		2012 KShs '000	2011 KShs '000
8	**INTEREST INCOME**		
	Loans and advances to customers	14,886,223	9,538,055
	Loans and advances to banks	360,439	263,286
	Investment securities:		
	Held-to-maturity	23,504	144,517
	Available-for-sale	4,086,526	2,039,303
	Accrued on impaired assets (Discount unwind)	18,785	26,092
		19,375,477	12,011,253
9	**INTEREST EXPENSE**		
	Deposits from customers	3,963,657	1,305,834
	Deposits from banks	1,669,618	854,125
		5,633,275	2,159,959
10	**NET FEE AND COMMISSION INCOME**		
	Fee and commission income		
	Commissions	2,017,055	2,009,248
	Service fees	1,662,113	1,603,934
		3,679,168	3,613,182
	Fee and commission expense		
	Inter-bank transaction fees and other fees	345,664	210,746
11	**NET TRADING INCOME**		
	Gains less losses on foreign currency transactions	2,570,732	2,586,397
	Interest income on held-for-trading securities	322,842	111,464
	Other trading profits/(losses)	592,566	(451,176)
		3,486,140	2,246,685
12	**OTHER OPERATING INCOME**		
	Gains less losses on disposal of available-for-sale securities:		
	– Government treasury bonds and bills	–	28,224
	– Corporate bond	–	9,213
	Rental income	12,490	16,379
	Profit on sale of non-current asset held for sale	94,843	356,427
	Profit on sale of property and equipment	1,919	51
	Other	338	2,802
		109,590	413,096

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

	2012 KShs '000	2011 KShs '000
13 OPERATING EXPENSES		
Staff costs		
Salaries and wages	3,381,813	2,897,874
Contributions to defined contribution plan	382,134	313,131
Increase/(decrease) in retirement benefit obligations (Note 36)	32,500	(63,176)
Employee share based payments expenses	80,079	71,193
Other staff costs	772,773	517,724
	4,649,299	3,736,746

	2012 No.	2011 No.
The number of employees at the year end was:		
Management	1,095	969
Unionisable	415	389
Other	393	385
	1,903	1,743

	2012 KShs '000	2011 KShs '000
Premises and equipment costs		
Rental of premises	281,445	234,644
Rental of computers and equipment	128,055	94,445
Electricity	130,797	116,509
Other premises and equipment costs	96,969	288,132
	637,266	733,730
Depreciation and amortisation		
Premises	18,453	28,023
Fixtures, fittings and equipment	469,291	311,510
Motor vehicles	5,610	2,324
Depreciation on property and equipment (Note 29)	493,354	341,857
Amortisation of intangible assets (Note 30)	403,169	366,374
Amortisation of prepaid operating lease rentals (Note 31)	2,049	2,908
	898,572	711,139
14 PROFIT BEFORE TAXATION		
Profit before taxation is arrived at after charging:		
Depreciation	493,354	341,857
Amortisation of intangible assets	403,169	366,374
Amortisation of prepaid operating lease rentals	2,049	2,908
Directors' emoluments - Fees	8,745	8,188
- Other	115,393	115,546
Auditors' remuneration	13,888	12,800
And after crediting:		
Profit on sale of non-current asset held for sale	94,843	356,427
Profit on sale of property and equipment	1,919	51

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

15 INCOME TAX EXPENSE

	2012 KShs '000	2011 KShs '000
Current year's tax at 30%	3,785,574	2,579,637
Prior year over provision	(147)	(3,608)
	3,785,427	2,576,029
Deferred tax credit - Note 32(a)	(298,769)	(157,715)
Income tax expense	3,486,658	2,418,314

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

	2012 KShs '000	2011 KShs '000
Accounting profit before taxation	11,556,191	8,255,135
Computed tax using the applicable corporation tax rate at 30%	3,466,857	2,476,541
Non-taxable income	(99,767)	(108,520)
Non-deductible costs	119,715	53,901
Prior year over provision	(147)	(3,608)
Income tax expense	3,486,658	2,418,314

16 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2012 is based on the profit attributable to ordinary shareholders of KShs 7,901,533,000 (2011 – KShs 5,668,821,000) and a weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares for 2012 of 297,101,596 (2011 – 294,045,822) have been restated, to include the effects of the 2012 rights issue.

Profit attributable to ordinary shareholders:	2012 KShs '000	2011 Restated KShs '000
Net profit for the year	8,069,533	5,836,821
Dividends on non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares	(168,000)	(168,000)
	7,901,533	5,668,821
Basic earnings per share (KShs)	26.60	19.28

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 2012 and 2011.

17 DIVIDEND PER SHARE

Group and Company	2012 KShs '000	2011 KShs '000
Dividends – Ordinary shares	3,864,494	3,157,848
Dividends – Preference shares	168,000	168,000
	4,032,494	3,325,848

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 23 May 2013, a final dividend in respect of the year ended 31 December 2012 of KShs 12.50 (2011 – KShs 11.00) for every ordinary share of KShs 5.00 is to be proposed. This will bring the total dividend for the year to KShs 12.50 (2011 – KShs 11.00).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

17 DIVIDEND PER SHARE (Continued)

At the Annual General Meeting to be held on 23 May 2013, a final dividend in respect of the year ended 31 December 2012 of KShs 168,000,000 (2011 - KShs 168,000,000) for the preference shares is to be proposed. This will bring the total dividend for the year to KShs 168,000,000 (2011– KShs 168,000,000).

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

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

18 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2012	2011
Group and Company	**KShs '000**	KShs '000
Cash on hand	**3,158,221**	2,926,464
Balances with Central Bank of Kenya:		
-Restricted balances (Cash Reserve Ratio)	**7,110,179**	7,129,758
-Unrestricted balances	**3,307,054**	1,948,832
	13,575,454	12,005,054

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 2012, the Cash Reserve Ratio requirement was 5.25% (2011 – 5.25%) 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 the 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

	2012	2011
Group and Company	**KShs '000**	KShs '000
Treasury bonds	**439,849**	–
Treasury bills	**2,474,707**	–
Money market bonds	**–**	41,222
Government and other securities held for trading	**2,914,556**	41,222

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

	2012				2011			
	Treasury bonds KShs '000	Treasury bills KShs '000	Money market bonds KShs '000	Total KShs '000	Treasury bonds KShs '000	Treasury bills KShs '000	Money market bonds KShs '000	Total KShs '000
At 1 January	–	–	41,222	41,222	566,839	2,620,191	84,573	3,271,603
Additions	13,228,300	4,396,000	–	17,624,300	4,630,000	906,950	–	5,536,950
Disposals and maturities	(12,828,300)	(1,896,000)	(42,200)	(14,766,500)	(5,196,839)	(3,527,141)	(42,200)	(8,766,180)
Changes in fair value	39,849	(25,293)	978	15,534	–	–	(1,151)	(1,151)
At 31 December	**439,849**	**2,474,707**	**–**	**2,914,556**	**–**	**–**	**41,222**	**41,222**

The weighted average effective interest rate on government and other securities held for trading at 31 December 2012 was 12.04% (2011 – 9.99%).

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 2012

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

	2012			2011		
	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	6,789,564	356,588	510,744	9,991,989	384,809	777,604
Forward exchange contracts	50,016,524	–	–	44,733,058	_	_
Commodity derivative contracts	–	–	96,481	_	_	45,202
	56,806,088	**356,588**	**607,225**	54,725,047	384,809	822,806

21 LOANS AND ADVANCES TO BANKS

	2012	2011
Group and Company	**KShs '000**	KShs '000
Loans and advances to local banks	**2,163,132**	1,936,706
Loans and advances to foreign banks	**210,448**	605,721
	2,373,580	2,542,427

The weighted average effective interest rate on loans and advances to banks at 31 December 2012 was 8.35% (2011 – 20.07%).

22 LOANS AND ADVANCES TO CUSTOMERS

	2012	2011
Group and Company	**KShs '000**	KShs '000
(a) Classification		
Overdrafts	**16,728,497**	14,986,274
Loans	**96,934,273**	81,569,227
Bills discounted	**872,217**	861,842
Gross loans and advances	**114,534,987**	97,417,343
Less: Impairment losses on loans and advances	**(1,840,464)**	(1,319,520)
Net loans and advances	**112,694,523**	96,097,823
Repayable on demand	**19,686,997**	17,603,383
Less than 3 months	**38,439,425**	21,776,479
3 months to 1 year	**7,588,401**	15,783,396
1 to 5 years	**32,228,336**	26,443,678
5 to 10 years	**9,671,152**	10,128,522
Over 10 years	**6,920,676**	5,681,885
Gross loans and advances	**114,534,987**	97,417,343

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

Group and Company

(b) Impairment losses on loans and advances

31 December 2012:	Specific impairment losses KShs '000	Portfolio impairment provision KShs '000	Total KShs '000
At 1 January 2012	677,314	642,206	1,319,520
Provisions recognised during the year	717,102	254,050	971,152
Amounts written off during the year	(431,423)	–	(431,423)
Amounts released to interest income	(18,785)	–	(18,785)
At 31 December 2012	**944,208**	**896,256**	**1,840,464**
Provisions recognised during the year	717,102	254,050	971,152
Amounts recovered during the year	(254,502)	–	(254,502)
Net charge to profit or loss	**462,600**	**254,050**	**716,650**
31 December 2011:			
At 1 January 2011	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**

The weighted average effective interest rate on loans and advances to customers at 31 December 2012 was 13.05% (2011 – 14.24%).

23 INVESTMENT SECURITIES

Group and Company	**2012 KShs '000**	2011 KShs '000
Available-for-sale		
Treasury bonds	**26,069,146**	15,732,939
Treasury bills	**16,337,266**	7,319,377
Money market bonds	**559,267**	427,513
Equity shares	**8,245**	–
	42,973,924	23,479,829
Held-to-maturity		
Treasury bonds	**–**	1,532,592
Total investment securities	**42,973,924**	25,012,421

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

23 INVESTMENT SECURITIES (Continued)

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

	2012				2011		
	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Equity shares KShs '000	Total KShs '000	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Total KShs '000
At 1 January	24,584,908	427,513	–	25,012,421	51,353,787	808,197	52,161,984
Additions	42,772,667	–	7,755	42,780,422	14,850,813	–	14,850,813
Disposals and maturities	(29,984,450)	(11,095)	–	(29,995,545)	(36,910,951)	(101,750)	(37,012,701)
Changes in fair value	3,496,987	142,849	490	3,640,326	(4,681,873)	(278,934)	(4,960,807)
Amortisation of discounts and premiums	1,536,300	–	–	1,536,300	(26,868)	–	(26,868)
At 31 December	**42,406,412**	**559,267**	**8,245**	**42,973,924**	**24,584,908**	**427,513**	**25,012,421**

The weighted average effective interest rate on treasury bonds at 31 December 2012 was 13.36% (2011 – 7.98%) and on treasury bills was 11.46% (2011 – 9.19%).

There were no treasury bills under repurchase agreements outstanding at 31 December 2012 and 2011.

The weighted average effective interest rate on money market bonds at 31 December 2012 was 9.99% (2011 – 7.97%).

At 31 December 2012, unamortised premiums on investment securities amounted to KShs 450,789,000 (2011 – KShs 584,485,000) and unamortised discounts amounted to KShs 786,802,000 (2011 – KShs 209,389,000).

24 OTHER ASSETS

Group and Company	2012 KShs '000	2011 KShs '000
Uncleared effects	958,096	428,242
Prepayments	397,224	538,158
Other receivables	654,500	1,397,457
	2,009,820	2,363,857

25 GROUP COMPANY BALANCES

Group and Company		
Amounts due from group companies	10,158,076	16,678,067
Amounts due to group companies	13,751,932	8,183,214

Included in amounts due to Group companies is a subordinated debt of US$ 20 million (KShs 1,716,000,000) 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 2012 on the subordinated debt was 2.49% (2011 – 2.65%).

The weighted average effective interest rate at 31 December 2012 on amounts due from group companies was 1.04% (2011 – 1.01%) and on amounts due to group companies was 3.05% (2011 – 1.31%).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

26 INVESTMENT IN SUBSIDIARIES

The following subsidiaries are wholly owned by the Company:

Company	Status	2012 KShs '000	2011 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.

27 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 were 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 were discounted using a pre-tax discount rate of 17.50% which reflected 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 2012

27 BUSINESS COMBINATION (Continued)

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	2012	2011
	KShs '000	KShs '000
Operating income	1,053,074	891,700
Profit before taxation	504,673	372,523

Acquisition related costs of Nil (2011 – KShs 17 million) are included within operating expenses in the Group's 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 2012

28 NON-CURRENT ASSET HELD FOR SALE

Group and Company

	2012			2011		
	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	57,161	563	57,724	243,750	91,020	334,770
Transfer from property and equipment (Note 29)	–	–	–	62,996	–	62,996
Transfer from prepaid operating lease rentals (Note 31)	–	–	–	–	563	563
Disposals	(57,161)	(563)	(57,724)	(249,585)	(91,020)	(340,605)
At 31 December	**–**	**–**	**–**	**57,161**	**563**	**57,724**

The non-current asset held for sale at the beginning of the year relates to two properties which were sold during the year having been placed on the market.

The asset of KShs Nil (2011 – KShs 57,724,000) was classified under the unallocated portion of the operating segment report in Note 6.

29 PROPERTY AND EQUIPMENT

Group and Company

2012:	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 2012	150,000	1,338,734	4,419,517	16,370	169,474	6,094,095
Additions	–	–	209,688	8,452	253,657	471,797
Transfers	–	452	170,882	–	(171,334)	–
Disposals	–	–	(134,574)	(9,400)	–	(143,974)
At 31 December 2012	**150,000**	**1,339,186**	**4,665,513**	**15,422**	**251,797**	**6,421,918**
Depreciation:						
At 1 January 2012	400	4,213	2,020,636	13,079	–	2,038,328
Charge for the year	1,600	16,853	469,291	5,610	–	493,354
Disposals	–	–	(134,574)	(9,400)	–	(143,974)
At 31 December 2012	**2,000**	**21,066**	**2,355,353**	**9,289**	**–**	**2,387,708**
Carrying amount:						
At 31 December 2012	**148,000**	**1,318,120**	**2,310,160**	**6,133**	**251,797**	**4,034,210**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

29 PROPERTY AND EQUIPMENT (Continued)

Group and Company

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 28)	–	(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 28)	–	(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**

Included in property and equipment at 31 December 2012 are assets with a gross value of KShs 1,475,686,286 (2011 – KShs 1,534,270,284) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been KShs 504,871,775 (2011 – KShs 619,064,419).

There were no idle assets as at 31 December 2012 and 2011.

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 was subsequently capitalised in 2011.

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 3 years.

In the opinion of the directors, the fair value of the freehold land and buildings has not changed significantly since the revaluation at 30 September 2011.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year ended 31 December 2012 (2011 – Nil).

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2012 KShs '000	2011 KShs '000
Cost	**760,260**	759,808
Accumulated depreciation	**(84,183)**	(65,806)
Carrying amount	**676,077**	694,002

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

30 INTANGIBLE ASSETS

Group and Company

	2012				2011			
	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**	3,707,038	1,112,111	196,893	**5,016,042**
Additions	–	–	29,425	**29,425**	–	–	–	**–**
At 31 December	**3,707,038**	**1,112,111**	**226,318**	**5,045,467**	**3,707,038**	**1,112,111**	**196,893**	**5,016,042**
Amortisation								
At 1 January	449,662	–	193,073	**642,735**	86,352	–	190,009	**276,361**
Charge for the year	395,557	–	7,612	**403,169**	363,310	–	3,064	**366,374**
At 31 December	**845,219**	**–**	**200,685**	**1,045,904**	**449,662**	**–**	**193,073**	**642,735**
Carrying amount:								
At 31 December	**2,861,819**	**1,112,111**	**25,633**	**3,999,563**	**3,257,376**	**1,112,111**	**3,820**	**4,373,307**

As at 31 December 2012, assets with a gross value of KShs 185,811,490 (2011 – 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 (2011 – KShs 62,300,426).

There were no idle assets as at 31 December 2012 and 2011.

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 (2011– Nil).

The recoverable amounts were calculated based on their value in use. Value in use was determined by discounting the future cashflows expected to be generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2012 was determined similarly as in 2011. 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 were discounted using a pre-tax discount rate of 17.50% which reflected 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 2012

31 PREPAID OPERATING LEASE RENTALS

Group and Company

	2012	2011
Cost	**KShs '000**	KShs '000
At 1 January	**131,804**	138,541
Addition	**157,469**	–
Transfer to non-current asset held for sale (Note 28)	**–**	(6,737)
At 31 December	**289,273**	131,804
Amortisation		
At 1 January	**24,762**	28,028
Transfer to non-current asset held for sale (Note 28)	**–**	(6,174)
Charge for the year	**2,049**	2,908
At 31 December	**26,811**	24,762
Carrying amount at 31 December	**262,462**	107,042

32 DEFERRED TAX (LIABILITY)/ASSET

The net deferred tax (liabilities)/assets at 31 December 2012 and 2011 are attributable to the following:

2012

(a) Group

	At 1 January 2012 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2012 KShs '000
Asset/(liability)				
Tax losses in subsidiaries	2,776	(1,002)	–	1,774
Property and equipment	166,003	(127,574)	–	38,429
Acquired intangible asset	(977,213)	118,667	–	(858,546)
Portfolio impairment provision	192,662	76,215	–	268,877
Revaluation surplus	(190,956)	12,799	–	(178,157)
Fair value reserve	992,616	–	(963,738)	28,878
Accrued interest	90,963	212,999	–	303,962
Other provisions	35,553	13,865	–	49,418
Retirement benefit obligations	14,700	(7,200)	–	7,500
	327,104	**298,769**	**(963,738)**	**(337,865)**

(b) Company

	At 1 January 2012 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2012 KShs '000
Asset/(liability)				
Property and equipment	165,999	(127,573)	–	38,426
Acquired intangible asset	(977,213)	118,667	–	(858,546)
Portfolio impairment provision	192,662	76,215	–	268,877
Revaluation surplus	(190,956)	12,799	–	(178,157)
Fair value reserve	992,616	–	(963,738)	28,878
Accrued interest	90,963	212,999	–	303,962
Other provisions	33,104	14,364	–	47,468
Retirement benefit obligations	14,700	(7,200)	–	7,500
	321,875	**300,271**	**(963,738)**	**(341,592)**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

32 DEFERRED TAX (LIABILITY)/ASSET (Continued)

2011

(c) Group

	At 1 January 2011 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2011 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**

(d) Company

	At 1 January 2011 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2011 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**

33 DEPOSITS FROM BANKS

Group and Company

	2012 KShs '000	2011 KShs '000
Balances due from local banks	**1,147,931**	4,983,727
Balances due from foreign banks	**2,366,313**	2,755,260
	3,514,244	7,738,987

The weighted average effective interest rate on deposits from banks at 31 December 2012 was 2.68% (2011 – 20.81%).

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2012

34 DEPOSITS FROM CUSTOMERS
Group and Company

	2012 KShs '000	2011 KShs '000
From government and parastatals		
Payable on demand	4,878,990	5,259,472
Payable within 3 months or less	3,920,093	4,669
	8,799,083	5,264,141
From private sector and individuals		
Payable on demand	96,480,899	89,639,249
Payable within 3 months or less	22,643,018	18,644,729
Payable after 3 months	12,601,846	8,774,930
	140,524,846	122,323,049
Current and demand accounts	87,421,523	77,585,936
Savings deposits	10,770,506	12,085,756
Time deposits	41,215,862	31,306,470
Other	1,116,955	1,344,887
	140,524,846	122,323,049

The weighted average effective interest rate on interest bearing deposits from customers at 31 December 2012 was 5.04% (2011 – 4.10%).

35 OTHER LIABILITIES

	2012		2011	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Bills payable	516,105	516,105	474,145	474,145
Dividends payable	430,692	430,692	427,094	427,094
Other trade payables	3,959,965	3,941,816	3,225,701	3,206,656
	4,906,762	4,888,613	4,126,940	4,107,895

36 RETIREMENT BENEFIT OBLIGATIONS
Group and Company

Standard Chartered Bank Kenya Limited operates a defined contribution scheme for all full time permanent employees and a defined benefit scheme for pensioners and deferred pensioners who existed as at 31 December 1998.

The benefits provided by the defined benefit scheme are based on a formula taking into account years of service and remuneration levels, whilst the benefits provided by the defined contribution scheme are determined by accumulated contributions and returns on investments.

Both schemes are governed by the *Retirement Benefits Act, 1997.* This requires that an actuarial valuation be carried out at least every 3 years for the defined benefit scheme. The most recent actuarial valuation of the defined benefit scheme was carried out as at 31 December 2009 by an independent qualified actuary.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

36 RETIREMENT BENEFIT OBLIGATIONS (Continued)

However, the Bank's actuary did a review for the year ended 31 December 2012. 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	2012 KShs '000	2011 KShs '000
Fair value of plan assets	771,036	808,158
Present value of funded obligations	(759,000)	(611,000)
Retirement benefit obligations before asset ceiling	12,036	197,158
Irrecoverable surplus	(12,036)	(197,158)
Additional liability for minimum funding requirements	(25,000)	(49,000)
Retirement benefit obligations as at 31 December	(25,000)	(49,000)
Plan assets consist of the following:		
Offshore investments	115,611	29,160
Government bonds	250,482	303,030
Corporate bonds	152,308	141,537
Other	252,635	334,431
	771,036	808,158
Movement in plan assets		
Fair value of plan assets at 1 January	808,158	810,624
Expected return on plan assets	129,100	68,524
Benefits paid by the plan	(117,700)	(124,973)
Employer contributions	56,500	52,900
Recognised actuarial (losses)/gains	(105,022)	1,083
Fair value of plan assets at 31 December	771,036	808,158
Movement in the present value of the retirement benefit obligations		
Retirement benefit obligations at 1 January	611,000	975,700
Interest cost	93,200	82,071
Past service cost	30,000	26,400
Benefits paid by the plan	(117,700)	(124,973)
Recognised actuarial losses/(gains)	142,500	(348,198)
Retirement benefit obligations at 31 December	759,000	611,000

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

36 RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

	2012 KShs '000	2011 KShs '000
Interest cost	(93,200)	(82,071)
Expected return on plan assets	129,100	68,524
Past service cost	(30,000)	(26,400)
Movement in irrecoverable surplus	185,122	(197,158)
Movement in liability for minimum funding requirements	24,000	(49,000)
Recognised actuarial (losses)/gains	(247,522)	349,281
Total (charge)/credit included in staff costs	(32,500)	63,176

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

	2012 % pa	2011 % pa
Discount rate	13	17
Expected return on plan assets	13	17
Future pension increases	0	0

The overall expected long-term rate of return on the assets is 13% (2011 – 17%) 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:

	2012 KShs '000	2011 KShs '000
At 1 January	(49,000)	(165,076)
Employer contributions	56,500	52,900
(Charge)/credit to profit or loss	(32,500)	63,176
At 31 December	(25,000)	(49,000)

Historical information	2012 KShs '000	2011 KShs '000	2010 KShs '000	2009 KShs '000	2008 KShs '000
Fair value of plan assets	771,036	808,158	810,624	710,587	727,893
Present value of funded obligations	(759,000)	(611,000)	(975,700)	(832,000)	(862,900)
Retirement benefit obligations before asset ceiling	12,036	197,158	(165,076)	(121,413)	(135,007)
Irrecoverable surplus	(12,036)	(197,158)	–	–	–
Additional liability for minimum funding requirements	(25,000)	(49,000)	–	–	–
Retirement benefit obligations	(25,000)	(49,000)	(165,076)	(121,413)	(135,007)

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

37 SHARE CAPITAL AND RESERVES

Company

(a) Share capital

Authorised

The authorised share capital of the Company at 31 December 2012 was KShs 1,905 million (2011 – KShs 1,780 million) made up of 325 million (2011 – 300 million) ordinary shares of KShs 5.00 each and 56 million (2011 – 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.

Authorised

	Number of ordinary shares ('000)	Number of preference shares ('000)	Authorised share capital KShs'000
2012:			
At 1 January 2012 and 31 December 2011	300,000	56,000	1,780,000
Increase during the year	25,000	–	125,000
At 31 December 2012	**325,000**	**56,000**	**1,905,000**
2011:			
At 1 January 2011 and 31 December 2010	300,000	56,000	1,780,000
Increase during the year	–	–	–
At 31 December 2011	**300,000**	**56,000**	**1,780,000**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

37 SHARE CAPITAL AND RESERVES (Continued)

Company

(a) Share capital (Continued)

Issued and fully paid

	Number of ordinary shares ('000)	Number of preference shares ('000)	Issued share capital KShs'000
2012:			
At 1 January 2012 and 31 December 2011	287,077	56,000	1,715,386
Rights issue during the year	22,082	–	110,412
At 31 December 2012	**309,159**	**56,000**	**1,825,798**
2011:			
At 1 January 2011 and 31 December 2010	287,077	56,000	1,715,386
Rights issue during the year	–	–	–
At 31 December 2011	**287,077**	**56,000**	**1,715,386**

The shareholders at 31 December 2012 that had large holdings were as follows:

Name	Number of shares ('000)	%
1. Standard Chartered Holdings (Africa) BV	228,432	73.89
2. Kabarak Limited	3,178	1.03
3. National Social Security Fund - Board of Trustees – A/C 71098	2,027	0.66
4. National Social Security Fund A/C 71258	1,567	0.51
5. Standard Chartered Africa Holdings Limited	1,307	0.42
6. Standard Chartered Nominees Limited – A/C 9230	1,159	0.37
7. Old Mutual Insurance Company Limited	971	0.31
8. Standard Chartered Nominees Limited – A/C 1256B	923	0.30
9. Standard Chartered Nominees Limited – A/C 9389	878	0.28
10. Kenya Commercial Bank Nominees Limited – A/C 769G	566	0.18
11. Others	68,151	22.05
	309,159	**100.00**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

37 SHARE CAPITAL AND RESERVES (Continued)

Company

(a) Share capital (Continued)

Issued and fully paid (Continued)

The distribution of shareholders as at 31 December 2012 and 2011 was as follows:

	2012			2011		
Share range	Number of shareholders	Shares held ('000)	%	Number of shareholders	Shares held ('000)	%
Less than 500	9,320	1,845	0.60	9,495	1,916	0.67
501 to 5,000	21,557	27,134	8.78	21,533	26,525	9.24
5,001 to 10,000	388	2,734	0.88	388	2,739	0.95
10,001 to 100,000	498	14,434	4.67	448	12,861	4.48
100,001 to 1,000,000	105	25,342	8.20	85	20,214	7.04
Above 1,000,000	6	237,670	76.87	8	222,822	77.62
Total	**31,874**	**309,159**	**100.00**	**31,957**	**287,077**	**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.

	2012 KShs '000	2011 KShs '000
At 1 January	4,836,258	4,836,258
Rights issue during the year	3,091,533	–
Issue costs	(135,364)	–
At 31 December	**7,792,427**	4,836,258

On 24 May 2012, during the Annual General Meeting, the shareholders approved the authorised share capital of the Company to be increased by the creation of 25,000,000 new ordinary shares. Further the directors were authorised to offer by way of a rights issue upto 37,000,000 ordinary shares. The directors offered 22,082,856 new ordinary shares at KShs 145.00 per share at a ratio of entitlement of one (1) new share for every thirteen (13) existing shares held. The shares that were allotted were 22,082,381. The proceeds of the rights issue will shore up the capital base in anticipation of continued growth and any regulatory changes.

(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 2012

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 (used in)/from operating activities

	2012 KShs '000	2011 KShs '000
Profit before taxation	11,556,191	8,255,135
Depreciation	493,354	341,857
Amortisation of intangible assets	403,169	366,374
Profit on sale of non-current asset held for sale	(94,843)	(356,427)
Profit on sale of property and equipment	(1,919)	(51)
Amortisation of prepaid operating lease rentals	2,049	2,908
Retirement benefit obligations	32,500	(63,176)
(Increase)/decrease in operating assets		
Balances with Central Bank of Kenya		
– Cash Reserve Ratio	19,579	(2,041,045)
Government and other securities held for trading	(2,873,334)	610,190
Derivative financial instruments	28,221	(101,773)
Loans and advances to banks	225,000	200,000
Loans and advances to customers	(16,596,700)	(35,760,994)
Investment securities	(17,152,430)	20,048,014
Amounts due from group companies	841,585	(2,585,559)
Other assets	354,037	(860,252)
Increase/(decrease) in operating liabilities		
Deposits from banks	1,745,400	320,666
Deposits from customers	18,201,797	21,818,984
Derivative financial instruments	(215,581)	537,315
Amounts due to group companies	2,114,978	(1,206,153)
Defined benefit obligations	(56,500)	(52,900)
Other liabilities	779,822	(1,588,145)
Cash (used in)/from operating activities	(193,625)	7,884,968
Income taxes paid	(2,961,531)	(2,504,104)
Net cash (used in)/from operating activities	(3,155,156)	5,380,864

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

38 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

Group

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

	2012 KShs '000	2011 KShs '000
Cash on hand	3,158,221	2,926,464
Unrestricted cash balances with Central Bank of Kenya	3,307,054	1,948,832
Treasury bills	–	2,403,388
Loans and advances to banks	1,048,580	992,427
Deposits from banks	(1,295,242)	(7,265,385)
Amounts due from group companies	3,661,315	9,339,721
Amounts due to group companies	(6,869,765)	(3,416,025)
	3,010,163	6,929,422

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:

	2012 KShs '000	2011 KShs '000
Guarantees and standby letters of credit	23,232,098	17,874,180
Letters of credit, acceptances and other documentary credits	13,846,585	14,435,415
	37,078,683	32,309,595

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 2012

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 2012, the directors have not made provisions for tax demand letters amounting to KShs 96 million (2011 – KShs 136 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 2012, 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 381,760,740,865 (2011 – KShs 246,788,652,000). 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 25. 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 2012, deposits from SCKPF and SCKSRBS 2006 amounted to KShs 115,822,552 (2011 – KShs 39,474,239).

At 31 December 2012, balances relating to deposits from directors, employees and associates amounted to KShs 755,433,058 (2011 – KShs 642,861,132).

The interest expense paid during the year on deposits from directors, employees and associates amounted to KShs 11,567,530 (2011 – KShs 2,830,528).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2012

43 RELATED PARTY TRANSACTIONS (Continued)

Group and company

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

	2012	2011
Loans and advances to directors, employees and their associates	**KShs '000**	KShs '000
At start of the year	**2,764,899**	2,437,248
Amounts advanced during the year	**1,802,932**	1,615,652
Amounts repaid during the year	**(1,310,552)**	(1,288,001)
At end of the year	**3,257,279**	2,764,899
Loans and advances to directors or companies controlled by directors or their families	**52,748**	65,570
Loans and advances to employees	**3,204,531**	2,699,329
	3,257,279	2,764,899

The interest income earned during the year on loans and advances to directors, employees and associates amounted to KShs 194,036,182 (2011 – KShs164,147,545).

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

None of the loans and advances above are impaired at 31 December 2012 (2011 – Nil).

	2012	2011
Key management compensation	**KShs '000**	KShs '000
Salaries and other employee benefits	**288,828**	320,367

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

44 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

Group and Company

The Group's commitments under non cancellable operating leases expiring:

	2012		2011	
	Premises	**Equipment**	Premises	Equipment
	KShs '000	**KShs '000**	KShs '000	KShs '000
Within 1 year	**237,594**	**205,635**	188,603	187,359
After 1 year but less than 5 years	**539,159**	**341,605**	339,829	230,666
After 5 years	**93,300**	**–**	118,480	–
	870,053	**547,240**	646,912	418,025

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

45 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-seventh Annual General Meeting of the Company will be held at the Safari Park Hotel, Thika Road, Nairobi on Thursday, 23 May 2013 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 the Statement of the Financial Position of the Company for the year ended 31 December 2012 with the Auditors' report thereon.

2. To approve the payment of a dividend of KShs 12.50 for each ordinary share of KShs 5.00 on the issued share capital of the Company in respect of the year ended 31 December 2012.

3. To elect the following Directors:
   (a) Mr. Mike Hart, a director retiring by rotation who being eligible offers himself for re-election in accordance with Article 96 (1) of the Memorandum and Articles of Association;
   (b) Mr. Kariuki Ngari, a director retiring by rotation who being eligible offers himself for re-election in accordance with Article 96 (1) of the Memorandum and Articles of Association;

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

5. To note continuance in office of KPMG Kenya as auditors 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.

6. **SPECIAL BUSINESS**
   To consider, and if thought fit, pass the following Special Resolution to amend the Company's Articles of Association:

   TRANSFER OF SHARES
   (i) THAT Article 25 of the Articles of Association of the Company be amended by inserting a new Article 25(c) to read as follows: "Transfer of shares or under the Companies Act shall be deemed to be a reference to a book-entry transfer performed by the central depository."

   (ii) THAT the Articles of Association of the Company be amended by adding a new Article 141 to read as follows:

   UNCLAIMED ASSETS
   Article 141
   "The Company may, if required by law, deliver or pay to any prescribed person any assets of any shareholders which are deemed by any law to be abandoned or unclaimed as may be specified in any such law. Upon such delivery or payment the Company shall not be liable to the actual owner of such assets in respect thereof."

BY ORDER OF THE BOARD

N.N. Oginde
Company Secretary
Standard Chartered Bank Kenya Limited
P.O. Box 30003, 00100 Nairobi GPO
17 April 2013

Note: Every member entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. A form of proxy can be downloaded from the Company's website, **www.standardchartered.co.ke** and should be delivered or sent to the Share Registrar, Custody and Registrar Services (CRS), 6th Floor Bruce House, Standard Street, P.O. Box 8484, 00100, Nairobi, so as to be received not later than 21 May 2013 at 3:00 p.m.

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 23, May 2013 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 ________________________________2013

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 21 May 2013, 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 23 2013, Safari Park Hotel, Thika Road, Nairobi na wakati wa ahirisho lolote litakalotokea baadaye, kama

shahidi siku hii: ________________________________2013

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 21 2013. 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.**

Standard Chartered

When businesses succeed, livelihoods flourish.

In 2009, we took the initiative to be first to align with the World Bank Group in boosting global trade flows. Since then, we have continued to be proactive in encouraging growth across our markets. As trade is the lifeblood of the local economy, our commitment does more than protect businesses. It stimulates the communities that depend on them.

Here for good

Discover more at
standardchartered.com/answers

Standard Chartered

Here for good