Standard Chartered
Here for good

Driving investment, trade and the creation of wealth
in Kenya

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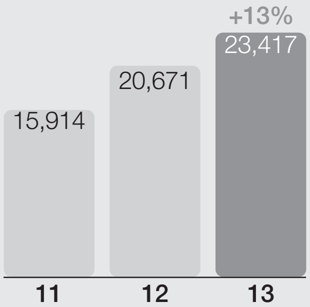
Standard Chartered Bank Kenya Limited is regulated by Central Bank of Kenya.

Performance Highlights

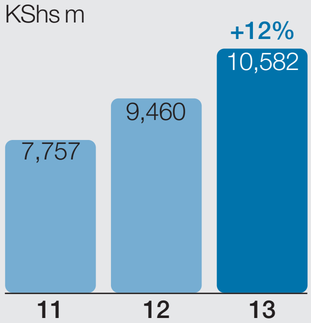
Strong foundations, consistent growth

Financial Highlights

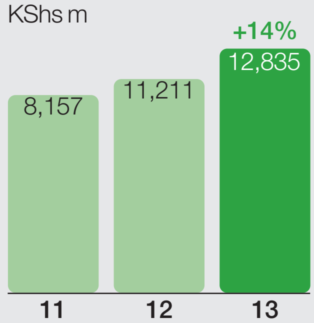
Operating income
KShs m



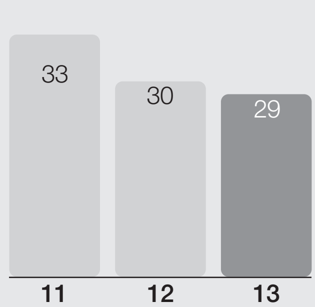
Consumer Banking Operating income
KShs m



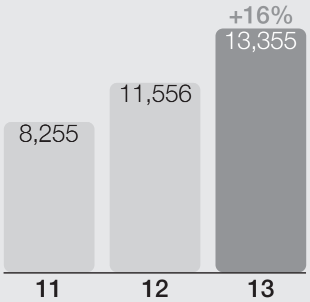
Wholesale Banking Operating income
KShs m



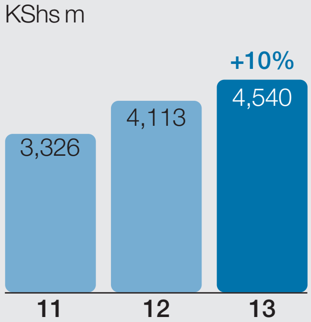
Return on equity
%



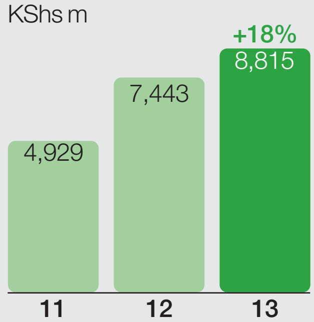
Profit before taxation
KShs m



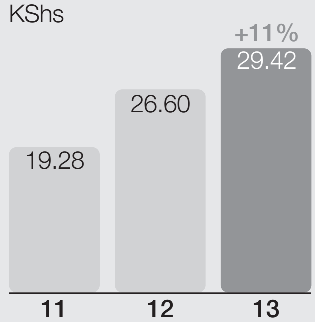
Consumer Banking profit before taxation
KShs m



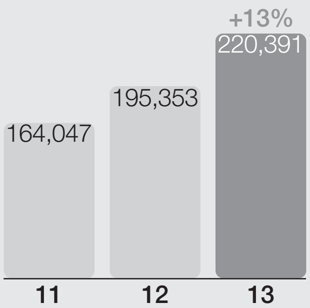
Wholesale Banking profit before taxation
KShs m



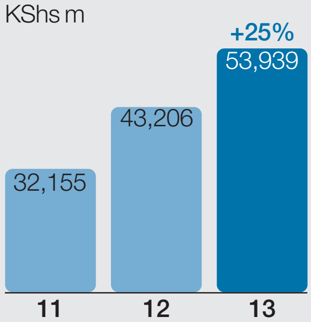
Earnings per share
KShs



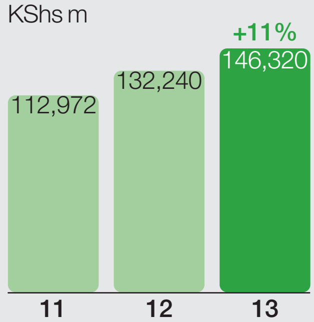
Total assets
KShs m



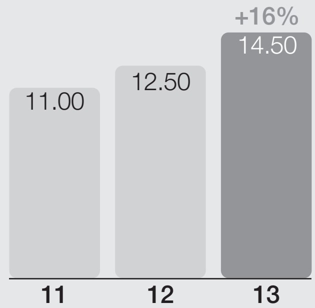
Consumer Banking total assets
KShs m



Wholesale Banking total assets
KShs m



Dividend per share
KShs m



Non-financial Highlights

Employees
1,850
2012: 1,903 2011: 1,743

Branches
37
2012: 34 2011: 32

ATMs
98
2012: 97 2011: 90

Five Year Summary

Statement of Comprehensive Income	2013 KShs '000	2012 KShs '000	2011 KShs '000	2010 KShs '000	Restated 2009 KShs '000
Operating income	23,417,444	20,671,436	15,913,511	13,902,729	12,246,432
Impairment losses on loans and advances	(783,050)	(716,650)	(412,739)	(332,321)	(474,936)
Operating expenses	(9,279,429)	(8,398,595)	(7,245,637)	(5,888,524)	(5,043,049)
Profit before taxation	13,354,965	**11,556,191**	**8,255,135**	**7,681,884**	**6,728,447**
Taxation	(4,092,044)	(3,486,658)	(2,418,314)	(2,305,693)	(1,995,693)
Profit after taxation	9,262,921	**8,069,533**	**5,836,821**	**5,376,191**	**4,732,754**
Information per ordinary share					
Basic earnings per share (EPS) (2011 Restated)	29.42	**26.60**	**19.28**	**18.58**	**16.45**
Dividend per share on each ordinary share (DPS)	14.50	**12.50**	**11.00**	**13.50**	**12.00**
Statement of Financial Position					
Loans and advances to customers (gross)	131,965,961	114,534,987	97,417,343	61,599,405	58,016,010
Impairment losses on loans and advances	(2,293,957)	(1,840,464)	(1,319,520)	(1,262,576)	(1,321,134)
Government securities	55,642,528	45,320,968	24,584,908	54,540,817	43,357,357
Other assets	35,076,648	37,337,265	43,363,893	27,868,603	23,726,739
Total assets	220,391,180	**195,352,756**	**164,046,624**	**142,746,249**	**123,778,972**
Deposits from customers	154,720,011	140,524,846	122,323,049	100,504,065	86,773,652
Other liabilities	29,464,768	24,075,096	21,029,119	21,911,062	23,013,165
Total liabilities	184,184,779	**164,599,942**	**143,352,168**	**122,415,127**	**109,786,817**
Net assets	36,206,401	**30,752,814**	**20,694,456**	**20,331,122**	**13,992,155**
Shareholders' funds	36,206,401	**30,752,814**	**20,694,456**	**20,331,122**	**13,992,155**
Ratios					
Cost:income ratio	40%	41%	46%	42%	41%
Return on capital employed	29%	30%	33%	30%	39%
Gross non performing loans and advances/total gross loans and advances	3%	2%	1%	2%	3%
Impairment charge/gross loans and advances	1%	1%	1%	1%	1%
Gross loans and advances to deposits ratio	85%	82%	80%	61%	67%
Core capital/total deposit liabilities	17%	15%	12%	11%	12%
Core capital/total risk weighted assets	17%	16%	12%	14%	14%
Total capital/total risk weighted assets	21%	18%	14%	14%	14%

Chair to the Board Statement

Corporate Governance

"High standards of corporate governance are a key contributor to the long term success of a company, creating trust and engagement between the company and its stakeholders. Striving to deliver exemplary governance is core to the Board of the Bank. Effective governance in Standard Chartered is achieved through a combination of strong policies and processes, underpinned by the right values and culture. The Bank's culture and values are deeply embedded within the organisation, and are regularly reinforced."

It is with a sense of great pride that I announce another impressive year of record income and profits for the Bank. Despite a difficult year that was characterised by macroeconomic volatility and some economic uncertainty, Standard Chartered Bank has been able to surmount these challenges successfully to deliver yet another strong financial performance demonstrated through the business growth and the addition to shareholder value.

Operating Environment

In 2013, Kenya's macroeconomic conditions continued to improve, as the country's economy entered the third year of relative stability, with single-digit inflation and a stabilised exchange rate. GDP growth was lower than projected. However, despite the peaceful presidential election and smooth transfer of power in March 2013, the growth momentum generated in the last quarter of 2012 was lost in the second and third quarters of 2013, held down by lack of government spending and inadequate transmission of the monetary policy stance to the real economy.

The World Bank estimates that the economy grew by 5.0 per cent in 2013, up from 4.6 per cent in 2012—the highest level since 2010, when the economy grew by 5.8 per cent. This performance, although weak for East Africa, is commendable given Kenya's history of low growth during election years. Growth was driven mainly by consumption and to some extent investment. There was little volatility in international oil prices, and rainfall was adequate, which helped stabilise both food and energy prices. Year-on-year inflation was 7.4 per cent in November 2013, and average inflation was 5.6 per cent, down from 9.6 per cent in 2012.

Abundant rain increased crop production and hydropower generation, which improved performance in both agriculture and industry. Low interest rates, low inflation, and a stable shilling created a better macroeconomic environment for industry and businesses in 2013. Growth in the economy was largely attributed to strong performances in the agriculture, manufacturing, construction, mining and electricity and water supply sectors. Subdued growth was experienced in services sectors like tourism, transport and communication, wholesale and retail trade.

The banking sector registered improved growth in assets driven mainly by growth in deposits, injection of capital and retention of profits. The growth in loans and advances can also be attributed to increased lending to households, trade, manufacturing and real estate sectors. Growth in deposits was largely supported by aggressive mobilisation by banks, remittances and receipts from exports. The banking sector registered improved performance in earnings and capital and the level of non-performing loans reduced compared to 2012.

Chair to the Board Statement (Continued)

In 2013, as part of its reform agenda, the banking sector delivered on its final deliverable of the Cheque Truncation project by reducing the clearing period to one clearing day. This has shortened the time it takes for banks to process cheques thus enabling customers to access their funds at a much shorter time to conduct their economic activities. The Cheque Truncation Project which seeks to reduce cheque handling costs also provides superior customer service levels, improves risk management, reduces liquidity risk and improves efficiency of our national payment systems by streamlining the processing of cheques.

The Credit Information Sharing (CIS) mechanism continued to register increased usage by the banks. Banks have now incorporated credit reference reports in their credit risk appraisal processes. It is expected that borrowers with good track records would be able to negotiate for competitive credit terms including accessing credit based on their credit record without a requirement for collateral. 2013 also saw an increase in the use of the agency banking model by banks thus improving accessibility to banking services.

The Central Bank continued to play a proactive role in the development of the banking sector through encouraging different products that are cost effective, serve different market segments and lower barriers of entry and thus increases market access; strengthening regulatory capacity and capabilities to provide adequate oversight; supporting development of traditional and alternative financial infrastructures; and promoting competition and diversity.

Financial Results

Against a challenging operating environment, Standard Chartered continued to perform strongly demonstrating 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.

Here are some highlights:

- Profit before taxation was KShs 13.4 billion compared to KShs 11.6 billion in 2012, an increase of 16 per cent;
- Total operating income increased by 13 per cent to KShs 23.4 billion (2012: KShs 21.0 billion) as a result of strong growth in net interest income which increased by 19 per cent from KShs 13.7 billion to KShs 16.4 billion;
- Net bad debt charge increased from KShs 717 million to KShs 783 million and is in line with the growth in our loans and advances portfolio. We continue to have a proactive approach to risk management;
- Total operating costs grew by 10 per cent to KShs 9.3 billion (2012: KShs 8.4 billion) driven by continued investment in infrastructure, technology and talent to support our business growth. We continue to be disciplined in managing costs;
- Loans and advances increased by 15 per cent to KShs 129.7 billion (2012: KShs 112.7 billion) while customer deposits increased by 10 per cent to KShs 154.7 billion (2012: KShs 140.5 billion);
- Our investment in government securities increased from KShs 45.3 billion to KShs 55.6 billion on the back of strong growth in customer deposits; and
- Earnings per share increased by 11 per cent to KShs 29.42.

Dividend

The Board is recommending the payment of a final dividend for the year of KShs 14.50 for every ordinary share of KShs 5.00. This compares to KShs 12.50 per ordinary share in 2012. This dividend payout gives us the right balance between bolstering our capital base to enable us pursue growth in loans and advances, continue to deliver attractive returns to our investors as well as ensuring we meet the enhanced capital requirements. We intend to maintain healthy capital ratios through a range of measures including driving profitable, capital accretive growth.

Corporate Governance

High standards of corporate governance are a key contributor to the long term success of a company, creating trust and engagement between the company and its stakeholders. Striving to deliver exemplary governance is core to the Board of the Bank. Effective governance in Standard Chartered is achieved through a combination of strong policies and processes, underpinned by the right values and culture. The Bank's culture and values are deeply embedded within the organisation, and are regularly reinforced.

In 2013, the Board undertook a thorough review of the revised Prudential Guidelines issued by the Central Bank of Kenya and went on to oversee the successful implementation of the Guidelines. The Board also enhanced focus on key strategic and risk issues; maintained balance in pursuing growth opportunities in tandem with appropriate governance systems, controls, processes and information flows; and held a Corporate Governance training jointly with the Board of Standard Chartered Bank Tanzania.

The various Board Committees continued to play a vital role in supporting the Board in discharging its duties. The Audit Committee continued to robustly monitor the controls in place for management of capital and liquidity positions, especially in line with the regulatory requirements. The Risk Committee focused on reviewing the Company's risk appetite as well as monitoring the capital adequacy and liquidity positions. 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.

Chair to the Board Statement (Continued)

On 1 March 2014, Richard Etemesi stepped down from the Board after 10 years of dedicated service both as the Executive Director, Finance and Strategy and later as the Managing Director and Chief Executive Officer. During his tenure as the Managing Director, 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.

Community Partnership

Banks have an essential role in a prosperous and healthy society. We believe that by running our operations well, standing by our clients and customers and investing in the communities where we operate, we can be a powerful force for good.

Our approach focuses on getting the basics of banking right, making sure that we are financially stable with strong governance and good sources of capital and liquidity, so that we can create value for our shareholders and society over the long run.

We have three key sustainability priorities:

- Contributing to sustainable economic growth: by providing finance efficiently and responsibly, we contribute to sustainable economic growth and job creation. We are committed to supporting our clients and customers – helping businesses to set up, expand and trade across borders, helping people to buy homes and grow their wealth for the future. Widening access to finance is a core tenet of our strategy, as is our commitment to providing finance that supports sustainable development in communities;

- Being a responsible company: we want to deliver long-term value for our shareholders and society. This means having the right culture, structures and processes in place to ensure that we practice strong governance, serve our clients and customers well and provide a great workplace for our people. Doing what we can to combat financial crime and protect the environment is also crucial to this commitment; and

- Investing in communities: our sustainability as a business is closely intertwined with the health and prosperity of the communities where we operate. Through our employee volunteering and community investment programmes we work with partners to deliver programmes that promote positive social and economic outcomes for people in our markets.

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 2013, 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

Our consistent strong performance is underpinned by disciplined execution of our growth strategy through respecting the basic tenets of good banking, adherence to our risk policies and procedures, deeper relationships with our existing clients and customers and leading the market through innovative products and services.

Our brand promise, 'Here for good', remains an integral part of how we conduct our affairs around the globe including Kenya. This means we will do our best to exercise our day to day conduct to reflect our obligation to all stakeholders in the communities in which we operate.

Though we may not always get some things right, 'Here for good', remains the standard by which we will judge ourselves and expect to be judged by. It is who we are at our best and this means a lot to the Board, Management and Staff of the Bank. We will conduct our affairs in such a manner that will serve as the benchmark for Kenya's banking industry and give even greater relevance to 'Here for good'.

In summary our good performance in 2013 is a reflection of a proven and sustainable business strategy reinforced by good governance oversight, a resilient operating model and a strong management capability. Through our operating results, we are sending clear signals of our appetite and growth ambitions for Kenya. Our long term view of Kenya's prospects remains positive and we will continue to commit the necessary resources to ensure that Standard Chartered Bank plays an important role in Kenya's economic evolution.

Finally, I wish to express my sincere appreciation to our clients, customers and shareholders for their support during 2013. Above all, I would like to thank our great people for their hard work and ongoing commitment to Standard Chartered.

Anne Mutahi
Chair to the Board

24 March 2014

Taarifa ya Mwenyekiti

Usimamizi wa Kampuni

"Uongozi wa viwango vya juu vya shirika huwa ni chanzo muhimu kwa mafanikio ya usoni ya kampuni katika kujenga uaminifu na mahusiano bora baina ya kampuni na wadau wake. Kuwania ili kufanikisha uongozi wa kupigiwa mifano ni muhimu sana kwa Bodi ya Benki hii. Usimamizi ufaao katika benki ya Standard Chartered unafikiwa kupitia kwa mseto wa sera na michakato, inayojiegemeza katika maadili na utamaduni faafu. Maadili na utamaduni wa benki hii vimejifungamanisha na shirika hili na huwa vinahuishwa mara kwa mara."

Nina fahari kubwa kuwatangazia mwaka mwingine wa kuvutia katika mapato ya kiwango cha kipekee na faida kwa Benki yetu. Licha ya kuwa na mwaka uliokumbwa na hali zinazobadilikabadilika za uchumi katiti na uchumi usiotabirika, Benki ya Standard Chartered imefaulu kukabiliana na kuzishinda changamoto hizi na hata kuweza kufanikiwa na mavuno mema kifedha yanayodhihirishwa na ukuaji wa biashara na nyongeza ya thamani kwa mwenyehisa.

Mazingira ya Utendakazi

Mnamo 2013 hali ya uchumi katiti wa nchi ya Kenya iliendelea kuimarika, huku uchumi wa nchi kwa jumla ukiingia mwaka wa tatu wa ustawi wa kiasi cha haja pamoja na mfumko wa bei usiofikisha tarakimu za makumi pamoja na viwango vya ubadilishanaji vilivyoimarika. Pato la jumla la taifa (GDP) lilikuwa chini ya ilivyotabiriwa. Hata hivyo, licha ya uchaguzi wa urais uliokuwa wa amani pamoja na ubadilishanaji wa mamlaka usiokuwa na bughdha mnamo Machi 2013, kasi ya ukuaji iliyokuwa imefikiwa katika robo ya mwisho wa mwaka wa 2012 ilishuka katika robo ya pili na ya tatu ya mwaka wa 2013, kutokana na ukosefu wa matumizi ya serikali na hali ya kutotekeleza kikamilifu sera madhubuti za kifedha katika uchumi halisi.

Kwa mujibu wa ripoti ya Benki ya Dunia, uchumi ulikadiriwa kuwa umekua kwa asilimia 5.0 katika 2013, kutoka kwa asilimia 4.6 katika mwaka wa 2012- ambacho ni kiwango cha juu zaidi kufikiwa tangu 2010, wakati uchumi ulikua kwa asilimia 5.8. Licha ya kuwa matokeo haya yanaonekana hafifu kwa Afrika Mashariki, bado ni ya kutia moyo hasa ikikumbukwa kuwa Kenya ina historia ya ukuaji wa chini sana wakati wa miaka ya uchaguzi. Ukuaji uliendeshwa sana na utumiaji-ununuaji wa bidha na huduma- na kwa kiasi fulani uwekezaji. Hakujakuwa na kubadilikabadilika kwingi kwa bei za mafuta katika ngazi za kimataifa na pia ilinyesha mvua ya kutosha na kufanya gharama za chakula na kawi kudhibitika. Mwaka baada ya mwaka mfumko wa bei umekuwa asilimia 7.4 mnamo Novemba 2013, na mfumko wa wastani umebakia kwenye asilimia 5.6 iliyoshuka kutoka asilimia 9.6 katika mwaka 2012.

Mvua ya kutosha iliongeza mazao shambani na utoaji wa umeme wa nguvu za maji, jambo ambalo liliimarisha mapato katika kilimo na viwanda. Viwango vya chini vya riba na mfumko wa bei, na shilingi iliyo imara vimesababisha mazingira bora wa kiuchumi katiti kwa viwanda na biashara katika mwaka wa 2013. Ukuaji wa uchumi ulihusishwa kwa kiasi kikubwa na matokeo ya kuvutia katika nyanja za kilimo, viwanda, ujenzi, uchimbaji madini na sekta za usambazaji wa umeme na maji. Ukuaji hafifu ulishuhudiwa katika sekta za utalii, usafiri na mawasiliano, na katika biashara za jumla na za rejareja.

Sekta ya benki iliandikisha uimarikaji wa ukuaji hasa katika raslimali zinazoendeshwa na ongezeko katika uwekaji amana, uongezaji mitaji na uhodhi wa faida. Ukuaji katika mikopo na arubuni pia unaweza kuhusishwa na ongezeko katika ukopeshaji kwa watu binafsi katika familia, biashara, sekta za utengenezaji bidhaa na ujenzi na uuzaji wa makao. Ongezeko katika uwekaji amana lilisababishwa kwa kiasi kikubwa na uhamazishaji wa hali ya juu kutoka kwa benki, pesa zilizotumwa nchini kutoka ng'ambo na mapato yaliyotokana na mauzo ya bidhaa kwa mataifa ya nje. Sekta ya benki iliandikisha ongezeko la mapato na mtaji huku viwango vya

Taarifa ya Mwenyekiti (Yaendelea)

mikopo viliyokoma kujilipa vikipungua ikilinganishwa na wakati kama huu mwaka 2012.

Ikiwa ni moja ya ajenda za mabadiliko katika mwaka wa 2013, sekta ya benki ilifanikiwa kufaulisha hatua ya mwisho ya Mradi wa Kurahisisha hatua za Hundi (Cheque Truncation) kwa kupunguza muda unaotumiwa kuishughulikia hundi hadi kufikia siku moja. Hii imefupisha muda ambao benki hutumia kuishughulikia hundi na hivyo kuwawezesha wateja kupata hela zao katika muda mfupi zaidi ili waweze kujihusisha na biashara zao. Urahisishaji wa hatua za kushughulikia hundi unaolenga kupunguza gharama ya kuishughulikia hundi na pia kutoa huduma za viwango na hali ya juu kwa wateja, huboresha mbinu za kuipunguza hatari, hupunguza hatari ya msambao wa fedha nchini na kuimarisha utendakazi wa mifumo ya utoaji malipo kwa kunyorosha ushughulikiaji wa hundi.

Mfumo wa Kusambaza Habari za Mikopo (CIS) unaendelea kupata ongezeko la watumiaji miongoni mwa benki. Benki sasa zimehusisha ripoti za kurejelea mikopo katika michakato yao ya kutathmini hatari za mikopo. Inatarajiwa kuwa wakopaji walio na historia ya rekodi safi wataweza kuwania masharti bora ya kukopeshwa ikiwa ni pamoja na kupata mkopo kutokana na rekodi zao bila ya mahitaji ya kuwa na dhamana ya mkopo. Mwaka wa 2013 pia ulishuhudia ongezeko katika matumizi ya mfumo wa mawakala wa benki jambo ambalo liliongeza upatikanaji wa huduma za benki.

Benki Kuu ya Kenya iliendelea kutekeleza jukumu tangulizi katika maendeleo ya sekta ya benki kwa kuwatia moyo ili wawe na huduma anuwai za gharama ya chini, kuhudumia maeneo mbali mbali ya masoko na kupunguza pingamizi za kuanzisha biashara na hivyo kuongezea ufikikaji wa soko; kutia nguvu uwezo wa udhibiti na uwezo wa kutoa huduma tosha za usimamizi; kusaidia maendeleo ya miundo-msingi asilia na mbadala wa kifedha; na kuimarisha ushindani na uanuwai.

Matokeo ya Kifedha

Benki ya Standard Chartered iliendelea kunawiri kwa ukakamavu dhidi ya mazingira yenye changamoto nyingi na hivyo kuonyesha kuwa sisi tuko katika eneo mwafaka, tuna mikakati ifaayo na tuna uongozi madhubuti wa kutuwezesha kuwafikishia wenyehisa wetu thamani ya uwekezaji wao kwa uaminifu.

Haya ni baadhi ya mafanikio:

- Faida kabla ya kutozwa ushuru ilikuwa Shilingi bilioni 13.4 ikilinganishwa na Shilingi bilioni 11.6 mnamo mwaka wa 2012, ongezeko la asilimia 16;
- Kwa jumla ongezeko lilikuwa ni kwa asilimia 13 kufikia Shilingi bilioni 23.4 (2012: Shilingi bilioni 21.0) kutokana na ukuaji dhabiti wa mapato halisi ya riba ambayo yaliongezeka kwa asilimia 19 kutoka Shilingi bilioni 13.7 hadi Shilingi bilioni 16.4;
- Kiwango halisi cha gharama ya mkopo usiotarajiwa kulipwa kiliongezeka kutoka Shilingi milioni 717 na kufikia Shilingi milioni 783 na kuwa sambamba na ongezeko la viwango vya mikopo na arbuni zetu. Tunaendelea kuwa na mtazamo wa kuwa watangulizi katika udhibiti wa hatari;
- Gharama za jumla za kuendesha biashara ziliongezeka kwa asilimia 10 na kufikia Shilingi bilioni 9.3 (2012: Shilingi bilioni 8.4) hili likihusishwa na uwekezaji katika miundo-msingi, teknolojia na talanta; vyote vikisaidia ukuaji wa biashara. Tunaendelea kuwa na nidhamu ya juu katika udhibiti wa gharama;
- Mikopo na arbuni viliongezeka kwa asilimia 15 na kufikia Shilingi bilioni 129.7 (2012: Shilingi bilioni 112.7) huku amana ya wateja ikiongezeka kwa asilimia 10 na kufikia Shilingi bilioni 154.7 (2012: Shilingi bilioni 140.5);
- Uwekezaji wetu katika hisa za serikali uliongezeka kutoka Shilingi bilioni 45.3 na kufikia Shilingi bilioni 55.6 ikiwa ni kwa mujibu wa ukuaji thabiti wa amana za wateja; na
- Mapato kwa hisa yaliongezeka kwa asilimia 11 na kufikia Shilingi 29.42.

Mgao wa Faida

Bodi inapendekeza malipo ya mgao wa mwisho kwa mwaka huu yawe Shilingi 14.50 kwa kila hisa ya kawaida ya Shilingi 5.00. Hii inalinganishwa na mwaka 2012 ambapo Shilingi 12.50 kwa hisa ya kawaida zililipwa. Malipo haya ya mgao wa faida yanatuweka pahali pazuri tunapowania kuinua kiwango chetu cha mtaji ili kujiwezesha kuimarika katika eneo la mikopo na arbuni, tuendelee kuzalisha mapato ya kuvutia kwa wawekezaji wetu na hali kadhalika kuhakikisha kuwa tumetimiza mahitaji ya viwango vya mtaji. Tunanuia kuhakikisha kuwa uwiano mwafaka wa kimtaji unabakia katika viwango bora kupitia kwa hatua kadhaa ikiwa ni pamoja na kuinua ukuaji wenye faida na ongezeko la mtaji hatua kwa hatua.

Usimamizi wa Kampuni

Uongozi wa bora wa viwango vya juu vya shirika huwa ni chanzo muhimu kwa mafanikio ya usoni ya kampuni katika kujenga uaminifu na mahusiano bora baina ya kampuni na wadau wake. Kuwania ili kufanikisha uongozi wa kupigiwa mifano ni muhimu sana kwa Bodi ya benki hii. Usimamizi ufaao katika benki ya Standard Chartered unafikiwa kupitia kwa mseto wa sera na michakato, inayojiegemeza katika maadili na utamaduni faafu. Maadili na utamaduni wa benki hii vimejifungamanisha na shirika hili na huwa vinatiliwa nguvu mara kwa mara.

Mnamo mwaka wa 2013, Bodi ilitathmini kwa uangalifu Sheria mpya za Taratibu za Benki zilizotolewa na Benki Kuu ya Kenya na kuendelea na utekelezaji wa mwongozo huo hadi kufanikiwa kwake. Bodi pia iliimarisha umakinifu uliolenga masuala ya mikakati na hatari; na kuhakikisha kuna mwafaka katika usakaji wa nafasi za maendeleo kuambatana na mifumo faafu ya kiutawala, udhibiti, michakato na mtiririko wa habari; ikiwa ni pamoja na kuandaa kikao cha mafunzo kuhusu usimamizi wa kampuni pamoja na Bodi ya Benki ya Standard Chartered ya Tanzania.

Kamati mbali mbali za Bodi ziliendelea katika utekelezaji wa majukumu yao muhimu ya kuisaidia Bodi kutimiza wajibu wake. Kamati ya Ukaguzi iliendelea kwa ukakamavu, kuangalia vidhibiti vinavyofanyishwa kazi katika usimamizi wa mtaji na hali za fedha, hasa kuambatana na mahitaji ya sharia za udhibiti. Kamati inayojishughulisha na masuala ya hatari ilimakinikia kutathmini vivutio vya hatari katika Kampuni na pia kufuatilia utoshelevu wa

Taarifa ya Mwenyekiti (Yaendelea)

mtaji na hali za kifedha. Pia ilichukua muda wa kutosha kuangalia hatari- ibuka kulingana na hatari zinazoweza kuletwa na udhibiti, mtaji na teknolojia. Wakurugenzi wasio-watendaji wataendelea kuhakikisha kuna uangalizi wa usimamizi wa Benki kupitia kwa mikutano ya Bodi na kamati mbali mbali za Bodi.

Mnamo tarehe moja mwezi wa Machi 2014, Bw. Richard Etemesi alijiuzulu kutoka kwa Bodi baada ya miaka 10 ya huduma ya kujitolea mhanga wakati alikuwa Mkurugenzi Mtendaji, Fedha na Mikakati na baadaye kama Mkurugenzi Msimamizi na Afisa Mkuu Mtendaji. Katika enzi yake kama Mkurugenzi Msimamizi, aliongoza Benki hii katika kipindi cha ukuaji thabiti wa kifedha na kimikakati. Tunamshukuru sana kwa mchango wake madhubuti alioutoa kwa ufanisi wa Benki hii.

Kushirikiana na Jamii

Benki zina jukumu muhimu katika jamii inayoendelea na dhabiti. Tunaamini kuwa kwa kuendesha shughuli zetu vyema, kusimama na wadau na wateja wetu na kuwekeza katika jamii tunamofanyia kazi zetu, tunaweza kuwa nguvu imara ya wema.

Mtazamo wetu unamakinikia kupata masuala ya kimsingi yahusuyo benki kwa usahihi, kuhakikisha kuwa tuko imara kifedha na kuwa na usimamizi dhabiti na vyanzo vizuri vya mtaji na fedha, ili tuongeze thamani kwa jamii yetu na hatimaye wenyehisa wetu.

Tuna nguzo tatu za vipaumbele vya kiuendelevu

- Kuchangia kwa ukuaji endelevu wa kiuchumi: Kwa kutoa fedha kwa njia ifaayo na yakuwajibika, tunachangia ukuaji endelevu wa kiuchumi na uundaji wa nafasi za kazi. Tumejitolea kwa kusaidia wadau na wateja wetu- kusaidia biashara kuanzishwa, kupanuliwa na kuendelezwa nje ya mipaka ya nchi hii, kuwasaidia watu wanunue makao na kukuza mali yao kwa maisha ya usoni. Kupanua upatikanaji wa fedha ni mhimili mkuu katika mikakati wetu, kama lilivyo jukumu letu la kujitolea kutoa fedha zinazosaidia maendeleo endelevu katika jamii tofauti;

- Kuwa kampuni inayowajibika: Tungependa kuwapa wenyehisa wetu na jamii thamani ya kudumu. Hii inamaanisha kuwa na utamaduni ufaao, miundo na michakato inayohakikisha kunaendeleza usimamizi dhabiti, kuhudumia wadau na wateja wetu vyema na kuwezesha uwepo wa mandhari mwafaka ya kikazi kwa watu wetu. Kufanya kila tuwezalo kukabiliana na jinai la kifedha na kulinda mazingira pia ni muhimu sana katika ahadi hii; na

- Kuwekeza katika jamii: Uendelevu wetu kama biashara umeambatanishwa kwa karibu sana na ustawi na ubora wa jamii tunamofanyia kazi. Kupitia kwa programu zetu za wafanyakazi kujitolea kusaidia na uwekezaji katika jamii tunashirikiana na washirika wetu kuleta miradi inayoleta matokeo yafaayo ya kijamii na kiuchumi kwa watu kwenye masoko yetu.

Nawaomba msome Uhakiki wa Uendelevu (Sustainability Review) ulio katika Ripoti hii ili muone hatua ambazo Benki imepiga katika kutimiza wajibu wake katika vipengele vitatu vilivyotajwa hapo juu. Katika uhakiki huo tumeweka matokeo yetu ya mwaka 2013, huku tukipima maendeleo yetu dhidi ya malengo yanayopanuka tumejiweka katika hali ya kuhakikisha kuwa tunabakia 'Here for good'- kwa ajili ya watu, kwa ajili ya maendeleo na kwa ajili ya siku za usoni.

Muhtasari

Matokeo yetu thabiti mwaka baada ya mwaka yanajikita katika utekelezaji wa mikakati yetu ya kimaendeleo kwa nidhamu kuu kupitia kuheshimu nguzo za kimsingi za shughuli safi za benki, kuzingatia sera na taratibu zetu za kukabiliana na hatari, uhusiano wa karibu na wadau wetu na wateja wetu tulionao na kuongoza soko kupitia uwepo wa bidhaa na huduma bunifu.

Ahadi ya bidhaa zetu, 'Here for good', hubakia kipengele kikuu kuhusu jinsi tunavyoendesha shughuli zetu kote ulimwenguni pamoja na ndani ya Kenya. Hii ina maana kuwa tutafanya kila tuwezalo kutekeleza sifa zetu hizi kila siku ili kuakisi jukumu letu kwa wadau wote, wenyehisa wote, wateja wote, mawakala wote, waajiriwa wote, wadhibiti hali wote na kwa jamii zote tunamofanyia kazi.

Licha ya kuwa hatuwezi kuwa sahihi kila wakati, 'Here for good', hubakia kipimo ambacho sisi tutajipima nacho na kutarajia kupimwa nacho. Ni kuhusu tulivyo na ufanisi wetu na hilo lina umuhimu mkuu kwa Bodi, Usimamizi na Wafanyakazi wa Benki hii. Tunatekeleza shughuli zetu kwa njia ambayo tunatarajia itakuwa kielelezo kwa sekta ya benki nchini Kenya na hivyo kuleta umuhimu zaidi kwa kauli yetu ya 'Here for good'.

Kwa muhtasari, matokeo yetu mazuri ya mwaka 2013 ni kiakisi cha mkakati wa kibiashara uliothibitishwa na kuendelezwa ukiungwa mkono na uongozi madhubuti, muundo mwafaka wa kiutekelezaji na uwezo imara wa kiusimamizi. Kupitia kwa matokeo haya yanayojionyesha, tunapeleka ishara ya wazi juu ya hamu yetu na ari yetu ya kutamba nchini Kenya. Mtazamo wetu wa mustakabali wa Kenya unabakia kuwa chanya na tutabakia kuwekeza rasilmali inayohitajika ili kuhakikisha kuwa benki ya Standard Chartered inatekeleza jukumu muhimu katika mabadiliko ya uchumi wa Kenya.

Mwisho, ningependa kutoa shukrani zangu za dhati kwa wateja wetu kwa kutuunga mkono bila kuchoka. Ningependa pia kuishukuru Bodi, wasimamizi na wafanyakazi wa Benki hii kwa bidii waliotia ili kutupatia mwaka mwingine wenye matokeo mazuri.

Anne Mutahi
Mwenyekiti wa Bodi

24 Machi 2014

Chief Executive Officer's Statement

Strategic growth

"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. We are putting even greater focus on our clients and customers, on building deep and long-standing relationships and on improving the quality of our service and solutions."

Introduction

2013 was an excellent year for the Bank. We maintained our strong drive by delivering good results across a balanced scorecard of performance criteria to sustain our business growth. We have built momentum and we have confidence in our strategic focus.

Over the last few years, we have delivered consistently for all our stakeholders. We set ourselves ambitious goals and have delivered against them. We have strengthened our infrastructure and developed robust risk management capabilities. We have increased our level of staff engagement and deepened our talent pool.

Much of what drives the Standard Chartered story remains constant. Our ambition to be the world's best international bank remains unchanged, and our strategy broadly remains the same – we bank the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East. 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. We are putting even greater focus on our clients and customers, on building deep and long-standing relationships and on improving the quality of our service and solutions.

We continue to be strongly committed to 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 continuously focus on culture and values, on the way we work together across our businesses, product and segment groups, combining our deep local knowledge with global capability. These fundamentals underscore everything the Bank does, and everything we stand for as a Bank.

We know that we will be held to our brand promise, 'Here for good', and continue to work hard to embed this commitment in everything we do. We are not pretending we will get everything right, but 'Here for good' means we will try to do the right thing and take a long-term view of our obligations to our shareholders, our clients and customers and the communities in which we operate.

Proving we are 'Here for good' is all about our values and culture. People are now talking about the culture of banks, but we have been investing time and energy in reinforcing our culture for a long time. We see it as a key source of competitive differentiation and a key risk management tool. We identified and introduced our values a decade ago, embedding them into our performance management system to reward our people, not just for what they achieve, but for how they achieve it.

Chief Executive Officer's Statement (Continued)

There is no single tool to reinforce culture, no magic recipe, and no organisation can ensure that everyone does everything perfectly all the time. But we keep working at reinforcing this aspect of Standard Chartered, because it is one of the things that makes us stand out.

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

2013 Performance

In 2013, we continued on the path of sustainable growth, strong financial performance and excellent strategic progress. We delivered against a balanced scorecard of growth, performance, cost control and risk management. Both our Wholesale and Consumer Banking businesses contributed 55 per cent and 45 per cent to operating income respectively, demonstrating that we have a highly diverse balance sheet, with no material concentration by either business or segment.

Profit before taxation was KShs 13.4 billion compared to KShs 11.6 billion in 2012, an increase of 16 per cent.

Total revenue grew to KShs 23.4 billion, driven mainly by the following:

- Interest income on loans and advances increased by 4 per cent to KShs 15.5 billion driven by growth in volumes but impacted by significantly lower interest rates charged in line with falling interest rates in the market;

- Interest income from investments in government securities increased by 36 per cent largely on account of increased volumes;

- Total interest expense decreased by 9 per cent to KShs 5.1 billion primarily due to a decrease in interest expense on customer deposits which fell by 10 per cent in 2013 on account of reduction in average yields;

- Income from foreign exchange trading decreased from KShs 2.6 billion to KShs 2.3 billion on account of decreased volatility in forex rates in 2013 compared to 2012. In addition the strong volume growth was offset by spread compression; and

- Fees and commissions increased by 15 per cent from KShs 3.3 billion to KShs 3.8 billion on account of increased transactional volumes.

Total operating expenses increased by 10 per cent to KShs 9.3 billion with key drivers being:

- Staff costs grew by 10 per cent to KShs 5.1 billion as we continued to invest in talent to support our business growth;

- Premises and equipment costs remained relatively flat at KShs 0.7 billion;

- Depreciation and amortisation increased by 9 per cent to KShs 1.0 billion largely on account of our continued investment in infrastructure and technology to support our business growth, as well as the amortisation charge on the intangible asset relating to the acquisition of the Custodial Services business;

- Other costs increased by 14 per cent to KShs 2.5 billion in line with increased operating costs due to increased business and increase in operating expenses such as security, advertising, among others; and

- Non-performing loans were KShs 3.8 billion compared to KShs 2.2 billion in 2012. This translates to 2.9 per cent of gross total loans (2012: 1.9 per cent). Wholesale Banking non- performing loans increased during the period although this was due to a very small number of problem accounts. Overall we continue to have a proactive approach to management and remain watchful. While we do not see a broad-based deterioration in asset quality, we have increased the number of clients subject to additional precautionary monitoring reflecting our proactive approach to managing risk in an uncertain environment. Wholesale Banking loans are largely short tenor. The consumer book is predominantly secured and we have selectively grown our unsecured portfolio. The quality of the asset book remains good, is well diversified and conservatively positioned.

Business Review

In 2013, we saw strong 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 12 per cent to reach KShs 10.6 billion. This was as a result of strong growth in customer deposits and loans which increased by 10 per cent and 25 per cent to close at KShs 85.9 billion and KShs 53.9 billion respectively. We have a well balanced customer portfolio with SME contributing 31 per cent of Consumer Banking revenues, Priority and Preferred Banking accounting for 37 per cent and Personal Banking contributing 32 per cent.

Chief Executive Officer's Statement (Continued)

During 2013, we continued to manage our cost base allowing us to invest in headcount, digital agenda and our branch network. Despite these investments, the Consumer Banking cost income ratio was 51 per cent compared to 50 per cent in 2012.

Consumer Banking delivered a strong financial performance reflecting our increasingly broad-based product and customer mix. Operating profit increased by 10 per cent to reach KShs 4.5 billion which is a record performance. 2013 saw a marked decrease in interest rates and margins in the market. Consumer Banking embarked on driving balance sheet growth which saw assets and liabilities grow by 25 per cent and 10 per cent respectively. This was driven mainly by the two successful campaigns that Consumer Banking conducted last year. These were the 'Grand Sale' in July and August and the 'Christmas Sale' in December.

In 2013, we significantly improved sales and expenses productivity. We improved on the productivity and efficiency of the sales team through training and development. This is a trend we want to continue into 2014, getting more from our existing staff members. Expense productivity also improved as we were able to have major investments in our channels while controlling our costs tightly.

At Standard Chartered, we are deeply committed to providing our customers with a differentiated experience across any channel that they choose to interact with us; be it the traditional branch visit to our customer contact centre to our online and mobile banking channels. Our world class online banking platform has won numerous accolades including the best bank in internet banking in 2013. We are looking at improving the overall customer experience via the online platform through new products and channels to be launched in 2014.

Our priorities largely remain the same; with an increased focus on execution. Continued growth in revenues and operating profits remains a key agenda for the business as well as ensuring that we offer good returns on the investment put in by our shareholders. This however cannot be achieved in isolation as major non-financial metrics have to be put in place to ensure continued financial growth.

We will continue to leverage on the digital platform to ensure our customers enjoy a differentiated service.

In all this we need to make sure that we remain focused on ensuring we are productive and efficient in how we conduct our business.

Wholesale Banking

The Wholesale Banking client focused business model continues to deliver strong results even in the midst of an operating environment affected especially by tight liquidity. In 2013, we made further progress in strengthening and deepening our client relationships and growing our product capabilities to support local trade, offering short-term working capital solutions as well as risk mitigation through value add products and structured solutions. As a result, overall client income grew 5 per cent, representing 72 per cent 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 81 per cent of all client income and grew by 7 per cent year on year, impacted by margin compression but mitigated by strong volume growth.

During the year, our Wholesale Banking business executed well on this strategy, delivering a year on year income growth of 14 per cent to KShs 12.8 billion and the underlying profit before tax up 18 per cent to KShs 8.8 billion. Disciplined investments in key sales and product teams and control functions delivered good results across all products and customer segments.

In 2013, the client cross-sell ratio stood at 3.50 products demonstrating deepening client relationships and product value add that we are providing to our clients. However, we recognise that there is still room to further improve cross-sell ratios and strengthen our product and solutions 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 continue to evolve.

The opportunity we have within our footprint is significant. To capitalise on this and to ensure that we grow with our clients and customers, we will continue to focus on deepening relationships by leveraging the full depth of our product suite and breadth of our geographic network.

Looking ahead, we see increased business opportunities as the country implements the 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 open for business, 'Here for good' and for the long haul and to do business with them. To reiterate and in line with our core strategic intent - we will continue banking the people and companies driving investment, trade and the creation of wealth across our customer segments.

Chief Executive Officer's Statement (Continued)

People

With the knowledge that our people are our most important assets, employee engagement continued to be an area of priority. Career development opportunities were also made available to staff both locally and internationally. On the training front, we achieved over 5,900 learner days and most members of staff had at least one learning intervention during the year.

Development activities included on-the-job learning, formal classroom training, projects, job rotations, peer reviews and short-term assignments. There were also employment opportunities offered to some staff in other markets within the Standard Chartered Group providing international exposure.

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

Benchmarking

In 2013, we continued to receive recognition for excellence from various institutions. Standard Chartered Bank Kenya was the winner in Corporate Governance in the Financial Reporting (FiRe) Awards.

The Bank was also declared the Best Foreign Bank in Kenya in the EMEA Awards. Further accolades include the Best Consumer Internet Bank and Best Foreign Exchange Bank in Kenya in the Global Finance Magazine Awards.

We believe these awards are recognition of the success of our transformation journey and that Standard Chartered continues to lead the way in product innovation and financial performance.

2014 Priorities

Our priorities for 2014 flow naturally from our strategic aspirations and financial framework:

- To deliver profitable and capital accretive growth;
- To make tangible progress on our five strategic aspirations;
- To innovate, digitise and simplify in order to improve productivity and effectiveness;
- To raise the bar on conduct, demonstrating that we are 'Here for good'; and
- To accelerate the next generation of leaders.

Delivering on each of these priorities is key to the continuous success in our journey towards building a long-term sustainable business in Kenya.

Outlook

2013 was undoubtedly a challenging year and 2014 will no doubt bring new challenges. But our story has been one of resilience, of growth and of consistent delivery. For the past few years, we have been consistently transformed.

The next few years should be equally exciting. Kenya has tremendous potential. We have a clear strategy. We are investing in our franchise. No doubt our markets will continue to change dramatically, as they grow and get richer. No doubt technology will change the way banks work and compete, and no doubt regulation will force further change in business models. We are not at all complacent. Yet, by sticking to our strategy, by staying true to our culture, and by being innovative and adaptive, I am confident that we can continue to be successful.

Looking at January and our momentum through February, we have started 2014 well. We continue to have a firm grip on the levers of risk, cost and investment, and are using our balance sheet strength to increase the financing support to our customers. We continue to take a conservative approach to managing the balance sheet, maintaining a strong liquidity position and keeping a watchful eye on asset quality, given the uncertainties that remain in the external environment.

We have started the year with an exceptionally strong balance sheet. We are well positioned and well placed to make the most of the opportunities the country presents. We continue to take market share and to grow and we remain confident and committed to consistent financial delivery.

In summary, 2013 was another year of good performance for Standard Chartered Bank, thanks to a consistent strategy, a stable management team, supportive customers and, above all, our great people. The foundations are in excellent shape – well capitalised, highly liquid and a diverse business. We remain confident for the year ahead.

I would like to take this opportunity to thank our customers for their support throughout this journey. I would also like to thank our employees for their hard work, professionalism and commitment.

In conclusion, I would particularly like to thank the immediate former CEO, Richard Etemesi, for his great leadership in steering the Bank to be one of the most profitable in our market today. We will all remember him as one that made a difference in the banking industry both as the CEO of Standard Chartered Bank but also as the Chairman of the Kenya Bankers Association.

Lamin Manjang
Chief Executive Officer

24 March 2014

Taarifa ya Afisa Mkuu Mtendaji

Mikakati ya ukuaji

"katika uamuzi wetu wa vipaumbele, tunazingatia masoko ya humu nchini na hali za kibiashara ili kuhakikisha ya kwamba mkakati wetu unashughulia matakwa na mahitaji ya wateja wetu. Hata tunatia mkazo mkubwa kwa wateja na washitiri wetu, katika kujenga mahusiano ya ndani na ya kudumu na katika kuimarisha ubora wa huduma zetu na utoaji wa suluhisho."

Utangulizi

2013 ulikuwa mwaka wenye ufanisi kwa Benki. Tulidumisha msukumo wetu thabiti kwa kuandikisha matokeo bora katika mawanda yote ya ukadiriaji wa ufanisi ili kudumisha ukuaji wa biashara yetu. Tumeibusha msukumo na tuna imani na malengo yetu ya kimikakati.

Katika miaka michache iliyopita tumehudumia washikadau wetu wote bila kukoma. Tumejiwekea malengo makuu na tumeweza kuyaafikia. Tumeimarisha muundo msingi wetu na kuanzisha mbinu imara za kukabili hatari. Tumeboresha viwango vya mahusiano na wafanyikazi wetu na kupanua mawanda ya uwezo wetu.

Mengi ya yale ambayo husukuma maazimio ya Standard Chartered yamedumishwa. Maazimio yetu ya kuwa benki bora zaidi ya kimataifa duniani hayajabadilika na mkakati wetu kwa mapana umebaki uleule - tunabenkisha uwekezaji wa watu na makumpuni, biashara na kuzalisha utajiri katika Asia, Afrika na Mashariki ya Kati. Nchini Kenya, mkakati wetu unaegemezwa katika ule wa shirika letu kuu. Hata hivyo, katika uamuzi wetu wa vipaumbele, tunazingatia masoko ya humu nchini na hali za kibiashara ili kuhakikisha ya kwamba mkakati wetu unashughulikia matakwa na mahitaji ya wateja wetu. Pia tunatia mkazo mkubwa kwa wateja na washitiri wetu, katika kujenga mahusiano ya ndani na ya kudumu na katika kuimarisha ubora wa huduma zetu na utoaji wa suluhisho.

Tunaendelea kujitolea kwa dhati kutekeleza kanuni za kimsingi za shughuli za benki ili kusawazisha malengo ya upanuzi pamoja na uthibiti wa kibusara wa gharama na hatari, kwa kudumisha mwamana thabiti wa pesa na mtaji. Tunaendelea kulenga katika mienendo na maadili, kwa namna tunavyofanya kazi pamoja katika biashara zetu, bidhaa na makundi madogomadogo, kwa kuleta pamoja maarifa yetu ya kina ya humu nchini na yale ya kimataifa. Misingi na kanuni hizi inatilia mkazo chochote kifanywacho na Benki na tutekelezacho kama Benki.

Tunafahamu kuwa tutaendelea kuongozwa na ahadi yetu ya 'Here for good', na kuendelea kutia bidii kuhusisha ahadi hii kwa chochote tufanyacho. Si kwamba tutaafikia yote bila dosari, walakini 'Here for good' inamaanisha kuwa tutajaribu kufanya tunalopaswa kufanya na kuzuka na mtazamo wa kuduma kuhusu majukumu yetu kwa wenyehisa, washikadau, na wateja na jamii tunamofanyia kazi.

Kudhihirisha kuwa tupo 'Here for good' ni kuhusiana na maadili na utamaduni wetu. Watu kwa sasa wanazungumzia desturi za benki, lakini tumekuwa tukiegemeza muda na uwezo wetu katika kuboresha desturi yetu kwa muda mrefu. Tunaiona kama chanzo kikuu cha ushindani na mbinu muhimu katika uthibiti wa hatari. Tulitambua na kuzitanguliza thamani zetu mwongo mmoja uliopita, tukizihusisha katika mifumo yetu simamizi ya utendaji kuzawadi watu wetu, sio tu kwa yale wanayoafikia, bali pia kwa jinsi walivyoyaafikia.

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

Hakuna mbinu yoyote ya kuboresha desturi, hakuna utaratibu wa kimuujiza, na hakuna utawala unaoweza kuhakikisha kuwa kila mmoja anafanya kila kitu kwa ukamilifu kila wakati. Lakini sisi huendelea kujitahidi katika kuiboresha hali hii ya Benki ya Standard Chartered, kwa kuwa ni mojawapo ya mambo yanayotufanya kujibainisha.

Nina uhakika kuwa uwazi na uthabiti wa mkakati wetu, utiifu wetu katika kuushikilia, na uwajibikaji wetu usiyoteteleka kwa maadili na Utamaduni wetu vimekuwa muhimu katika ufanisi ambao tumekuwa tukiupata.

Utendakazi katika mwaka 2013

Katika mwaka wa 2013, tulifuata mwelekeo wa kuandikisha ukuaji wa kuridhisha, ukuaji mkuu wa kifedha na maendeleo bora zaidi ya kimalengo. Tulifanikiwa katika viwango vyote vya ukadiriaji wa ukuaji, utendaji, uthibiti wa gharama na uthibiti wa hatari. Biashara zetu zote mbili za kutoa shughuli za kibenki kwa ujumla na za rejareja zilichangia faida kwa asilimia 55 na asilimia 45 mtawalia, hili likiwa ni dhihirisho kuwa tuna waraka mizania pana bila kumakinikia mali ama kwa benki au sehemu ya benki.

Faida kabla ya kutozwa ushuru ilikuwa Shilingi bilioni 13.4 ikilinganishwa na Shilingi bilioni 11.6 katika mwaka wa 2012, hili likiwa ni ongezeko la asilimia 16.

Pato la jumla lilikua hadi Shilingi billioni 23.4 likichangiwa na yafuatayo:

- Mapato kutoka kwa riba ya mikopo na rubuni yaliongezeka kwa asilimia 4 hadi shilingi bilioni 15.5 yakichangiwa na ongezeko lake lakini yakiathirika kwa kiasi kidogo cha viwango vya riba vinavyotozwa sambamba na viwango vya riba vinavyoshuka katika soko;

- Mapato ya riba kutoka kwa uwekezaji wa serikali yaliongezeka kwa asilimia 36 kwa kiasi kikubwa kutokana na ongezeko la uwekezaji huu;

- Matumizi ya riba ya jumla yalipungua kwa asilimia 9 hadi Shilingi bilioni 5.1 kimsingi kutokana na kupungua kwa matumizi ya riba kwa amana za wateja ambazo zilipungua kwa asilimia 10 katika mwaka 2013 kutokana na kupungua kwa mapato ya kiwastani;

- Mapato kutoka kwa biashara ya ubadilishanaji wa fedha za kigeni ilipungua kutoka Shilingi bilioni 2.6 hadi Shilingi bilioni 2.3 kutokana na kupungua kwa kubadilikabadilika kwa viwango vya ubadilishanaji wa fedha za kigeni katika mwaka wa 2013 ikilinganishwa na 2012. Aidha, ukuaji mkubwa thabiti uliathiriwa na ubanaji ulioenezwa; na

- Malipo na asilimia za faida ziliongezeka kwa asilimia 15 kutoka kwa Shilingi bilioni 3.3 hadi Shilingi bilioni 3.8 kutokana na ongezeko la muamana wa kibiashara.

Gharama za matumizi ya biashara za jumla ziliongezeka kwa asilimia 10 hadi Shilingi bilioni 9.3 msukumo mkubwa ukiwa:

- Gharama za matumizi kwa wafanyikazi ziliongezeka kwa asilimia 10 hadi Shilingi bilioni 5.1 kutokana na jinsi tulivyoendelea kuwekeza katika ujuzi kusaidia upanuzi wa biashara yetu;

- Gharama ya vifaa na majumba ilibakia kawaida kwa Shilingi bilioni 0.7;

- Uchakavu na akiba inayotengwa kulipia madeni iliongezeka kwa asilimia 9 hadi Shilingi bilioni 1.0 hususani kutokana na kuendelea kwetu katika kuwekeza katika muundo msingi na teknolojia kusaidia ukuaji wa biashara yetu pamoja na utozwaji wa fedha za kugharamia madeni kwa rasilimali zisizopimika zinazohusiana na upataji wa huduma za usimamizi za biashara;

- Gharama nyinginezo ziliongezeka kwa asilimia 14 hadi Shilingi bilioni 2.5 sambamba na ongezeko la gharama za uendeshaji wa biashara kutokana na kuongezeka kwa biashara ikiwa ni pamoja na gharama za fedha za kulinda amana, pamoja na ongezeko katika gharama za utekelezi kama vile ulinzi,matangazo miongoni mwa nyinginezo; na

- Mikopo isiyolipwa kama inavyotakikana ilikuwa Shilingi bilioni 3.8 ikilinganishwa na Shilingi bilioni 2.2 katika mwaka 2012. Hii inachangia asilimia 2.9 ya mikopo ya jumla (2012: asilimia 1.9). Mikopo isiyolipwa kama inavyotakikana ya shughuli za benki za jumla iliongezeka katika kipindi hiki japo hii ilitokana na idadi chache ya akaunti zenye matatizo. Kijumla tunaendelea kuwa na mikakati imara katika usimamizi na kubakia kuwa waangalifu. Ingawa hatuoni mshuko mkubwa katika thamani ya rasilimali, tumeongeza idadi ya wateja kama mbinu ya ziada ya kuhakikisha usalama kuonyesha mkakati wetu imara wa kukabiliana na hatari katika mazingira yasiyo thabiti. Mikopo ya biashara ya ujumla huwa ya mwelekeo mfupi kwa kiasi kikubwa. Daftari la wanunuzi limelindwa na tumekuza fedha zetu za faida zizizolindwa. Thamani ya kitabu cha rasilimali imebakia kuwa nzuri, imepanuliwa vyema kutengeneza biashara mbalimbali na imehifadhiwa vyema.

Muhtasari wa biashara

Katika mwaka 2013 tulishuhudia ufanisi mkubwa katika nyanja zote za biashara, huku kukiwa na ongezeko la viwango vya shughuli na utopa katika idadi kubwa ya bidhaa kwa vile tuliwasaidia wateja wetu kuendeleza biashara na kuwekeza.

Huduma za benki rejareja

Utumiaji wa huduma za benki ya rejareja ulikuwa na rekodi ya mwaka na unaendelea kufanya vizuri katika waraka mizani, rekodi za faida na hasara na vipimo vingine visivyo ya kifedha. Pato la uendelezaji biashara lilikua hadi asilimia 12 kufikia Shilingi bilioni 10.6. Hili lilitokana na ukuaji mkubwa katika amana ya wateja na mikopo iliyoongezeka kwa asilimia 10 na asilimia 25 kusifikia Shilingi bilioni 85.9 na Shilingi bilioni 53.9 mtawalia. Tuna hazina

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nzuri ya fedha ya wateja wa rejareja huku SME ikichangia asilimia 31 ya mapato ya ubenkishaji wa wateja, shughuli za benki zinazoenziwa na kupewa kipaumbele zikichangia asilimia 37 nao ubenkishaji wa kibinafsi ukichangia asilimia 32.

Katika mwaka wa 2013, tuliendelea kuwa na nidhamu ya juu katika udhibiti wa gharama kuruhusu Benki kuwekeza katika wafanyikazi waliomo, ajenda ya dijitali na upanuzi wa tawi. Fauka ya uwekezaji huu, uwiano wa pato la gharama ya ubenkishaji wa wateja ilikuwa asilimia 51 ikilinganishwa na asilimia 50 katika 2012.

Biashara ya rejareja iliwasilisha ufanisi mkubwa wa kifedha ukidhihirisha bidhaa zetu za mionjo ainati na wateja wa sampuli mbalimbali. Faida ya uendelezaji biashara iliongezeka kwa asilimia 10 kufikia Shilingi bilioni 4.5 ambao ni ufanisi uliovunja rekodi. Mwaka 2013 ulishuhudia kupungua kwa viwango vya riba na faida ya uuzaji katika soko. Shughuli za benki za wateja wa rejareja zilijikita katika upanuzi wa waraka mizania ambao uliwezesha ukuaji wa rasilimali na madeni kuongezeka kwa asilimia 25 na asilimia 10 mtawalia. Hili lilichangiwa zaidi na kampeni mbili zilizofanywa na shughuli za Wateja wa rejareja mwaka uliopita. Haya ndiyo yaliyokuwa 'mauzo makuu' katika Julai na Agosti na 'Mauzo ya Krismasi' katika Disemba.

Katika 2013, tuliimarisha mauzo na kupunguza matumizi ya uzalishaji. Tulipunguza maafisa wetu wa mauzo lakini tukaboresha uzalishaji na utendakazi wa maafisa wa mauzo kupitia mafunzo na ukuzaji wa ujuzi wao. Huu ndio mtindo tunaonuia kuuendeleza katika mwaka 2014 ili kupata huduma zaidi kutoka kwa maafisa tulionao. Matumizi ya uzalishaji pia ilipunguzwa kwa kuwa tuliweza kuweka vitegauchumi muhimu katika biashara yetu huku tukidhibiti gharama zetu kwa hali ya juu.

Katika benki ya Standard Chartered tunajitolea kuwahudumia wateja wetu kwa njia ya kipekee katika nyanja zote wanazochagua kuwasiliana nasi; iwe ni kupitia matawi yetu, kutembelea kituo chetu cha kuhudumia wateja mtandaoni au kupitia mbinu ya kubenkisha kwa kutumia simu. Jukwaa letu la kubenkisha mtandaoni la kimataifa limejipatia sifa tele ikiwa ni pamoja na kuwa benki bora zaidi katika ubenkishaji mtandaoni katika 2013. Tunanuia kuboresha huduma ya kijumla ya wateja kupitia majukwaa ya mitandao kupitia bidhaa na njia mpya zitakazozinduliwa mnamo 2014. Vipaumble vyetu kwa kiasi kikubwa vimebakia; kukiwa na mshadidio katika utekelezaji. Maendeleo katika mapato na faida za uzalishaji imebakia kuwa ajenda muhimu ya biashara pamoja na kuhakikisha tunatoa malipo mazuri kwa uwekezaji unaofanywa na washikadau wetu. Hali hii hata hivyo haiwezekani kwa kuhusisha sehemu moja pekee kwa kuwa vipengele vingine vikuu visivyopimika kifedha lazima vihusishwe ili kuhakikisha kuna ukuaji wa kifedha endelevu.

Tutaendelea kutumia uwezo wa majukwaa ya kidijitali ili kuhakikisha kuwa wateja wetu wanapokea huduma za mionjo tofauti.

Katika hili lote tunafaa kuhakikisha kuwa tunazidi kumakinika katika kuhakikisha kuwa sisi ni wenye kuzalisha na wafaafu katika jinsi tunavyoendeleza biashara yetu.

Ubenkishaji wa kijumla

Kielelezo kinacholenga wateja wa shughuli za kijumla za Benki kimeendelea kuandikisha matokeo dhabiti licha ya kuwa katika hali zote za mazingira ya kiutendakazi yaliyoathiriwa hasa na ufinyu wa kifedha. Mnamo 2013, tulipiga hatua mbele katika kuimarisha na kuboresha uhusiano wetu na wateja na kuimarisha uwezo wa bidhaa zetu ili kusaidia biashara ya kitaifa, kutoa suluhu za mtaji wa kipindi kifupi pamoja na upunguzaji wa hasara kupitia uboreshaji wa thamani ya bidhaa na suluhu zilitambuliwa. Kufuatia hili, Mapato ya jumla ya wateja yalikua kwa asilimia 5 yakiwakilisha asilimia 72 ya mapato ya jumla ya Benki. Biashara za rejareja (Ukopeshaji, Pesa taslimu, Biashara na Utunzaji) zimeendelea kukidhi mahitaji ya kifedha ya wateja wetu ya kila siku na kuimarisha biashara yetu, zikichangia zaidi ya asilimia 81 ya mapato yote ya wateja na ilikua kwa asilimia 7 mwaka baada ya mwaka, ikichangiwa na upunguzwaji wa matumizi, lakini ikipunguzwa na ukuaji mkubwa.

Katika mwaka huu, Shughuli za Kibiashara za Benki ya ujumla zilitenda kazi vizuri kupitia mkakati huu, zikizalisha mapato katika ukuaji la asilimia 14 mwaka baada ya mwingine hadi Shilingi bilioni 12.8 pesa za Kenya na jumla ya ongezeko la hadi 18% kabla ya kutozwa ushuru hadi Shilingi bilioni 8.8. Uwekezaji wenye nidhamu katika makundi ya mauzo na bidhaa na vitengo vya udhibiti wa utekelezaji ziliandikisha matokeo bora katika vitengo vyote vya bidhaa na wateja.

Katika mwaka wa 2013, kiwango cha uwiano katika uhudumiaji wa wateja kilifikia bidhaa 3.50 dhihirisho la mahusiano yaliyoboreka ya wateja na ongezeko la thamani ya bidhaa ambazo tunazitoa kwa wateja wetu. Hata hivyo, tunatambua kwamba kungali na nafasi ya kuimarisha kiwango cha uwiano wa wateja na bidhaa na kuimarisha bidhaa na uwezo wetu wa kuleta suluhu. Biashara zetu katika Mashariki ya kati, India, Uchina na Asia ya Kusini Mashariki imethibitisha kuwa muhimu katika kutupa nafasi kutumia fursa kulingana na jinsi nafasi za kibiashara zinaendelea kuchipuka.

Nafasi tuliyo nayo katika mipaka ya mipango ya maazimio yetu ni ya maana, ili kuitumia vyema nafasi hii na kuhakikisha kuwa tunakuwa pamoja na washitiri na wateja wetu, tutaendelea kuangazia kuimarisha mahusiano kwa kutumia uwezo wa thamani kubwa ya bidhaa zetu na mawanda ya kijiografia ya biashara yetu.

Tukiangazia mbele tunaona nafasi za biashara zilizoongezeka huku nchi inapoendelea kutekeleza muundo wa serikali za majimbo na kujiandaa kufanikisha ruwaza ya 2030. Aidha, tunaona fursa za ukuaji wa muundo msingi/ kifedha, nishati na uzalishajii. Benki imejiandaa vilivyo kuendelea kuwa mshirika wa kweli wa wateja wetu. Kwa hakika kwa wateja wetu tutaendelea kudhihirisha ya kwamba tuko tayari kufanya biashara, 'Here for good' kuwa nao kwa muda mrefu na kufanya biashara na wao. Kwa kusisitiza mara ya pili na kwa kuliweka sambamba na azimio letu kuu- tutaendelea kubenkisha uwekezaji wa watu na makumpuni, biashara na kuzalisha utajiri katika nyanja zetu zote za wateja.

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Wafanyakazi wetu
Tukiwa na ufahamu kuwa wafanyakazi wetu ndio raslimali bora zaidi, mahusiano yetu nao yaliendelea kupewa kipaumbele. Pia, nafasi za kujikuza kitaaluma zilikuwapo kwa wafanyikazi wetu humu nchini na kimataifa. Katika, nyanja ya ukufunzi tuliafikia zaidi ya siku 5,900 za ukufunzi na wafanyakazi wengi walipewa angalau fursa moja katika mwaka.

Shughuli za maendeleo zilikuwa pamoja na kuendelea huku ukifanya kazi, mafunzo rasmi ya darasani, miradi, kazi kimzunguko, ujitathimini wa wenyewe kwa wenyewe wa wafanyikazi na majukumu ya kipindi kifupi. Pia, kulikuwa na nafasi za ajira zilizotolewa kwa wafanyikazi katika masoko mengine ndani ya shirika la Standard Chartered zikitoa utangamano na nchi za nje.

Tuna imani kuwa uwekezaji huu kwa watu utaifanya Standard Chartered benki nchini Kenya sio tu mahali paku pa kufanya kazi bali pia benki iliyopendwa kwa walio na ujuzi katika biashara.

Vigezo vya ujipimaji
Katika 2013, tuliendelea kupokea utambulisho wa ufanisi wetu kutoka kwa taasisi mbalimbali. Benki ya Standard Chartered ya Kenya ilitawazwa mshindi katika Tuzo za Utawala wa Mashirika katika Ripoti za Kifedha (FiRe).

Aidha, Benki hii ilitangazwa kama Benki Bora Zaidi ya Kigeni nchini Kenya katika Tuzo za EMEA. Sifa nyinginezo ni pamoja na Tuzo za Benki Bora ya Wateja wa Kimtandao na Benki Bora zaidi ya Ubadilishanaji wa Fedha za Kigeni nchini Kenya katika Jarida la Kifedha la Ulimwengu.

Tunaamini kuwa tuzo hizi ni utambuzi wa ufanisi wa safari ya mabadiliko na kuwa Benki ya Standard Chartered inazidi kuongoza njia katika uzinduzi wa bidhaa na ufanisi wa kifedha.

Vipaumbele vya 2014
Vipaumbele vyetu katika mwaka wa 2014 vinajibainisha vyenyewe kutokana na maazimio yetu elekevu na msingi wa kifedha:

- Kuleta ukuaji wenye faida na mtaji;
- Kupiga hatua bainifu katika maazimio yetu matano elekevu;
- Kuvumbua, kudijitalisha na kusahilisha ili kuboresha uzalishaji na ufaafu;
- Kuinua kiwango cha nidhamu, kudhihirisha kuwa Tupo 'Here for good'; na
- Kukishajiisha kizazi kijacho cha viongozi.

Kuafikia kila mojawapo wa vipaumbele hivi ndio msukumo katika safari yetu kuafikia ujenzi wa biashara ya kudumu endelevu nchini Kenya.

Matarajio
Mwaka wa 2013, bila shaka ulikuwa mwaka wa changamoto na mwaka wa 2014 pia utakuwa na changamoto mpya. Walakini, kauli yetu imekuwa ile ya uthabiti, ukuaji na uhudumiaji imara. Kwa miaka michache iliyopita, tumeendelea kubadilishwa na kuboreshwa.

Miaka michache ijayo inafaa kuwa pia ya kusisimua.Kenya ina uwezo mkubwa. Tuna mikakati bayana. Tunawekeza katika hakimiliki zetu za uraia. Hakuna shaka kwamba masoko yetu yataendelea kubadilika kwa msisimko mkubwa pindi yakuavyo na kutajirika. Hakuna shaka kuwa teknolojia itabadilisha namna ambavyo benki hufanya kazi na kushindana, na hamna shaka kuwa udhibiti utashinikiza mabadiliko zaidi katika mifumo ya biashara. Hatujaridhika kamwe. Bali kwa kujikita katika mikakati yetu, kwa kuzingatia malengo yetu, kwa kuwa wazalendo kwa desturi zetu na kwa kuwa wabunifu na wenye kujizoelesha na mazingira yetu, nina imani tutaendelea kufanikiwa.

Kwa kuangazia Januari na hali ya bidii yetu Februari, tumeanza 2014 vyema. Tunaendelea kuwa na uthabiti mkubwa katika uwezo wa kukabili hatari, gharama na uwekezaji, na tunatumia uwezo wa waraka mizania wetu kuongezea msaada wa kifedha kwa wateja wetu. Tunaendelea kuchukua mkabala wa kihafidhina katika kudhibiti waraka mizania, tukidumisha nafasi imara ya kifedha na kuwa waangalifu katika thamani ya raslimali, tukitilia maanani hali ya kutotabirika iliyoko katika ulimwengu wa nje wa biashara.

Tumeanza mwaka kwa waraka mizani ulio bora zaidi. Tuko katika nafasi bora na hali nzuri kutumia nyingi za fursa ambazo zinazopatikana katika taifa. Tunaendelea kudhibiti sehemu kuu ya soko, tunaendelea kukua na tunabaki kuwa na imani na kuwajibika katika utowaji wa fedha bila kukoma.

Kwa muhtasari, 2013 ulikuwa mwaka mwingine wa ufanisi mzuri kwa benki ya Standard Chartered, heko kwa mikakati endelevu, kikosi imara cha usimamizi, wateja wazalendo na, zaidi ya yote, washirika wetu wakuu. Misingi yetu iko katika muundo imara-inatumika ipaswavyo, yenye uwezo wa juu wa kifedha, na biashara yenye upana wa kimawanda. Tunabaki kuwa na imani kwa mwaka ulio mbele yetu.

Ningependa kuchukua fursa hii kuwashukuru wateja wetu kwa msaada wao katika safari hii. Ningependa pia kuwashukuru waajiriwa wetu kwa bidii yao, utaalamu na uwajibikaji.

Kwa kuhitimisha, ningependa hasa kumshukuru Afisa Mkuu Mtendaji wa Standard Chartered anayeondoka, Richard Etemesi, kwa uongozi wake thabiti katika kuielekeza benki hii kuwa mojawapo ya benki zenye natija kubwa zaidi katika soko letu. Sote tutamkumbuka kama aliyeleta tofauti katika nyanja za benki kama Afisa Mkuu Mtendaji wa benki ya Standard Chartered na pia kama Mwenyekiti wa Chama cha Wanabenki nchini Kenya.

Lamin Manjang
Afisa Mkuu Mtendaji

24 Machi 2014

Sustainability Review

"By running our operations well, standing by our clients and customers and investing in local communities, we can be a powerful force for good"

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, 103 years later, Standard Chartered Bank is one of the leading banks in Kenya, with an excellent franchise. It has a total of 37 branches spread across the country, 98 automated teller machines (ATMs) and over 1,800 employees.

The Bank has about 31,300 local shareholders holding 25.7 per cent of the Bank's total shares. It is a publicly quoted company on the Nairobi Securities Exchange since 1989.

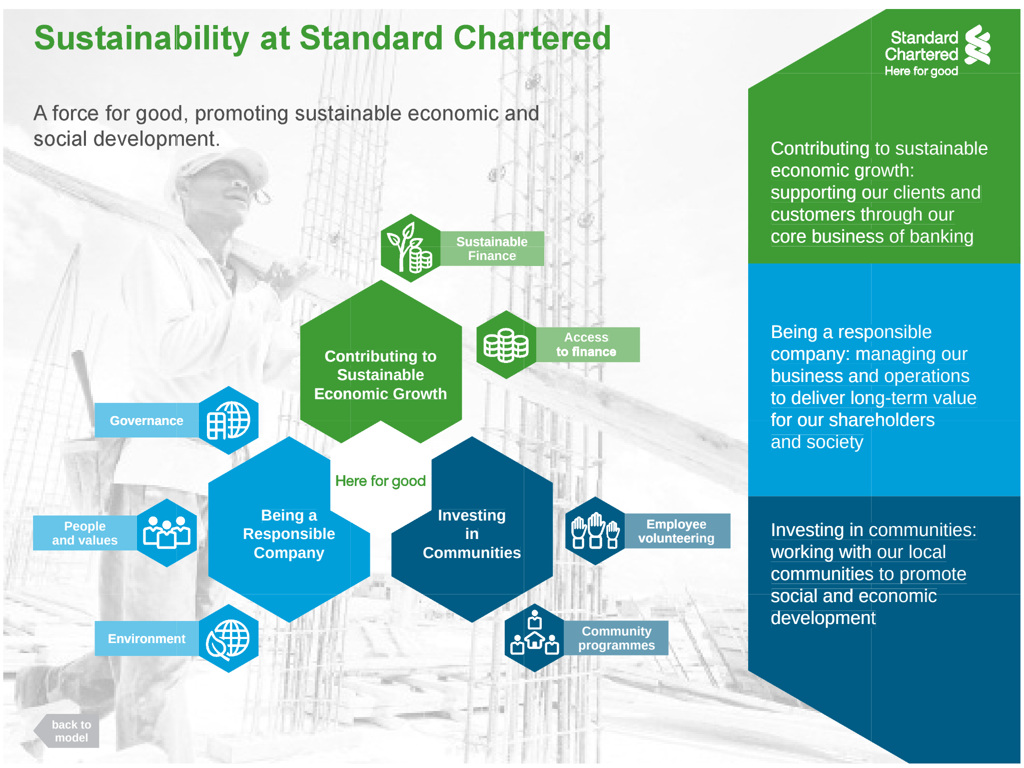
Our capital, deposit base, and lending portfolio is reported in Kenya Shillings, and we offer a variety of local and foreign currency accounts, both deposit and loan, to our customers. We have a diversified portfolio cutting across select sectors that include business services, manufacturing, wholesale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

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

Our highlights in 2013

- Best Foreign Bank in Kenya – EMEA Awards – December 2013;
- Best Consumer Internet Bank in Kenya – Global Finance Magazine - November 2013;
- Best Foreign Exchange Bank in Kenya – Global Finance Magazine – November 2013;
- Overall winner Corporate Governance - Excellence in Financial Reporting (FiRe) Awards 2013;
- 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 119.3 million;
- KShs 22.5 million was raised from the Standard Chartered Nairobi Marathon where over 22,000 people participated compared to KShs 21.1 million raised in the 2012 marathon. All funds raised from the event go towards 'Seeing is Believing' (SIB), the Bank's global initiative aimed at combating avoidable blindness; and
- Our staff undertook 2,509 employee volunteering days.

Our sustainable business priorities



Sustainability Review (Continued)

Contributing to sustainable economic growth

Sustainability and our business

Banks have an essential role in a prosperous and healthy society. We believe that by running our operations well, standing by our clients and customers and investing in the communities where we operate, we can be a powerful force for good.

Our approach focuses on getting the basics of banking right, making sure that we are financially stable with strong governance and good sources of capital and liquidity, so that we can create value for our shareholders and society over the long run.

We have three key sustainability priorities:

- **Contributing to sustainable economic growth:** by providing finance efficiently and responsibly, we contribute to sustainable economic growth and job creation. We are committed to supporting our clients and customers – helping businesses to set up, expand and trade across borders, helping people to buy homes and grow their wealth for the future. Widening access to finance is a core tenet of our strategy, as is our commitment to providing finance that supports sustainable development in communities.

- **Being a responsible company:** we want to deliver long-term value for our shareholders and society. This means having the right culture, structures and processes in place to ensure that we practice strong governance, serve our clients and customers well and provide a great workplace for our people. Doing what we can to combat financial crime and protect the environment is also crucial to this commitment.

- **Investing in communities:** our sustainability as a business is closely intertwined with the health and prosperity of the communities where we operate. Through our employee volunteering and community investment programmes we work with partners to deliver programmes that promote positive social and economic outcomes for people in our markets.

Contributing to sustainable economic growth

Sustainable finance

Our main impact on people and the environment is through the business activities we finance. We work closely with our clients and customers to manage potential environmental and social risks associated with our financing decisions and to identify opportunities to finance clean technologies.

Standard Chartered Bank recognises that its financing decisions have a potential impact on people, the society and the environment. The bank has 20 position statements to guide our approach to providing financial services to clients who operate in sensitive business sectors or face specific issues. Our position statements were updated in 2013 to reflect current industry standards and will be implemented in phases.

Participants and GBCHealth representative Neeta Bhandari with former Standard Chartered CEO Richard Etemesi during a CEO Round Table on Business Engagement on Non-Communicable Diseases.

The position statements set out the environmental and social standards that Standard Chartered Bank expects of itself and its clients. The Bank's sustainable finance approach enables it to identify risks and propose solutions at an early stage. The Bank utilises these standards to underpin its underwriting decisions.

We have extended the application of the position statements to small and medium-sized enterprises (SMEs) with the introduction of our SME Sustainable Finance Framework, which ensures that all discretionary SME lending across our markets is subject to rigorous environment and social risk due diligence.

Sustainability Review (Continued)

Contributing to sustainable economic growth (Continued)

Access to finance

We use our balance sheet to stand by our clients and customers through good times and bad. The lending we provide to people and businesses helps to support job creation and economic development across our markets.

Enabling international trade to flourish is a key sustainable business priority for Standard Chartered Bank. We are also committed to extending access to finance for small businesses that have traditionally been underserved by financial institutions.

SME Banking

At Standard Chartered we are aware that SMEs are key drivers of employment and long-term economic growth. Our aspiration is to become a trusted advisor to our SME customers. We aim to provide the SME sector with dedicated financial services, value add advice and appropriate solutions to meet their business needs.

The Standard Chartered Group made a global commitment at the 2013 Clinton Global Initiative to increase SME lending by 45 per cent over the next five years. This translates to approximately KShs 2.595 trillion in lending and advances.

In Kenya, SMEs contribute up to 80 per cent of the country's GDP, making the sector a key driver of the country's economy. In 2013, the Bank continued to support its SME clients to do business across its network (i.e. Africa, Asia and the Middle East) as well as bringing investors from the network into Kenya.

Highlights

- We serve 16,731 SME clients in Kenya;

- The Bank continues to leverage on its technology platform to offer a variety of cutting edge products and services to the SME customer. These include: Straight2Bank; Borderless Banking and Asset Financing;

- Using our deep local knowledge of the SME customer base and leveraging Standard Chartered's core business skills, the Bank worked with PricewaterhouseCoopers (PwC) to train over 150 SMEs clients, on financial management, business planning and business recovery.

    - The training focuses on building the capacity and resilience of SMEs through non-financial services, such as training, consultancy, mentoring, networking and knowledge sharing;

    - The workshops offer clients a unique opportunity to understand different businesses, challenges and opportunities. It is a unique opportunity to openly discuss their requirements and concerns and to provide long-term solutions for the entire SME sector across Kenya.

The training programme achieved the following successes during the year:

- Over 150 SMEs were trained;

- 82 percent of the SMEs trained reported direct application of business knowledge gained from the workshops;

- 72 percent have changed their management practises and behaviour systematically;

- Half of the total number of SMEs have institutionalised the new skills into organisational management practises; and

- 88 percent have tried to do something differently or something new.

Microfinance

We recognise the value of microfinance in extending access to finance and supporting individuals to grow their enterprises and invest in the health, housing and education of their families.

At Standard Chartered Bank, we remain committed to microfinance as a means of lifting people out of poverty. We support the sector by providing a range of financial services to microfinance institutions (MFIs) that help them multiply their outreach and impact.

With continued investment, MFIs can offer more loans to people in need, helping people start their own businesses or invest in health, housing or education. We contribute to the long-term sustainability of microfinance by enabling MFIs to access capital markets and begin integrating into the formal financial sector.

Wholesale Banking

Through our Wholesale Banking Business in Kenya, we have delivered KShs 77 billion worth of support to all our customers representing a 9 per cent increase from the previous year.

Sustainability Review (Continued)

Being a responsible Company

Being a responsible company

Governance

As a leading international bank geared towards becoming the world's best international bank, we remain at the forefront of corporate governance. It is therefore important that we continue to conduct our business to the highest standards to deliver on our promise to build a sustainable business over the long term, to be trusted worldwide for upholding the highest standards of corporate governance and to demonstrate that we are 'Here for good'.

To this end, we focus on having the right culture, structures and processes in place to ensure that we are practicing strong governance. Practicing strong governance, looking after our people and minimising our direct environmental impacts are central to being a responsible company.

We believe that simply complying with written corporate governance standards is not enough. It is vital to have an underlying culture with behaviours and values that support effective corporate governance. At Standard Chartered, each and every one of us is expected to live our brand promise and to build on a culture which is open, challenging yet cohesive and collaborative.

We are Kenya's oldest foreign financial institution and continue to support and build our franchise and are committed to the country's future.

Total tax contribution for 2013

- The Bank contributed KShs 4.1 billion through corporation taxes and KShs 1.3 billion through personal taxes representing a year on year growth of 8 per cent on corporation taxes and 14 per cent on personal taxes.
- In 2013, the Bank was recognised by the Kenya Revenue Authority as a Distinguished Taxpayer.

Developing human capital

- Standard Chartered Bank Kenya currently employs 1,850 people; 50.3 per cent of these are female and 49.7 per cent male.
- Our operation in Kenya has assumed the position of training being a ground for professionals in Kenya. Over 31 key positions in the country are held by former Standard Chartered staff. In the Banking and Financial sector, over 14 key leaders are alumni of Standard Chartered Bank. Currently, five CEOs of the leading banks in Kenya are Standard Chartered alumni.

The Standard Chartered Board and Management Committee

Financial Crime

We recognise that financial crime risks if left unattended can cripple growth in businesses and economies and even cause collapse. The risks continue to grow with criminals becoming more sophisticated as they take advantage of the increased digitisation of banking transactions; such as online and mobile banking.

The banking industry continues to face increasing fraud risks. The main industry trends include: identity theft/account takeover, card related fraud both credit and debit cards, technology related fraud and internal fraud.

We continue to enhance our fraud prevention and detection systems through automation, ongoing training and continued emphasis on the Speak Up policy. Memento V6 and Detica Investigation systems have been deployed to assist in the management of fraud investigations including tracking of cases.

In 2013, we focused on strengthening and ensuring operational effectiveness of the systems we have in place. This called for continued investment in automation and talent acquisition in line with our goal of combating financial crime, whilst providing quality service for our clients. Money laundering and sanctions risks were our top priorities.

We continue to improve our transaction surveillance system ("Detica") through deployment of relevant detection scenarios and suspicious reporting processes in line with the requirements of the local regulations. In addition to the global transaction surveillance unit, we have a fully operational local unit which is charged with daily monitoring of transactions to ensure suspicious transactions are detected, investigated and reported to the Financial Reporting Centre within seven days of occurrence. To bring staff up to speed with the local Proceeds of Crime and Anti Money Laundering Act, 2009 and Proceeds of Crime and Anti-Money Laundering Regulations, 2013, we conducted trainings across our branches country-wide.

We continue to create sanctions' awareness across the Bank through local broadcasts, training and ongoing updates of our watch lists to ensure we do not deal with sanctioned parties.

Formal training on policies regarding sanctions compliance was conducted during the year. In addition, to enhance controls around sanctions, an automated enquiry and approval work flow; Cash SAM was deployed to improve the audit trail and record retention for decisions made on sanctions.

We continued to improve our anti-bribery controls through formation of an anti-bribery working group. The working group has management representation from across the Bank and is aimed at making control efforts more granular.

Sustainability Review (Continued)

Being a responsible Company (Continued)

Responsible selling and marketing

We are committed to responsible selling and marketing. It is integral to ensuring we treat our clients and customers fairly at all times.

In upholding this commitment, we are aligned to our brand promise to be 'Here for good' and the strategy of our Wholesale Banking and Consumer Banking businesses to build long-term relationships with our clients and customers.

Our strategy of placing our clients and customers at the centre of everything we do ensures we uphold responsible selling and marketing practices and continually seek to improve their experience with us.

We want to be in business for the long-term. Practicing strong governance, looking after our staff and customers and minimising our direct environmental impact are central to this commitment.

We aim to treat our customers fairly at all times, providing them with solutions that meet their needs. We have policies and procedures in place to make sure we sell the right products and that complaints are identified and resolved.

Consumer Banking

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.

One of the ways we support our employees to deliver the Customer Charter is through the Standard Chartered Bank Way (SCB Way). This is an approach to sales that helps us to embed the right needs-based sales culture across leadership, management and the frontline.

In line with our brand promise to be 'Here for good', Treating Customers Fairly (TCF) remains a core focus; we are committed to delivering fair outcomes for our customers at every stage of their relationship with us. Since 2009, Consumer Banking has undertaken a significant programme to embed TCF throughout the business. TCF is integrated with our customer-focused strategic initiatives and firmly embedded in our culture, Customer Charter, governance and processes.

Core governance oversight of the TCF programme is maintained through global and country Customer Experience Councils (CECs), which review key management information across TCF customer outcomes and oversee enhancements. In addition, we use both customer and staff feedback to identify areas for improvement in our service, processes and products.

In 2013, we continued to:

- work closely with our regulators to respond to the impact of new regulations on our business; and
- assess the embedding of TCF in the various aspects of the product life cycle, including the degree of compliance with sales and suitability requirements through measures such as the risk-based compliance, audit reviews and automated transaction surveillance.

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, Collections and Operations.

L&CBA'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.

Ahmed A. Noor, Managing Director Dakawou Transport Ltd (Right) and Bhartesh Shah, Head of Consumer Banking, chat at the launch of Cross Border Banking Services for East Africa.

Sustainability Review (Continued)

Being a responsible Company (Continued)

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.

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, Small and Medium Enterprises (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'.

Wholesale Banking

Our Wholesale Banking strategy and longstanding commitment to our clients remain unchanged. We work towards building deep long-term relationships to support our clients' growth ambitions through promoting a culture centered on ethical conduct, with key areas of focus being:

- 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 clients.

SME staff pose for a photo after completing a training on SME Lending Essentials.

Treating clients and customers fairly is a requirement of our Group Code of Conduct and in Wholesale Banking we have a comprehensive suite of policies, procedures and controls to ensure that our employees adhere to the high standards expected.

These policies, procedures and controls cover a broad range of issues, including:

- Preserving client confidentiality;
- Ensuring that conflicts of interest are identified and managed appropriately in a transparent and open manner;
- Applying Appropriate and Suitability standards to the sale of derivative products to all of our clients, so that we understand their financial objectives, risk tolerance, financial situation, investment experience and particular needs to ensure each client is offered appropriate products;
- Providing our clients with the right amount of clear and concise information before entering into financial products with us, so that they understand the risks associated with these products including the downside potential;
- Requiring that all communications with clients, both written and spoken and regardless of the medium involved, are fair, clear and not misleading;
- Executing client orders in a manner that treats all clients fairly; and
- Mandating that all complaints are handled quickly, fairly, effectively, courteously and thoroughly.

In 2013, we continued to:

- provide ongoing training to our employees to promote awareness and adherence;
- promote channels for employees to seek guidance or raise concerns;
- assess our policies, procedures and controls regularly to ensure they continue to meet our clients' needs and benchmark to applicable regulatory guidelines and industry best practice;
- deepen our core bank client relationships by offering products and services that meet clients' needs and objectives; and
- have in place sufficient and robust controls and governance to ensure that 'Here for good' principles are embedded in our culture and the way we conduct business with our clients.

Sustainability Review (Continued)

Being a responsible Company (Continued)

People and Values

The diversity of our workforce is a core strength and important part of what makes our culture distinctive: the belief that our brand promise, 'Here for good', motivates our people to deliver exceptional, sustainable results while maintaining the highest standards of fairness and integrity. In 2013, we continued to embed 'Here for good' in every aspect of our business.

We recognise that different views create innovation and we work hard to create an open and collaborative working environment through town halls and informal sessions with senior leaders enabling employees to understand their points of view and share their own ideas.

We remain committed to providing a compelling employee experience that meets the same high standards we aspire to deliver to our clients and customers. We value our employees for who they are and encourage them to develop their natural strengths. Providing relevant and meaningful learning opportunities is central to that experience and ensures our people have the capabilities needed now and in the future.

Talent attraction and engagement

Our approach focuses on attracting top performers who share our vision and are aligned with our values. We seek people from different backgrounds and leverage this diversity to create a multi-talented workforce that helps us to connect with our clients and customers.

Recruitment is aligned to our growth plans, creating a strong talent pipeline that meets our future needs. We take a long-term view on career development, providing opportunities to move internally and gain experience in different functions, geographies or develop a world-class specialism.

In 2013, we expanded our careers presence on key social media channels including Facebook, Twitter and LinkedIn to build people's awareness of the opportunities within Standard Chartered and what it means to work for us.

Learning and development

Providing relevant, meaningful and effective people development is central to our long-term commitment to invest in our people. Our development is based on the philosophy of being a strengths-based organisation. We recognise that people's strengths are unique and we encourage employees to identify and grow their distinctive talents.

Our commitment to professional development, including risk management, ensures our people are able to make informed decisions about what is best for our clients, customers and business. Strengthening our leadership capability remains a key business priority to ensure we have strong leaders today and in the future.

In 2013, we:

- Continued to develop our future leaders;
- Equipped managers with the skills and support they need to work in an increasingly complex, regulated and challenging environment; and
- Increased employees' access to development, enabling them to be successful and have rewarding careers.

Performance and reward

The Bank's success depends upon the performance and commitment of talented employees. Our performance and reward structures are designed to deliver and maintain a culture of sustainable performance in support of our values and risk appetite.

Every employee has a clear set of objectives, which includes non-financial performance measures based on our five values, and receives ongoing feedback about their performance and behaviour. Performance reviews and subsequent reward decisions are therefore based not only on what individuals have achieved, but also on how they have achieved it.

This is the eleventh year in which we have adopted this approach, and consider it to be an important part of how we ensure our distinctive values and culture are translated into how our employees act and make decisions every day.

Individual reward and incentives relate directly to the performance and behaviour of the employee, the performance of their business unit, the Bank's overall performance and the interests of shareholders.

In 2013, we continued to:

- strengthen governance on performance and reward decision making; and
- strengthen our values-based culture, further reinforcing the importance of conduct and behaviour in the performance management assessment process.

Byron Rienstra, former Global Head of Consumer Banking, Human Resources meets with selected Bank Heads during a visit to Kenya.

Sustainability Review (Continued)

Being a responsible Company (Continued)

Diversity and Inclusion (D&I)
Significant strides have been made in growing and developing high potential women in top senior management from 30 per cent to 38 per cent and at lower management levels the gender balance is at 50 per cent.

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.

The D&I team continues to support the wheelchair and tricycle races in the Standard Chartered Nairobi 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.

In November 2013, the Bank in Kenya launched the Gen Y Network in line with its D&I agenda. It focuses on the 58 per cent of the Bank's staff born from 1980 onwards. The network aims to support Gen Y to realise their full potential, participate and contribute fully to the work place and to society in a rapidly changing environment.

Health, safety and security
Our priority is to provide a safe, secure and healthy working environment for our people and customers. We maintain high standards that are aligned with international best practice. The Group's Board Audit Committee annually reviews our health, safety and security performance.

Health and safety
We proactively review the health and safety of all our properties and projects to identify potential risks. We address any identified risks with time-bound action plans. These are monitored through our operational risk management framework.

Accident and incident data are collated centrally and regularly reviewed to ensure root causes are determined, and appropriate corrective actions are taken to prevent recurrence.

Security
Through our robust security management process, which includes on-going reviews and updates of all relevant policies, standards and procedures, and security team set-up across all our markets, we seek to ensure that our customers and employees are always safe and secure. When employees are travelling on business, we have a global travel management system in place to give them guidance and keep them safe.

All new guarding suppliers are strictly vetted for compliance with national labour legislation. This includes wages, working conditions and day-to-day issues such as 'rules of engagement' training.

The SKIRTS (Sisterhood, Knowledge, Integrity, Respect, Tenacity and Substance) Council with the Bank's Chair to the Board Mrs. Anne Mutahi during the Women's Day celebration

Sustainability Review (Continued)

Being a responsible Company (Continued)

Environment

Protecting the environment has been long recognised by the Bank as a key sustainability agenda. Resource scarcity, rising energy prices are just some of the indicators adding urgency to the value of creating energy efficiency. Managing the direct impacts of the Bank is split between Group Technology and Operations (GTO) and Corporate Real Estate Services (CRES).

CRES Environment team manages energy and water efficiency, targeting a 40 per cent reduction by 2019. These targets, which take into account climate, ownership, and local opportunity, are considered 'leading edge' within the property sector. We also have a network of Country Environment Coordinators who share best practice and drive behavioural change initiatives on the ground including supporting World Water Day and World Environment Day.

We believe that our operations have minimal impact on the environment when compared with 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 modelled 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 reuse. 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.

GTO manage our supply chain, paper and air travel with a focus on reducing our paper waste and air travel emissions. The Bank's target is to reduce paper to 10 kg per FTE (full time employee) by 2020. 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 invested in audio and video conferencing facilities to reduce the volume of business travel.

Our products

We continue 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 digital channels.

Suppliers

In 2013, we continued to embed our Supplier Charter to new and existing suppliers. We also assessed how we can adopt new practices to promote longer-term sustainability, based on feedback from our suppliers.

Through our growth and increased demand for new goods and services, we are indirectly creating jobs and boosting revenue growth for our suppliers.

Our approach to sustainability is embedded in the way we choose the right supplier. This is reflected in our vendor selection process. A panel of internal evaluators weighs and evaluates our selection approach against seven priorities:

1. Pricing competitiveness;
2. Expertise and experience;
3. Risk management capability and resilience;
4. Fit with our requirements;
5. Environmental and sustainability factors;
6. Client reference; and
7. Track record with us.

The Standard Chartered Supplier Charter launched in 2012 sets out the standards and values that we expect our suppliers to comply with. It also details the environmental and social standards that we expect from our vendors. The Charter has been shared with our suppliers and it gives them guidance on how they are expected to perform their obligations to us. These obligations include ethics, human rights, environment, health and safety standards, labour and protection of the environment.

The Bank's Head Office in Kenya, StandardChartered@Chiromo

Sustainability Review (Continued)

Investing in communities

Investing in communities

Our sustainability as a business is closely intertwined with the health and prosperity of the communities where we operate. Through our employee volunteering and community investment programmes, we work with partners to deliver programmes that promote positive social and economic outcomes for people in our markets.

Employee volunteering

Employee Volunteering (EV) is aligned to our brand promise, 'Here for good'. All of our employees are entitled to take up to three days paid leave per year for EV. 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 EV days, our staff get the opportunity to use their skills to make a unique contribution to organisations and causes they support.

In 2013, 1,792 staff took 2,509 EV days in support of community investment. Some of the volunteering activities included: the construction of four biogas systems in various schools and children's homes; financial literacy training for women groups; a mentorship program for university students and construction of classrooms and equipping of a school laboratory.

Africa Employee Volunteering Month

In September 2013, the Bank held the Africa Employee Volunteering Month. The aim was to encourage staff to give back to the communities that they live and work in through volunteering. To mark the month, Corporate Affairs lined up various volunteering opportunities aligned to the Bank's global and country-sponsored community initiatives including 'Seeing is Believing', 'Living with HIV', and the Environment.

One such event was the 'Here for good' day with the CEO which was held on 13 September 2013. 400 members of staff participated. The activities of the day were carried out at Shining Hope for Communities (SHOFCO) in Kibra slum. Staff engaged in both skill and non-skills based volunteering activities. In the area of skills based activities staff were involved in training community members on business planning and growth. SHOFCO staff were trained on HR, IT and legal aspects of dealing with gender based violence. Under non-skills based volunteering the bank employees were involved in painting, constructing washrooms, community clean up, shelf building, library cataloguing, reading to children and providing services at the 'Seeing is Believing' eye clinic. Over 1,800 children and adults underwent eye screening.

Skills-based volunteering

In line with the Group's strategy to move towards skills-based volunteering, in 2013 Standard Chartered partnered with VSO Jitolee to offer employees a unique opportunity to use their skills as volunteers and participate in a life changing and learning experience in order to strengthen the Bank's partnerships with its project partners and local communities.

In essence, the Standard Chartered Employee Volunteering Programme (EVP) intends to improve Standard Chartered's Social Sustainability initiatives. The EVP will focus on strengthening the capacity of partners (implementers of our 'Seeing is Believing' and Environmental programmes) and disadvantaged local communities to bring desired positive change in the lives of people, many of whom lack the requisite capacity in terms of human resources, skills, experiences and specific expertise.

Members of staff build shelves for the library at SHOFCO in Kibra.

In 2013, VSO Jitolee carried out a skills audit among organisations that have previously or are currently benefiting from our CSR programmes with an aim of identifying volunteering opportunities for the staff. These opportunities are now on our database and available to staff.

VSO Jitolee will continue to offer support through general orientation and motivation talks to Standard Chartered employee volunteers, partner placement development, undertaking continuous monitoring and periodic evaluation, provide ongoing support and guidance during placement and evaluate the impact of the EVP programme at the different levels. VSO Jitolee will also develop customised guidelines on preparation of employee volunteers to ensure continuity.

Sustainability Review (Continued)

Investing in communities (Continued)

Community Programmes

Through our brand promise, 'Here for good', we work with the communities in order to deliver programmes that promote social and economic development focusing on health, youth and financial education. We also empower our staff to help tackle the challenges we face in our markets. Our community investment activities are:

- 'Seeing is Believing';
- Standard Chartered Nairobi Marathon;
- Education
- 'Living with HIV'; and
- Environment.

'Seeing is Believing'

The Kenya 'Seeing is Believing' project was greatly boosted last year when the Standard Chartered Group committed KShs 432 million towards child eye care in East Africa, covering Kenya, Uganda and Tanzania. The four year programme is in partnership with the ministries of health and education in the three countries, the East Africa College for Ophthalmology together with two NGO consortiums led by Christian Blind Mission and Brien Holden Vision Institute.

The 'Seeing is Believing' East Africa programme which aims to improve child health and reduce avoidable blindness among children in the region will also contribute to the attainment of Millennium Development Goals 1, 2, 3 and 4. The programme will indirectly benefit over 45 million children, the total estimated population of children in East Africa, through conducive changes in national policies, strengthening of national coordination and promoting child eye health. The provision of quality, child friendly and child centered eye health services in the catchment areas of the programme, anticipates serving over 4 million children.

The programme which targets children aged 0 to 15 years, takes a holistic view of child eye health looking at the whole child's needs: from building awareness and education of child eye health among families and communities; building the referral networks to identify and correctly diagnose children for problems (including within schools); to ensuring the clinical infrastructure and human resources are in place to treat children with blindness and visual impairment; and ensuring that children who cannot be medically or surgically treated are given support and educational opportunities.

In Kenya, through the Nairobi Marathon, to date we have raised over KShs 86.5 million. Through this initiative, we have helped restore sight to over 6,000 children in Kenya through various hospitals countrywide as well as purchased state-of-the-art equipment for the beneficiary hospitals; constructed and refurbished eye care health facilities; provided training for eye care medical personnel to increase their capacity and improve delivery of services.

During the World Sight Day in October 2013, Standard Chartered Group announced that it will donate KShs 1.7 billion over the next five years to the Queen Elizabeth Diamond Jubilee Trust. The money will go towards funding eye care projects in Africa and India. In Africa, these funds will be used to support a blinding trachoma programme across five African countries i.e. Kenya, Malawi, Mozambique, Uganda, and Nigeria. The programme will reach an estimated 3.6 million people in Kenya. Trachoma is the second leading cause of avoidable blindness in Kenya, with an estimated 7 million people at risk.

Highlights

- In 2013, Standard Chartered Kenya donated over KShs 22.5 million to the Bank's global charity, 'Seeing is Believing', which seeks to tackle avoidable blindness. This was raised through the 2013 Standard Chartered Nairobi Marathon.

- The East Africa Project aims at improving service delivery through equipping of key eye hospitals, building capacity of service providers through training; expansion of eye clinics and improvement of both primary and secondary eye care. To date in Kenya, a training manual has been developed; 170 teachers have been trained; as well as 184 community health extension workers, general nurses and clinical officers.

Peter Gitau, Chairman of the Steering Commitee of the Standard Chartered Nairobi Marathon registers Evans Kidero, Nairobi County Governor for the 11th Edition of Nairobi Marathon.

Business Review

Sustainability Review (Continued)

Investing in communities (Continued)

- The Bank has committed an additional KShs 86.5 million towards the Phase V 'Seeing is Believing' Project which will be done in partnership with Operation Eyesight Universal.
- In 2013, four 'Seeing is Believing' Eye Clinics were conducted where 6,650 people were screened.
  - Eye clinic check-up as part of community engagement during Hope for the Future run by Henry Wanyoike Foundation;
  - Eye clinic in Naivasha in partnership with Finlay's Flower Farm as part of community support during the Rift Valley Odyssey Cycling race sponsored by Standard Chartered Bank;
  - Eye clinic at Kibra slums during 'Here for good' day with CEO; and
  - Eye Clinic during the Standard Chartered Nairobi Marathon.

Standard Chartered Nairobi Marathon

The Standard Chartered Nairobi Marathon (SCNM) has continued to grow over the years to become Kenya's largest sporting event attracting over 22,000 participants in 2013.

SCNM is Kenya's only athletics event on the calendar of the IAAF. The marathon is fully accredited by IAAF and complies with their rules to the highest level including having timing capabilities that are as good as any other international marathon.

Since its inception the Marathon has raised over KShs 86.5 million which has gone towards supporting the eradication of avoidable blindness among children below the age of nine. To date over 6,000 children have had their sight restored through the proceeds of the Nairobi Marathon.

Highlights:

- Well organised and executed: Over 22,000 people took part in the 2013 Marathon, a 5 per cent increase from 2012. The number of corporate organisations who participated increased from 124 to 168;
- Staff volunteering: 425 staff members volunteered at the 2013 marathon;
- Staff participation: 650 staff members and their families participated in the various race categories, a 52 per cent increase from 2012; and
- Money raised: one of the objectives of the Nairobi Marathon is to raise money for the eradication of avoidable blindness in Kenya through prevention and curative strategies. The proceeds (i.e. participant registration fees; donations by individuals and organisations) of the Marathon go towards East Africa 'Seeing is Believing' Project (the Kenya piece). The amount raised in 2013 was KShs 22.5 million up from KShs 21.1 million in 2012.

Rift Valley Odyssey

Standard Chartered Bank sponsored the fourth Rift Valley Odyssey (RVO) race which took place between 20 and 22 September 2013.

The 240 kilometre race, from Limuru to Lake Naivasha, is unique amongst mountain bike races in that it requires 100 per cent GPS navigation and self-sufficiency throughout the route. The RVO traverses both the eastern and western escarpments of the Rift Valley, through single-track forest trails with incredible descents and ascents, across open plains teaming with game.

The entry list for 2013 was led by the Standard Chartered team of David Kinjah and Max Knox, both cycling champions. The Standard Chartered team also included Robin Bairstow and Dana

The Tricycle Race takes off during the Standard Chartered Nairobi Marathon held on 27 October 2013.

Sustainability Review (Continued)

Investing in communities (Continued)

Botha, David Kamau and Joseph Kuria. In total 100 competitors entered the race with 37 international entrants representing 12 countries.

As part of its sponsorship the Bank hosted Eye and HIV clinics during the course of the race among the local communities that border the race route. The clinics were held at Finlays Medical Centre and Karagita Market. On Saturday 21 September 2013, a total of 1,200 people were tested and treated at the eye clinic while 220 underwent HIV training with 17 undergoing HIV testing. Seven medical personnel from Tenwek Hospital Eye Unit provided the technical expertise while 50 members of staff provided the necessary support.

Education

Under education in 2013 members of staff delivered the following:

- Moi Girls High School – Vokoli: The "Making Girls Money Savvy" team from our Technology and Operations department trained the girls at the school on financial literacy. The staff donated two computers to the school as well as committed to sponsor the fees for two girls;
- USIU: staff introduced a mentorship programme for United States International University (USIU) students. In 2013, a total of 20 students graduated under the programme;
- The Finance department is supporting one of our key partners, Starehe Girls Centre to automate the Centre's finance systems; and
- Bank SME staff trained over 20 women groups on proposal writing, book-keeping and budgeting.

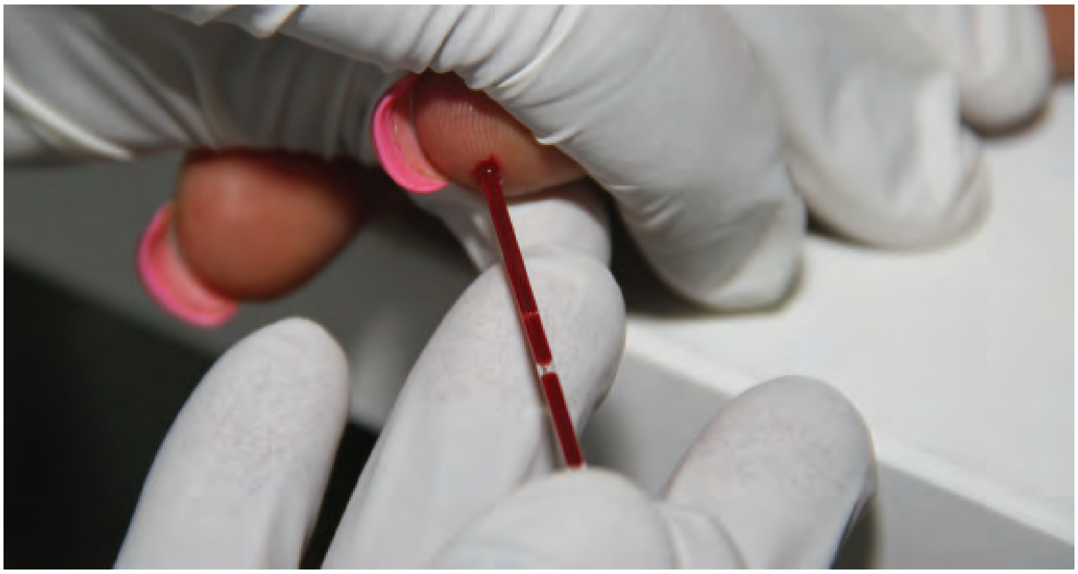
Highlights

- We carried out HIV and AIDS testing and counseling during the Nairobi Marathon where over 100 participants were tested and thousands of participants received information. This was done in partnership with HIV Free Generation;
- 31 HIV champions were trained on the refreshed 'Living with HIV' toolkit;
- To mark Worlds Aids Day, 76 staff members and the Bank's service providers received free HIV testing and counselling in partnership with Liverpool VCT; and
- During the 'Seeing is Believing' eye clinics, 279 people received HIV training, testing and counselling.

Living with HIV/AIDS

Since the inception of the Bank's 'Living with HIV' initiative in 2006, over 17,880 people have benefited through training including customers, their staff, Standard Chartered Bank staff and students.

In partnership with Global Business Coalition, Standard Chartered Bank Kenya remains at the centre of thought leadership in HIV and AIDS, excelling in modelling HIV and AIDS staff policy and community investment.

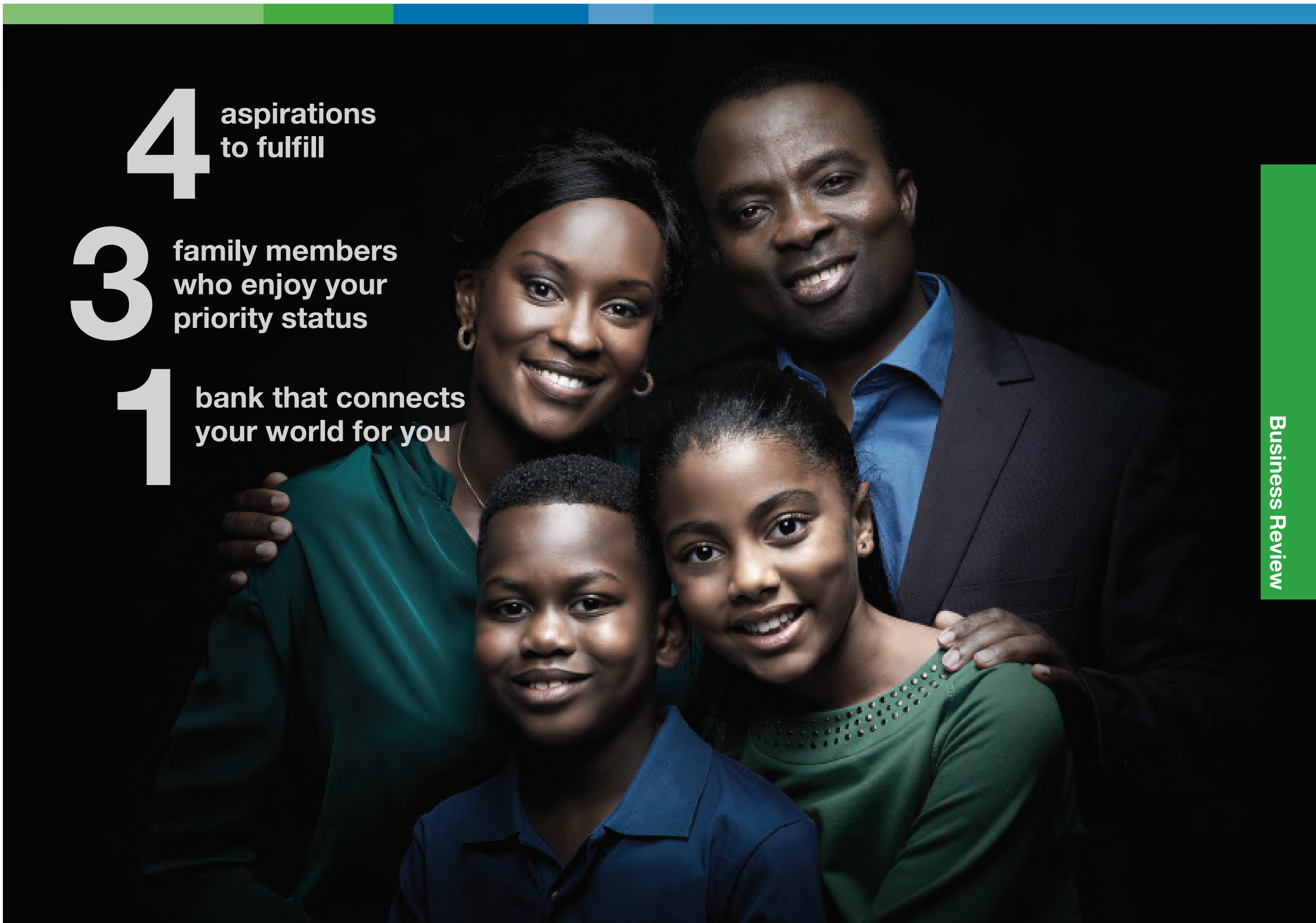


A staff member gets tested for HIV during the Wellness Week.

Business Review

PRIORITY
Banking

Standard Chartered
Here for good



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Wealth Management

The strength of any relationship comes from understanding. That's why we recognise all that matters to you when it comes to your banking needs. With Priority Banking, we aim to provide a distinct and highly personalised service that caters to you, your family and connects you to more solutions and opportunities.

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Board of Directors

Board of Directors Profiles

1. Anne Mutahi
Chair to the Board

Appointed to the Board on 24 February 2009 and appointed Chair to the Board in May 2013. 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 53.

2. Lamin Manjang
Managing Director and Chief Executive Officer

Appointed to the Board on 1 March 2014. He has over 15 years banking experience with Standard Chartered Bank across Africa and the Middle East. He has also been the CEO in Oman, Uganda and Sierra Leone and was responsible for the overall growth and development of the bank's business in those countries. Age 51.

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 62.

4. Kariuki Ngari
Non-Executive Director

Appointed to the Board on 24 February 2009. He joined the Bank in January 2009 as Head of Consumer Banking, Kenya and was on 1 April 2013 appointed Head of Consumer Banking Africa. As a result, he became a Non-Executive Director. 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 47.

5. Chemutai Murgor
Executive Director, Finance

Appointed to the Board on 1 March 2007. She has been with the Bank for 13 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 44.

6. Kaushik Shah
Non-Executive Director

Appointed to the Board on 19 February 2004. He is a Director, Safal Group East Africa as well as the Kenya Association of Manufacturers. He sits on the Board of Bahari Insurance Brokers Limited and Mwanzi Road Development Limited, among others. Age 61.

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 53.

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 59.

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 59.

10. Robin Bairstow
Executive Director, Origination and Client Coverage

Appointed to the Board on 24 January 2012. He has been with the Bank for 11 years and his immediate previous appointment was Director Origination and Client Coverage, Zambia. He has wide experience in corporate finance and banking spanning over 23 years. Prior to joining Standard Chartered Bank, Robin worked with Citibank NA South Africa, BOE Bank Limited, ABSA Bank Limited and Nedbank. Age 48.

Management Committee

Management Committee Profiles

1. Lamin Manjang
Chief Executive Officer

He was appointed Chief Executive Officer and Area General Manager for East Africa in January 2014. Before then he was the CEO of Standard Chartered Bank Oman for a period of one and a half years. He has over 15 years banking experience with Standard Chartered Bank across Africa and the Middle East. He has also been the CEO in Uganda and Sierra Leone and was responsible for the overall growth and development of the Bank's business in those countries.

2. Chemutai Murgor
Chief Finance Officer

She has been with the Bank for 13 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.

3. George Akello
Chief Risk Officer

He has been with the Bank for 16 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.

4. Bhartesh Shah
Head, Consumer Banking

Bhartesh has 17 years banking experience with Standard Chartered Bank Group in various capacities and different locations. He was appointed the Head of Consumer Banking, East Africa, in April 2013. In addition to his experience at Standard Chartered Bank, Bhartesh has also worked at Citibank in Wealth Management and Midland Bank (HSBC) in the UK.

5. Robin Bairstow
Head, Origination and Client Coverage

He has been with the Bank for 11 years and has held various positions within the Bank. He has over 23 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.

6. Grace Tibihikirra Makoko
Head, Financial Markets

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

7. Nancy Oginde
Head, Legal

She has been with the Bank for 22 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. Peter Gitau
Head, Technology and Operations

Peter has been with the Bank for 11 years and has wide experience in Risk Management and in Technology and Operations. He has held various roles in Standard Chartered in Kenya including the Regional Head of Group Audit Africa. He also worked in the Standard Charetered Group office in Singapore where he was the Head of Controls for Wholesale Bank Technology and Operations. Prior to joining Standard Chartered Peter worked in the Financial Services Group at PricewaterhouseCoopers.

9. Annie Kigira-Kinuthia
Head, Corporate Affairs

She joined the Bank in 2007. Annie has over 18 years of experience in corporate affairs having worked at Equity Bank, World Vision Kenya and Unga Group in senior positions.

10. Rebecca Lwebuga-Kaggwa
Head, Compliance

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

11. Lucy Kimani
Acting Head, Human Resources

She has been with the Bank for over 25 years, holding management positions in Consumer Banking and Human Resources. She has a wealth of experience within the Bank, having led a number of Change Management Programmes. She has worked in London and Ghana.

The Board and Statutory Information

Directors

A. Mutahi	Chair to the Board
L. Manjang*	Chief Executive Officer (Appointed 1 March 2014)
R. Etemesi	Chief Executive Officer (Resigned 1 March 2014)
M. Hart**	
K. Shah**	
C. Murgor	
K. Ngari	
L. Baillie**	
R. Bairstow***	
P. Obath	

*Gambian ** British ***South African

Secretary

N.N. Oginde
(CPS No. 1139)
StandardChartered@Chiromo
48 Westlands Road
P.O. Box 30003
00100 Nairobi GPO.

Auditors

KPMG Kenya
8th Floor, ABC Towers
ABC Place, Waiyaki Way
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 & Registrars 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
KPMG Kenya*	

*By invitation.

Board Committees (Continued)

Board Risk Committee

Members

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

*By invitation. **Resigned 1 March 2014

Board Credit Committee

Members

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

*By invitation. **Resigned 1 March 2014

Board Nomination, Evaluation and Remuneration Committee

Members

A. Mutahi	Chair to the Board
L. Baillie	
R. Etemesi*	
L. Kimani	
N. Oginde	Secretary

*Resigned 1 March 2014

Asset and Liability Committee (ALCO)

Members

R. Etemesi*	Chairman
B. Shah	
R. Bairstow	
C. Murgor	
G. Akello	
G. Makoko	Secretary

*Resigned 1 March 2014

Management Committee

Members

R. Etemesi*	Chairman
B. Shah	
R. Bairstow	
C. Murgor	
G. Makoko	
L. Kimani	
P. Gitau	
N. Oginde	
G. Akello	
A. Kigira-Kinuthia	
R. Kaggwa	

*Resigned 1 March 2014

Report of the Directors

for the year ended 31 December 2013

The directors are pleased to submit their report together with the audited financial statements for the year ended 31 December 2013 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which governs disclosure of 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. It 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 14.50 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 14.50 (2012 - KShs 12.50) for every ordinary share.

The Board has 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 (2012 - 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 24 April 2014 and will be paid on or after 30 May 2014. The Register will remain closed on 25 April 2014 for the preparation of dividend warrants.

4. Directors

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

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

- Messrs Les Baillie and Kaushik Shah retire from office by rotation and will offer themselves for re-election at the forthcoming Annual General Meeting in accordance with Section 96(1) of the Memorandum and Articles of Association.
- Mr. Lamin Manjang, a casual director retiring by rotation who being eligible offers himself for re-election in accordance with Section 98(1) of the Memorandum and Articles of Association.

Mr. Richard Etemesi who has served the Company as the Chief Executive Officer (CEO) and Managing Director has resigned as CEO and director of the Company with effect from 1 March 2014 to take up a different appointment within Standard Chartered Bank Group and Mr. Lamin Manjang has been appointed to take over as CEO and Managing Director of the Company.

5. Auditors

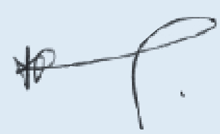
The auditors, KPMG Kenya, continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to Section 24(1) of the Banking Act.

6. Approval of financial statements

The financial statements were approved by the Board of Directors on 24 March 2014.

BY ORDER OF THE BOARD

N.N. Oginde
Company Secretary



Date: 24 March 2014

Statement on Corporate Governance

for the year ended 31 December 2013

High standards of corporate governance are a key contributor to the long term success of a company, creating trust and engagement between the company and its stakeholders. Striving to deliver exemplary governance is core to the Board of Standard Chartered Bank Kenya Limited (SCBKL).

Effective governance in SCBKL is achieved through a combination of strong policies and processes, underpinned by the right values and culture. SCBKL's culture and values are deeply embedded within the organisation, and are regularly reinforced and updated.

The Board undertook a thorough review of the revised Prudential Guidelines issued by the Central Bank of Kenya and went on to oversee the successful implementation of the Guidelines in 2013. The Board also undertook a two-day corporate governance training in June 2013.

Highlights for 2013

- implemented the revised Prudential Guidelines for compliance;
- enhanced focus on key strategic and risk issues;
- maintained balance in pursuing growth opportunities in tandem with appropriate governance systems, controls, processes and information flows; and
- held a Corporate Governance training jointly with the Board of Standard Chartered Bank Tanzania.

The Board

The Board is responsible for providing 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 areas of expertise of the directors are 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
K. Ngari	Banking
R. Etemesi*•	Banking
C. Murgor*	Banking and Financial Management
R. Bairstow*	Banking

*Executive Directors •Resigned 1 March 2014.

A good working relationship exists 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 business as well as 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, delegation and monitoring of authorities for expenditure and lending and any other material commitments.

Board composition: Who is on our Board?

The Board has nine members; the Chair, three executive directors and five non-executive directors. 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.

Mrs. Anne Mutahi was appointed as Chair to the Board in May 2013 and has steered the Company through the successful implementation of the revised Prudential Guidelines and Risk Management Guidelines. There were no other changes on the board composition during the year.

Induction and ongoing development

The Company has a very comprehensive and tailored induction process for new directors covering its business and operations as well as the legal, regulatory and other personal obligations of a director of a bank and a listed company. Our ongoing development programme continues to evolve and is needs-based. The Board Committees also receive specialist presentations on key issues where required. The key areas of focus for the Board and Committees in 2013 were the review of the revised Prudential Guidelines and Risk Management Guidelines, 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 Chairperson and Chief Executive Officer

The separate roles of the Chairperson and the Chief Executive Officer are clearly defined in the Board Charter which has been approved by the Board.

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

Independent non-executive directors

The majority of the non-executive directors are 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 of interest.

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

Statement on Corporate Governance (Continued)
for the year ended 31 December 2013

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 and also 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 Board Charter to align with the CBK Prudential Guidelines. The Board also reviewed the terms of reference for the different Board Committees and the Company's Internal Capital Adequacy Assessment Process (ICAAP) as required by the Prudential Guidelines.

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 2013 to review the three year strategy adopted by the Company in 2012. There was sufficient time to examine the emerging risks and opportunities in detail. The Board invited a leading economist and an Information and Communications Technology (ICT) expert for discussions on the economic environment and the likely impact of the rapid development in the ICT sector.

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 annual Board evaluation was conducted in March 2013 in a process led by the Chair to the Board and supported by the Company Secretary. The evaluation entailed a self-evaluation for each director, evaluation of the Chair to the Board and of the overall Board interactions, conduct of business meetings and scope of control exercised by the directors. Following the exercise, the directors identified areas that required further consideration by the Board and these issues have been captured in the rolling agenda.

The Company's Board continues to operate effectively. There is a high level of engagement from the non-executive directors and meaningful interaction with the executive directors.

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 reports to enable them to 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 3*
A. Mutahi (Chair to the Board)	5/5	3/3
R. Etemesi**	5/5	3/3
M. Hart	5/5	3/3
K. Shah	5/5	3/3
P. Obath	5/5	3/3
C. Murgor	5/5	3/3
K. Ngari	4/5	3/3
L. Baillie	5/5	2/3
R. Bairstow	4/5	3/3

*The ad hoc meetings were held to discuss Prudential Guidelines and related matters.

**Resigned 1 March 2014.

Statement on Corporate Governance (Continued)

for the year ended 31 December 2013

Board Committees

The Board has six Committees with specific delegated authorities. These are the Board Audit Committee, the Board Risk Committee, the Board Credit 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 Credit 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 risks including credit, market, capital and liquidity.	Oversight of the Bank's Credit Policy and all lending undertaken by the institution in line with the established risk appetite.	Oversight and review to ensure the Board composition has the optimum balance of skills, knowledge and experience. General oversight over the staff remuneration policies and review of Board remuneration.	Ensure the Company balance sheet is managed in accordance with regulatory requirements and Company 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

Members	Board Audit Committee	Board Risk Committee	Board Credit Committee	Board Nomination, Evaluation and Remuneration Committee
A. Mutahi		Member	Member	Chair
K. Shah	Chair			
L. Baillie	Member	Chair	Chair	Member
M. Hart		Member	Member	
P. Obath	Member	Member	Member	
R. Etemesi*		Member	Member	Member

Chair Member *Resigned 1 March 2014.

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

Highlights for 2013

- continued to robustly monitor the controls in place for management of capital and liquidity positions, especially in line with the regulatory requirements;
- closely monitored audit findings and the actions thereon from the external and internal auditors;
- review and approval of the financial statements of the Company for each quarter; and
- ensure action and follow up on all compliance monitoring reports.

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. The Committee considers management's recommendations in respect of impairment on loans and advances as well as other disclosure requirements.

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 reported by the audit team 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.

Statement on Corporate Governance (Continued)
for the year ended 31 December 2013

All the Committee members have relevant experience. The Board is satisfied that Mr. Kaushik Shah, as Chairman, has the relevant financial experience to lead the committee 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 and Assurance also submits reports on regulatory compliance. The Director in charge of Finance, Head of Internal Audit, Head of Compliance and Assurance, the external auditors and the Business Heads are regularly invited to the meetings to provide reports or respond to issues as required. The non-executive directors hold meetings with the Head of Internal Audit without management to freely discuss 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;
- review of audit reports;
- integrity of the Company's financial statements; and
- approval of the audit and compliance monitoring plans.

Attendance

Number of meetings scheduled in 2013		4
K. Shah	(Chairman)	4/4
L. Baillie		4/4
P. Obath		3/4

Board Risk Committee
Members

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

* By invitation **Resigned 1 March 2014.

Highlights for 2013
- enhanced focus on emerging risks;
- comprehensive review of the Company'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 Company 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

The Committee maintained a clear focus on capital and liquidity in 2013. 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.

Attendance

Number of meetings scheduled in 2013		4
L. Baillie	(Chairman)	4/4
A. Mutahi		4/4
P. Obath		3/4
M. Hart		3/4
R. Etemesi*		4/4

*Resigned 1 March 2014.

Board Credit Committee
Members

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

* By invitation **Resigned 1 March 2014.

Formation
This Committee was formed during the year in response to the Prudential Guidelines requirements.

The Committee agreed on its terms of reference and agenda with its main role being to review the Company's lending policy.

Highlights for 2013
- reviewed the overall lending policy of the Company; and
- reviewed the quality of the Company's loan portfolio to ensure compliance with requirements of the Prudential Guidelines.

Statement on Corporate Governance (Continued)
for the year ended 31 December 2013

Role and function
The Committee reviewed issues regarding industry concentration, loan impairment, liquidity and compliance. The Committee also reviews the top country risks and the credit approvals on an ongoing basis.

Attendance

Number of meetings scheduled in 2013		3
L. Baillie	(Chairman)	3/3
A. Mutahi		3/3
P. Obath		3/3
M. Hart		3/3
R. Etemesi*		3/3

*Resigned 1 March 2014.

Board Nomination, Evaluation and Remuneration Committee Members

A. Mutahi	Chairperson
L. Baillie	
R. Etemesi*	
L. Kimani	
N. Oginde	Secretary

*Resigned 1 March 2014.

Highlights for 2013
- reviewed the salary survey details and the general policy and banding for the entire Bank staff; 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 reviews the annual increases for staff salaries and variable compensation awards for eligible staff on the basis of the performance management system.

The Committee adopted an online evaluation process, which is undertaken by Lintstock Limited, a company engaged by the Group to conduct Board evaluation across the Group. The online process helps to synthesise the reports more succinctly for actioning.

Asset and Liability Committee (ALCO) Members

R. Etemesi*	Chairman
B. Shah	
R. Bairstow	
C. Murgor	
G. Akello	
G. Makoko	Secretary

*Resigned 1 March 2014.

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
B. Shah	
R. Bairstow	
C. Murgor	
G. Makoko	
L. Kimani	
P. Gitau	
N. Oginde	
G. Akello	
A. Kigira-Kinuthia	
R. Kaggwa	

*Resigned 1 March 2014.

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
In determining remuneration for non-executive directors, we carry out regular surveys on the market rates for non-executive directors. Based on the findings of such surveys, remuneration of directors is reviewed to ensure that the levels of remuneration and compensation are appropriate. An annual evaluation of directors' performance is carried out to measure performance of individual directors and of the Board as a whole. 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.

Staff remuneration
Our performance, reward and benefits arrangements support and drive our business strategy and reinforce our values. We reward sustained performance over time and decisions on pay are strongly based on differentiation both for sustained performance and for behaviours.

Statement on Corporate Governance (Continued)

for the year ended 31 December 2013

There is a robust performance review for employees based on individual performance throughout the year and the Company's performance. Employees are required to set their own objectives which must align to the Company's objectives. Individual employee's performance is reviewed against their set objectives at midyear and at the end of the year to inform annual review of compensation.

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 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 Prudential Guidelines are embodied in the directors' letters of appointment. A copy of the Central Bank of Kenya's Code of Conduct is also provided to the directors. The Company has a comprehensive policy on Conflicts of Interest and staff as well as directors 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 and Assurance 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 the 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 Code of Conduct was refreshed in the year in response to the rising scrutiny around Company ethics.
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.sc.com/ke/investor-relations* for general information on the Company as well as 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 resolutions for 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 of the Group and the Company at 31 December 2013, and the Group's statement of comprehensive income, Group and Company statement of changes in equity, and the Group's 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 Group and the Company as at the end of the financial year and of the operating results of the Group for that year. It also requires the directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and 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 Group and 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 Group and the Company's ability to continue as a going concern and have no reason to believe the Group and 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 24 March 2014 and were signed on its behalf by:

Director: A. Mutahi

Director: L. Manjang

Director: C. Murgor

24 March 2014

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 2013, 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 about 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 consolidated and Company financial position of Standard Chartered Bank Kenya Limited at 31 December 2013, and the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by 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.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Jacob Maina Gathecha - P/1610.

KPMG Kenya

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

24 March 2014

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	Note	2013 KShs '000	2012 KShs '000
Interest income	8	**21,526,288**	19,375,477
Interest expense	9	**(5,125,232)**	(5,633,275)
Net interest income		**16,401,056**	13,742,202
Fee and commission income	10	**4,512,282**	3,679,168
Fee and commission expense	10	**(671,026)**	(345,664)
Net fee and commission income		**3,841,256**	3,333,504
Net trading income	11	**2,796,331**	3,486,140
Other operating income	12	**378,801**	109,590
OPERATING INCOME		**23,417,444**	20,671,436
Staff costs	13	**(5,094,655)**	(4,649,299)
Premises and equipment costs	13	**(672,873)**	(637,266)
General administrative expenses		**(2,528,452)**	(2,213,458)
Depreciation and amortisation	13	**(983,449)**	(898,572)
OPERATING EXPENSES		**(9,279,429)**	(8,398,595)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		**14,138,015**	12,272,841
Net impairment losses on loans and advances	22(b)	**(783,050)**	(716,650)
PROFIT BEFORE TAXATION	14	**13,354,965**	11,556,191
INCOME TAX EXPENSE	15	**(4,092,044)**	(3,486,658)
NET PROFIT FOR THE YEAR		**9,262,921**	8,069,533
OTHER COMPREHENSIVE INCOME			
Items that are or may be classified to profit or loss			
Change in fair value of available-for-sale investments		**319,056**	3,212,461
Deferred tax on change in fair value of available-for-sale investments		**(95,717)**	(963,738)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**223,339**	2,248,723
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**9,486,260**	10,318,256
BASIC AND DILUTED EARNINGS PER SHARE - (KShs)	16	**29.42**	26.60

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 2013

ASSETS	Note	2013 KShs '000	2012 KShs '000
Cash and balances with Central Bank of Kenya	18	**14,045,233**	13,575,454
Government and other securities held for trading	19	**2,478,935**	2,914,556
Derivative financial instruments	20	**241,102**	356,588
Loans and advances to banks	21	**2,098,867**	2,373,580
Loans and advances to customers	22 (a)	**129,672,004**	112,694,523
Investment securities	23	**53,709,938**	42,973,924
Tax recoverable		**103,747**	–
Other assets	24	**1,921,259**	2,009,820
Amounts due from group companies	25	**8,465,151**	10,158,076
Non-current asset held for sale	28	**137,137**	–
Property and equipment	29	**3,671,911**	4,034,210
Intangible assets	30	**3,593,003**	3,999,563
Prepaid operating lease rentals	31	**252,893**	262,462
TOTAL ASSETS		220,391,180	195,352,756
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	32	**8,590,814**	3,514,244
Deposits from customers	33	**154,720,011**	140,524,846
Derivative financial instruments	20	**363,791**	607,225
Other liabilities	34	**5,021,048**	4,906,762
Amounts due to group companies	25	**15,029,481**	13,751,932
Tax payable		**–**	932,068
Deferred tax liability	35(a,c)	**450,634**	337,865
Retirement benefit obligations	36	**9,000**	25,000
TOTAL LIABILITIES		184,184,779	164,599,942
Shareholders' equity (Pages 51-52)			
Share capital	37	**1,825,798**	1,825,798
Share premium	37	**7,792,427**	7,792,427
Capital contribution reserve	37	**1,888,873**	1,889,052
Revaluation reserve	37	**450,223**	521,435
Fair value reserve	37	**155,958**	(67,381)
Statutory credit risk reserve	37	**1,323,070**	454,017
Retained earnings		**18,119,239**	14,304,972
Proposed dividends	17	**4,650,813**	4,032,494
TOTAL SHAREHOLDERS' EQUITY		36,206,401	30,752,814
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		220,391,180	195,352,756

The financial statements set out on pages 48 to 113 were approved by the Board of Directors on 24 March 2014 and were signed on its behalf by:

Director	A. Mutahi	Director	C. Murgor
Director	L. Manjang	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 2013

ASSETS	Note	2013 KShs '000	2012 KShs '000
Cash and balances with Central Bank of Kenya	18	**14,045,233**	13,575,454
Government and other securities held for trading	19	**2,478,935**	2,914,556
Derivative financial instruments	20	**241,102**	356,588
Loans and advances to banks	21	**2,098,867**	2,373,580
Loans and advances to customers	22 (a)	**129,672,004**	112,694,523
Investment securities	23	**53,709,938**	42,973,924
Tax recoverable		**96,193**	–
Other assets	24	**1,921,259**	2,009,820
Amounts due from group companies	25	**8,465,151**	10,158,076
Investment in subsidiaries	26	**140,243**	140,243
Non-current asset held for sale	28	**137,137**	–
Property and equipment	29	**3,671,911**	4,034,210
Intangible assets	30	**3,593,003**	3,999,563
Prepaid operating lease rentals	31	**252,893**	262,462
TOTAL ASSETS		**220,523,869**	195,492,999
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	32	**8,590,814**	3,514,244
Deposits from customers	33	**154,720,011**	140,524,846
Derivative financial instruments	20	**363,791**	607,225
Other liabilities	34	**4,999,944**	4,888,613
Amounts due to group companies	25	**15,029,481**	13,751,932
Amounts due to subsidiaries		**326,657**	297,098
Tax payable		**–**	939,368
Deferred tax liability	32(b,d)	**454,187**	341,592
Retirement benefit obligations	36	**9,000**	25,000
TOTAL LIABILITIES		**184,493,885**	164,889,918
Shareholders' equity (Pages 53-54)			
Share capital	37	**1,825,798**	1,825,798
Share premium	37	**7,792,427**	7,792,427
Capital contribution reserve	37	**1,888,873**	1,889,052
Revaluation reserve	37	**450,223**	521,435
Fair value reserve	37	**155,958**	(67,381)
Statutory credit risk reserve	37	**1,323,070**	454,017
Retained earnings		**17,942,822**	14,155,239
Proposed dividends	17	**4,650,813**	4,032,494
TOTAL SHAREHOLDERS' EQUITY		**36,029,984**	30,603,081
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**220,523,869**	195,492,999

The financial statements set out on pages 48 to 113 were approved by the Board of Directors on 24 March 2014 and were signed on its behalf by:

Director	A. Mutahi	Director	C. Murgor
Director	L. Manjang	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 2013

	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 2013	1,825,798	7,792,427	1,889,052	521,435	(67,381)	454,017	14,304,972	4,032,494	30,752,814
Net profit for the year	–	–	–	–	–	–	9,262,921	–	9,262,921
Other comprehensive income									
Change in fair value of available-for-sale investments	–	–	–	–	319,056	–	–	–	319,056
Deferred tax on change in fair value of available-for-sale investments	–	–	–	–	(95,717)	–	–	–	(95,717)
Realised revaluation reserves on sale of property	–	–	–	(93,216)	–	–	93,216	–	–
Deferred tax on realised revaluation reserves on sale of property	–	–	–	27,965	–	–	(27,965)	–	–
Excess depreciation transfer	–	–	–	(8,316)	–	–	8,316	–	–
Deferred tax on excess depreciation transfer	–	–	–	2,355	–	–	(2,355)	–	–
Transfer to statutory credit risk reserve	–	–	–	–	–	869,053	(869,053)	–	–
Total other comprehensive income	**–**	**–**	**–**	**(71,212)**	**223,339**	**869,053**	**(797,841)**	**–**	**223,339**
Total comprehensive income for the year	**–**	**–**	**–**	**(71,212)**	**223,339**	**869,053**	**8,465,080**	**–**	**9,486,260**
Transactions with owners, recorded directly in equity									
Share-based payments:									
– 2012 paid	–	–	(65,379)	–	–	–	–	–	(65,379)
– 2013 accrual	–	–	65,200	–	–	–	–	–	65,200
Dividends paid:									
– Final 2012	–	–	–	–	–	–	–	(4,032,494)	(4,032,494)
Proposed final dividends:									
– Ordinary shares	–	–	–	–	–	–	(4,482,813)	4,482,813	–
– Preference shares	–	–	–	–	–	–	(168,000)	168,000	–
Total contributions by and distributions to owners	**–**	**–**	**(179)**	**–**	**–**	**–**	**(4,650,813)**	**618,319**	**(4,032,673)**
At 31 December 2013	**1,825,798**	**7,792,427**	**1,888,873**	**450,223**	**155,958**	**1,323,070**	**18,119,239**	**4,650,813**	**36,206,401**

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 2013

	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.

Company Statement of Changes in Equity
for the year ended 31 December 2013

	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 2013	1,825,798	7,792,427	1,889,052	521,435	(67,381)	454,017	14,155,239	4,032,494	30,603,081
Net profit for the year	–	–	–	–	–	–	9,236,237	–	9,236,237
Other comprehensive income									
Change in fair value of available-for-sale investments	–	–	–	–	319,056	–	–	–	319,056
Deferred tax on change in fair value of available-for-sale investments	–	–	–	–	(95,717)	–	–	–	(95,717)
Realised revaluation reserves on sale of property	–	–	–	(93,216)	–	–	93,216	–	–
Deferred tax on realised revaluation reserves on sale of property	–	–	–	27,965	–	–	(27,965)	–	–
Excess depreciation transfer	–	–	–	(8,316)	–	–	8,316	–	–
Deferred tax on excess depreciation transfer	–	–	–	2,355	–	–	(2,355)	–	–
Transfer to statutory credit risk reserve	–	–	–	–	–	869,053	(869,053)	–	–
Total other comprehensive income	**–**	**–**	**–**	**(71,212)**	**223,339**	**869,053**	**(797,841)**	**–**	**223,339**
Total comprehensive income for the year	**–**	**–**	**–**	**(71,212)**	**223,339**	**869,053**	**8,438,396**	**–**	**9,459,576**
Transactions with owners, recorded directly in equity									
Share-based payments:									
– 2012 paid	–	–	(65,379)	–	–	–	–	–	(65,379)
– 2013 accrual	–	–	65,200	–	–	–	–	–	65,200
Dividends paid:									
– Final 2012	–	–	–	–	–	–	–	(4,032,494)	(4,032,494)
Proposed final dividends:									
– Ordinary shares	–	–	–	–	–	–	(4,482,813)	4,482,813	–
– Preference shares	–	–	–	–	–	–	(168,000)	168,000	–
Total contributions by and distributions to owners	**–**	**–**	**(179)**	**–**	**–**	**–**	**(4,650,813)**	**618,319**	**(4,032,673)**
At 31 December 2013	**1,825,798**	**7,792,427**	**1,888,873**	**450,223**	**155,958**	**1,323,070**	**17,942,822**	**4,650,813**	**36,029,984**

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 2013

	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.

Consolidated Statement of Cash Flows

for the year ended 31 December 2013

	Note	2013 KShs '000	2012 KShs '000
Net cash used in operating activities	38 (a)	(3,511,332)	(3,155,156)
Cash flows from investing activities			
Purchase of property and equipment	29	(449,656)	(471,797)
Proceeds from sale of non-current asset held for sale		265,578	152,567
Proceeds from sale of property and equipment		550	1,919
Purchase of intangible assets	30	(30,049)	(29,425)
Purchase of prepaid operating lease rentals	31	–	(157,469)
Net cash used in investing activities		(213,577)	(504,205)
Cash flows from financing activities			
Ordinary shares issued, net of issue costs		–	3,066,581
Share-based payments:			
– 2012/2011 settled		(65,379)	(66,010)
– 2013/2012 allocated during the year		65,200	65,379
Dividends paid on ordinary shares:			
– Final 2012/2011	17	(3,864,494)	(3,157,848)
Dividends paid on preference shares:			
– Final 2012/2011	17	(168,000)	(168,000)
Net cash used in financing activities		(4,032,673)	(259,898)
Decrease in cash and cash equivalents		(7,757,582)	(3,919,259)
Cash and cash equivalents at 1 January		3,010,163	6,929,422
Cash and cash equivalents at 31 December	38 (b)	(4,747,419)	3,010,163

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 2013

1 REPORTING ENTITY

Standard Chartered Bank Kenya Limited 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 2013 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;
- share-based payments 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 Company's functional currency and the currency of the primary economic environment in which the entity operates. Except as otherwise indicated, financial information presented in KShs 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 2013. These subsidiaries are shown in Note 26.

Subsidiaries are investees controlled by the Company. The Company 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when 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.

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).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

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

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)
(e) Income tax expense (Continued)

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.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional tax and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(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 measured 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 measured at amortised cost using the effective interest method.

Financial liabilities are subsequently measured 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iv) Fair value of financial instruments

Policy applicable from 1 January 2013

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The determination of fair values of financial assets and financial liabilities is based on transactions that take place in the principal market. In the absence of a principal market, it is assumed that the transaction occurs in the most advantageous market. For financial instruments traded in active markets, quoted market prices for identical financial assets or financial liabilities that the entity has access to are used. A market is regarded as active if transactions or the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For all other financial instruments which do not have an observable price in an active market, fair value is measured using valuation techniques. Valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs. 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.

Policy applicable from 1 January 2013

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 on the measurement date.
When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on arm's length basis.

(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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(vi) Identification and measurement of impairment of financial assets (Continued)

Assets carried at amortised cost (Continued)

incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (measured at amortised cost) with similar risk characteristics. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security which is classified as an available-for-sale financial asset, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ix) Derecognition (Continued)

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 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 profit or loss. Derivative financial instruments are initially recognised at fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value. For derivative financial instruments traded in active markets, quoted market prices for identical financial assets or financial liabilities that the entity has access to are used. For all other financial instruments which do not have an observable price in an active market, fair value is measured using valuation techniques. Valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs. 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. For non-financial assets, fair value takes into account the highest and best use either on a stand-alone basis or in combination with other assets or other assets and liabilities.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Non-current assets held for sale (Continued)

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a prorata 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 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 shorter of fifty years and the 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.

(iii) Non-depreciable items

These are items that have not yet been brought to the location and/or condition necessary for it to be capable of operating in the manner intended by management. In the event of partially completed construction work that has necessitated advance or progress payments, or work-in-progress, depreciation will only commence when the work is complete. Fixed assets are classified as work-in-progress if it is probable that future economic benefits will flow to the Group and the cost can be measured reliably.

Amounts held within work in progress that are substantially complete, in common with other fixed assets, are assessed for impairment.

(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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Intangible assets (Continued)

(i) Acquired intangible asset (Continued)

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 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

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)
(o) Employee benefits (Continued)
(i) Pension obligations (Continued)

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 or 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 benefits 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 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 sharesave 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.

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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. Related party transactions are shown in Note 43.

(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. Unallocated items comprise mainly corporate assets, tax expense, tax assets and liabilities.

(y) Comparative information

Where necessary, comparative information have been adjusted to conform with changes in the current year's presentation.

(z) New standards and interpretations

New standards and interpretations effective for the year ended 31 December 2013

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 Consolidated Financial Statements (2011);
- IFRS 12 Disclosure of Interests in Other Entities;
- IFRS 13 Fair Value Measurement;
- Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7);
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1); and
- IAS 19 Employee Benefits (2011).

The nature and the effects of the changes are explained below.

Subsidiaries

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed its control conclusions as of 1 January 2013. The Group concluded that it controls the subsidiaries and therefore no change to the consolidation conclusions in previous years'. Note 26 details the subsidiaries which have been consolidated.

Fair value measurements

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, as set out in Note 3(f) (iv) and 5(b), prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the group has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Group has provided the relevant comparative disclosures under those standards.

Offsetting financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Group has expanded disclosures about offsetting financial assets and financial liabilities (see Note 3(f)(viii)).

Presentation of items of Other Comprehensive Income (OCI)

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of comprehensive income and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information, where necessary, has been re-presented on the same basis.

Post-employment defined benefit plans

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its defined benefit plans.

Under IAS 19 (2011), the Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect on the asset ceiling.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) New standards and interpretations (Continued)

Post-employment defined benefit plans (Continued)

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return. The change did not have a material impact on the Group's financial statements.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) *New standards and interpretations in issue but not effective for the year ended 31 December 2013*

- *IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9) (effective 1 January 2018).*

  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 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

  The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of 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 other 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 an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in Other Comprehensive Income (OCI). No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, 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 OCI would be measured at fair value with changes in fair value recognised in profit or loss.

  The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for 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 OCI 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.

  IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

  The mandatory effective date of IFRS 9 is 1 January 2018. However, early application of IFRS 9 is permitted.

  The Group has started 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.

Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' (effective 1 January 2014).

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. The Group is still evaluating the potential effect of the adoption of the amendments to IAS 32.

IFRIC 21 'Levies' (effective 1 January 2014).

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Group's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities' (effective 1 January 2014).

The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional.

The adoption of the amendments will not have a material impact on the Group's financial statements.

IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets' (effective 1 January 2014).

The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

The adoption of the amendments will not have a material impact on the Group's financial statements.

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2013

4 FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

Stress testing

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

- the nature and dynamics of the risk profile;
- the identification of potential future risks;
- the robustness of risk management systems and controls;
- 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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

4 FINANCIAL RISK MANAGEMENT (Continued)

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.

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 Small & Medium Enterprises – 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 2013

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	**2013**	2012
	KShs '000	KShs '000
Individually impaired:		
Grade 13: Impaired	**634,727**	1,129,631
Grade 14: Impaired	**3,213,389**	1,051,343
	3,848,116	2,180,974
Allowance for impairment	**(1,200,491)**	(944,208)
	2,647,625	1,236,766
Loans past due but not impaired:		
Past due up to 30 days	**6,365,379**	2,259,841
Past due 31 – 60 days	**1,289,643**	566,691
Past due 61 – 90 days	**1,781,548**	348,188
	9,436,570	3,174,720
Loans neither past due nor impaired:		
Grade 1	**502,049**	442,449
Grade 2	**–**	–
Grade 3	**–**	44
Grade 4	**695,976**	4,671,660
Grade 5	**8,666,677**	1,390,000
Grade 6	**5,617,323**	3,473,971
Grade 7	**604,376**	13,369,029
Grade 8	**25,012,741**	17,148,811
Grade 9	**14,325,587**	15,711,708
Grade 10	**12,934,898**	12,103,971
Grade 11	**47,014,862**	38,363,344
Grade 12 – watch	**3,306,786**	2,504,306
	118,681,275	109,179,293
Portfolio impairment provision	**(1,093,466)**	(896,256)
	117,587,809	108,283,037
Net loans and advances	**129,672,004**	112,694,523

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

Group and Company		
Against impaired loans	**2,037,926**	1,185,357
Against past due but not impaired loans	**6,197,358**	3,421,973

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

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 2013 and 2012.

(v) **Loans and advances concentration by sector**	**2013 KShs '000**	2012 KShs '000
Group and Company		
Business services	**3,147,968**	2,659,989
Manufacturing	**27,324,687**	22,447,883
Wholesale and retail trade	**21,277,146**	13,299,127
Transport and communication	**10,448,579**	13,171,340
Real estate	**6,098,171**	7,079,685
Agriculture	**6,409,964**	9,230,206
Energy and water	**11,571,091**	13,271,746
Others	**45,688,355**	33,375,011
	131,965,961	114,534,987

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

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

(vi) **Loans and advances concentration by business**	**2013 KShs '000**	2012 KShs '000
Group and Company		
Consumer Banking	**55,024,654**	44,154,109
Wholesale Banking	**76,941,307**	70,380,878
	131,965,961	114,534,987

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(vii) Other financial assets

Group and Company	2013 KShs '000	2012 KShs '000
Neither past due nor impaired:		
Cash and balances with Central Bank of Kenya	**14,045,233**	13,575,454
Government and other securities held for trading	**2,478,935**	2,914,556
Derivative financial instruments	**241,102**	356,588
Loans and advances to banks	**2,098,867**	2,373,580
Investment securities	**53,709,938**	42,973,924
Other assets - uncleared effects	**641,349**	958,096
Amounts due from group companies	**8,465,151**	10,158,076

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 tothe Group's reputation.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

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, repurchased or used as collateral in the event that there is a need for liquidity in a crisis. In addition, liquidity crisis management plans are maintained by the Group and are reviewed and approved annually. The liquidity crisis management plan lays out trigger points and actions in the event of a liquidity crisis to ensure that there is an effective response by senior management.

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

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

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

4 **FINANCIAL RISK MANAGEMENT (Continued)**

(b) **Liquidity risk (Continued)**

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

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

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

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

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

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

Company	**2013**	2012
	%	%
At 31 December	**38**	39
Average for the year	**39**	39
Highest for the year	**43**	45
Lowest for the year	**34**	33

The Group also monitors on a regular basis the advances to deposits ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposits 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 2013 was as follows:

Company

	2013	2012
	KShs '000	KShs '000
Loans and advances to customers	**129,672,004**	112,694,523
Deposits from customers	**154,720,011**	140,524,846
	%	%
Advances to deposits ratio	**84**	80

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2013 to the contractual maturity date.

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

31 December 2013:

Group

LIABILITIES	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Deposits from banks	6,078,673	1,648,641	863,500	–	–	**8,590,814**
Deposits from customers	130,066,042	11,474,757	10,355,239	2,823,970	3	**154,720,011**
Derivative financial instruments	363,791	–	–	–	–	**363,791**
Other liabilities - bills payable	1,621,642	–	–	–	–	**1,621,642**
Amounts due to group companies	5,289,258	3,454,105	–	2,832,118	3,454,000	**15,029,481**
At 31 December 2013	**143,419,406**	**16,577,503**	**11,218,739**	**5,656,088**	**3,454,003**	**180,325,739**

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2013

4 FINANCIAL RISK MANAGEMENT (Continued)
(b) Liquidity risk (Continued)

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**

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;
- foreign exchange 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 2013.

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 2013

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 2013

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

An analysis of the Group's 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 2013:

Daily value at risk:	At 31 December	Average	High	Low
Foreign exchange risk	11,657	14,161	27,200	4,663
Interest rate risk	92,481	137,297	227,360	82,982
	104,138	**151,458**	**254,560**	**87,645**

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**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

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 2013:

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	–	–	–	–	–	–	14,045,233	14,045,233
Government and other securities held for trading	11.87	–	–	–	2,250,000	200,000	28,935	2,478,935
Derivative financial instruments	–	241,102	–	–	–	–	–	241,102
Deposits and advances to banks	9.20	1,115,345	–	75,000	750,000	–	158,522	2,098,867
Loans and advances to customers	12.97	44,205,255	12,547,966	5,794,438	38,403,736	26,840,196	1,880,413	129,672,004
Investment securities	11.36	2,500,000	7,100,000	20,384,850	23,309,686	–	415,402	53,709,938
Other assets - uncleared effects	–	–	–	–	–	–	641,349	641,349
Amounts due from group companies	0.31	863,500	1,411,266	–	863,500	1,727,000	3,599,885	8,465,151
At 31 December 2013		**48,925,202**	**21,059,232**	**26,254,288**	**65,576,922**	**28,767,196**	**20,769,739**	**211,352,579**
LIABILITIES								
Deposits from banks	7.96	5,860,277	1,648,641	863,500	–	–	218,396	8,590,814
Deposits from customers	4.02	54,407,106	11,412,174	10,324,703	2,786,289	–	75,789,739	154,720,011
Derivative financial instruments	–	363,791	–	–	–	–	–	363,791
Other liabilities – bills payable	–	–	–	–	–	–	1,621,642	1,621,642
Amounts due to group companies	1.24	1,930,550	3,454,000	–	2,832,118	3,454,000	3,358,813	15,029,481
At 31 December 2013		**62,561,724**	**16,514,815**	**11,188,203**	**5,618,407**	**3,454,000**	**80,988,590**	**180,325,739**
Interest rate sensitivity gap		**(13,636,522)**	**4,544,417**	**15,066,085**	**59,958,515**	**25,313,196**	**(60,218,851)**	**31,026,840**

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2013

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 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	–	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	12.56	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**
Interest rate sensitivity gap		**1,379,490**	**12,225,388**	**10,840,568**	**42,278,755**	**17,034,826**	**(56,668,583)**	**27,090,444**

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2013

4 FINANCIAL RISK MANAGEMENT (Continued)
(c) Market risk (Continued)
(ii) Currency rate risk

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

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

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

Group

31 December 2013:

	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	1,049,472	162,494	95,605	149,031	**1,456,602**
Loans and advances to customers	40,559,153	993,854	825,778	1,776	**42,380,561**
Other assets	137,267	600	5,673	–	**143,540**
Amounts due from group companies	4,299,596	2,884,350	922,124	35,096	**8,141,166**
At 31 December 2013	**46,045,488**	**4,041,298**	**1,849,180**	**185,903**	**52,121,869**
LIABILITIES					
Deposits from banks	3,364,254	601,948	48	–	**3,966,250**
Deposits from customers	39,301,787	6,411,391	1,958,752	109,589	**47,781,519**
Other liabilities	1,478,977	54,397	13,632	20,077	**1,567,083**
Amounts due to group companies	13,744,627	53,371	–	–	**13,797,998**
At 31 December 2013	**57,889,645**	**7,121,107**	**1,972,432**	**129,666**	**67,112,850**
Net statement of financial position exposure	**(11,844,157)**	**(3,079,809)**	**(123,252)**	**56,237**	**(14,990,981)**

Group

31 December 2012:

	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)**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

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 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 2013

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

The Bank's regulatory capital position at 31 December 2013 was as follows:

	2013	2012
Company	**KShs '000**	KShs '000
Core capital (Tier 1)		
Share capital	**1,825,798**	1,825,798
Share premium	**7,792,427**	7,792,427
Retained earnings	**17,942,822**	14,155,239
Capital contribution reserve	**1,823,673**	1,823,673
	29,384,720	25,597,137
Less deductions from capital:		
Goodwill on acquired intangible asset (Note 30)	**(1,112,111)**	(1,112,111)
Acquired intangible asset (Note 30)	**(2,441,817)**	(2,861,819)
	25,830,792	21,623,207
Supplementary capital (Tier 2)		
Revaluation reserves (25%)	**112,556**	130,359
Statutory credit risk reserve	**1,323,070**	454,017
Subordinated debt (Note 25)	**3,454,105**	1,721,124
	4,889,731	2,305,500
Total capital	**30,720,523**	23,928,707
Risk weighted assets		
On-balance sheet	**130,727,236**	114,257,829
Off-balance sheet	**16,955,096**	18,393,903
Total risk weighted assets	**147,682,332**	132,651,732
Deposits from customers	**157,720,011**	140,524,846
Capital ratios		
Core capital/total deposit liabilities (CBK minimum 8%)	**17%**	15%
Core capital/total risk weighted assets (CBK minimum 8%)	**17%**	16%
Total capital/total risk weighted assets (CBK minimum 12%)	**21%**	18%

Capital allocation

The Company'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 2013

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 Company'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.

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2013

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 below:

(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 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.

(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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

(b) Fair value of financial instruments (Continued)

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(f) to the financial statements.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active, 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 2013

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 behaviour. 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, value in use, assumptions and assessment of impairment.

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 and 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 2013

	Consumer Banking KShs '000	Wholesale Banking KShs '000	Total KShs '000
Net interest income	8,276,496	8,124,560	16,401,056
Non funded income	2,305,278	4,711,110	7,016,388
Operating income	**10,581,774**	**12,835,670**	23,417,444
Operating expenses	(5,387,408)	(3,892,021)	(9,279,429)
Net impairment losses on loans and advances	(654,143)	(128,907)	(783,050)
Profit before taxation	**4,540,223**	**8,814,742**	13,354,965

Financial Statements and Notes

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

6 OPERATING SEGMENTS (Continued)

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**

Group

Statement of financial position as at 31 December 2013

	Consumer Banking KShs '000	Wholesale Banking KShs '000	Unallocated KShs '000	Total KShs '000
Assets				
Segment assets	53,939,369	146,319,631	–	**200,259,000**
Unallocated assets	–	–	20,132,180	**20,132,180**
Total assets	**53,939,369**	**146,319,631**	**20,132,180**	**220,391,180**
Liabilities and shareholders' equity				
Segment liabilities	85,883,564	92,820,532	–	**178,704,096**
Unallocated liabilities	–	–	41,687,084	**41,687,084**
Inter-segment lending	(31,944,195)	53,499,099	(21,554,904)	**–**
Total liabilities and shareholders' equity	**53,939,369**	**146,319,631**	**20,132,180**	**220,391,180**
Other segment items				
Depreciation and amortisation	224,169	504,417	254,863	**983,449**
Capital expenditure	461,494	–	119,085	**580,579**

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**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

7 FINANCIAL ASSETS AND LIABILITIES

(a) Accounting classifications and fair values

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

Group

31 December 2013:

	Note	Held for trading KShs '000	Loans and receivables KShs '000	Available-for-sale KShs '000	Financial liabilities at amortised cost KShs '000	Total carrying amount KShs '000
Assets						
Cash and balances with Central Bank of Kenya	18	–	14,045,233	–	–	**14,045,233**
Government and other securities held for trading	19	2,478,935	–	–	–	**2,478,935**
Derivative financial instruments	20	241,102	–	–	–	**241,102**
Deposits and advances to banks	21	–	2,098,867	–	–	**2,098,867**
Loans and advances to customers	22(a)	–	129,672,004	–	–	**129,672,004**
Investment securities	23	–	–	53,709,938	–	**53,709,938**
Other assets - uncleared effects	24	–	641,349	–	–	**641,349**
Amounts due from group companies	25	–	7,773,348	691,803	–	**8,465,151**
Total assets		**2,720,037**	**154,230,801**	**54,401,741**	**–**	**211,352,579**
Liabilities						
Deposits from banks	32	–	–	–	8,590,814	**8,590,814**
Deposits from customers	33	–	–	–	154,720,011	**154,720,011**
Derivative financial instruments	20	363,791	–	–	–	**363,791**
Other liabilities - bills payable	34	–	–	–	1,621,642	**1,621,642**
Amounts due to group companies	25	–	–	512,119	14,517,362	**15,029,481**
Total liabilities		**363,791**	**–**	**512,119**	**179,449,829**	**180,325,739**

31 December 2012:

	Note	Held for trading KShs '000	Loans and receivables KShs '000	Available-for-sale KShs '000	Financial liabilities at amortised cost KShs '000	Total carrying amount KShs '000
Assets						
Cash and balances with Central Bank of Kenya	18	–	13,575,454	–	–	**13,575,454**
Government and other securities held for trading	19	2,914,556	–	–	–	**2,914,556**
Derivative financial instruments	20	356,588	–	–	–	**356,588**
Deposits and advances to banks	21	–	2,373,580	–	–	**2,373,580**
Loans and advances to customers	22(a)	–	112,694,523	–	–	**112,694,523**
Investment securities	23	–	–	42,973,924	–	**42,973,924**
Other assets - uncleared effects	24	–	958,096	–	–	**958,096**
Amounts due from group companies	25	–	9,990,581	167,495	–	**10,158,076**
Total assets		**3,271,144**	**139,592,234**	**43,141,419**	**–**	**186,004,797**
Liabilities						
Deposits from banks	32	–	–	–	3,514,244	**3,514,244**
Deposits from customers	33	–	–	–	140,524,846	**140,524,846**
Derivative financial instruments	20	607,225	–	–	–	**607,225**
Other liabilities - bills payable	34	–	–	–	516,105	**516,105**
Amounts due to group companies	25	–	–	162,959	13,588,973	**13,751,932**
Total liabilities		**607,225**	**–**	**162,959**	**158,144,168**	**158,914,352**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

7 FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) Accounting classifications and fair values (Continued)

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

Derivative financial instruments and government securities held for trading

Derivative financial instruments and government securities held for trading are measured at fair value as set out in notes 20 and 3(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 due to their short term nature. 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 re-price 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 2013

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 2013 and 2012:

Group 31 December 2013:	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Assets					
Government and other securities held for trading	19	–	2,478,935	–	**2,478,935**
Derivative financial instruments	20	–	241,102	–	**241,102**
Investment securities	23	–	53,709,938	–	**53,709,938**
Amounts due from group companies	25	532,445	159,358	–	**691,803**
Total assets		**532,445**	**56,589,333**	**–**	**57,121,778**
Liabilities					
Derivative financial instruments	20	–	363,791	–	**363,791**
Amounts due to group companies	25	411,342	100,777	–	**512,119**
Total liabilities		**411,342**	**464,568**	**–**	**875,910**
31 December 2012:					
Assets					
Government and other securities held for trading	19	–	2,914,556	–	**2,914,556**
Derivative financial instruments	20	–	356,588	–	**356,588**
Investment securities	23	–	42,973,924	–	**42,973,924**
Amounts due from group companies	25	54,796	112,699	–	**167,495**
Total assets		**54,796**	**46,357,767**	**–**	**46,412,563**
Liabilities					
Derivative financial instruments	20	–	607,225	–	**607,225**
Amounts due to group companies	25	108,059	54,900	–	**162,959**
Total liabilities		**108,059**	**662,125**	**–**	**770,184**

During the current year, there were no intra level transfers and there was sufficient information available to measure fair value of financial instruments based on observable market inputs.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

		2013 KShs '000	2012 KShs '000
8	**INTEREST INCOME**		
	Loans and advances to customers	**15,454,839**	14,886,223
	Loans and advances to banks	**157,439**	360,439
	Investment securities:		
	– Held-to-maturity	**–**	23,504
	– Available-for-sale	**5,840,688**	4,086,526
	Accrued on impaired assets (Discount unwind)	**73,322**	18,785
		21,526,288	19,375,477
9	**INTEREST EXPENSE**		
	Deposits from customers	**3,573,408**	3,963,657
	Deposits from banks	**1,551,824**	1,669,618
		5,125,232	5,633,275
10	**NET FEE AND COMMISSION INCOME**		
	Fee and commission income		
	Commissions	**3,009,932**	2,017,055
	Service fees	**1,502,350**	1,662,113
		4,512,282	3,679,168
	Fee and commission expense		
	Inter-bank transaction fees and other fees	**671,026**	345,664
11	**NET TRADING INCOME**		
	Gains less losses on foreign currency transactions	**2,278,145**	2,570,732
	Interest income on held-for-trading securities	**153,426**	322,842
	Other trading profits	**364,760**	592,566
		2,796,331	3,486,140
12	**OTHER OPERATING INCOME**		
	Gains less losses on disposal of available-for-sale securities:		
	– Government treasury bonds and bills	**234,387**	–
	Rental income	**14,452**	12,490
	Profit on sale of non-current asset held for sale	**141,851**	94,843
	(Loss)/profit on sale of property and equipment	**(13,270)**	1,919
	Other	**1,381**	338
		378,801	109,590

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

	2013 KShs '000	2012 KShs '000
13 OPERATING EXPENSES		
Staff costs		
Salaries and wages	**3,890,941**	3,381,813
Contributions to defined contribution plan	**441,785**	382,134
Increase in retirement benefit obligations (Note 36)	**40,500**	32,500
Employee share-based payments expenses	**79,156**	80,079
Other staff costs	**642,273**	772,773
	5,094,655	4,649,299

	2013 No.	2012 No.
The number of employees at the year end was:		
Management	**1,098**	1,095
Unionisable	**432**	415
Other	**320**	393
	1,850	1,903

	2013 KShs '000	2012 KShs '000
Premises and equipment costs		
Rental of premises	**363,500**	281,445
Rental of computers and equipment	**135,777**	128,055
Electricity	**114,547**	130,797
Other premises and equipment costs	**59,049**	96,969
	672,873	637,266
Depreciation and amortisation		
Buildings on leasehold land	**16,892**	18,453
Fixtures, fittings and equipment	**523,927**	469,291
Motor vehicles	**3,785**	5,610
Depreciation on property and equipment (Note 29)	**544,604**	493,354
Amortisation of intangible assets (Note 30)	**436,609**	403,169
Amortisation of prepaid operating lease rentals (Note 31)	**2,236**	2,049
	983,449	898,572
14 PROFIT BEFORE TAXATION		
Profit before taxation is arrived at after charging:		
Depreciation	**544,604**	493,354
Amortisation of intangible assets	**436,609**	403,169
Amortisation of prepaid operating lease rentals	**2,236**	2,049
Directors' emoluments - Fees	**11,749**	8,745
- Other	**130,607**	115,393
Auditors' remuneration	**14,766**	13,888
Loss on sale of property and equipment	**13,270**	–
And after crediting:		
Profit on sale of non-current asset held for sale	**141,851**	94,843
Profit on sale of property and equipment	**–**	1,919

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

15 INCOME TAX EXPENSE

	2013 KShs '000	2012 KShs '000
Current year's tax at 30%	4,071,700	3,785,574
Prior year under/(over) provision	3,292	(147)
	4,074,992	3,785,427
Deferred tax charge/(credit) - Note 35(a,c)	17,052	(298,769)
Income tax expense	4,092,044	3,486,658

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

	2013 KShs '000	2012 KShs '000
Accounting profit before taxation	13,354,965	11,556,191
Computed tax using the applicable corporation tax rate at 30%	4,006,489	3,466,857
Tax exempt income	(43,387)	(99,767)
Non-deductible expenses	125,650	119,715
Prior year under/(over) provision	3,292	(147)
Income tax expense	4,092,044	3,486,658

16 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2013 is based on the profit attributable to ordinary shareholders of KShs 9,094,921,000 (2012 – KShs 7,901,533,000) and a weighted average number of ordinary shares outstanding during the year of 309,159,514 (2012 – 297,101,596). In 2012, the weighted average number of ordinary shares was restated to include the effects of the rights issue.

Profit attributable to ordinary shareholders:

	2013 KShs '000	2012 KShs '000
Net profit for the year	9,262,921	8,069,533
Dividends on non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares	(168,000)	(168,000)
	9,094,921	7,901,533
Basic earnings per share (KShs)	29.42	26.60

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 2013 and 2012.

17 DIVIDEND PER SHARE

Group and Company	2013 KShs '000	2012 KShs '000
Dividends – Ordinary shares	4,482,813	3,864,494
Dividends – Preference shares	168,000	168,000
	4,650,813	4,032,494

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 22 May 2014, a final dividend in respect of the year ended 31 December 2013 of KShs 14.50 (2012 – KShs 12.50) for every ordinary share of KShs 5.00 is to be proposed. This will bring the total dividend for the year to KShs 14.50 (2012 – KShs 12.50).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

17 DIVIDEND PER SHARE (Continued)

At the Annual General Meeting to be held on 22 May 2014, a final dividend in respect of the year ended 31 December 2013 of KShs 168,000,000 (2012 – 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 (2012 – 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

	2013	2012
Group and Company	**KShs '000**	KShs '000
Cash on hand	**3,991,672**	3,158,221
Balances with Central Bank of Kenya:		
-Restricted balances (Cash Reserve Ratio)	**8,098,002**	7,110,179
-Unrestricted balances	**1,955,559**	3,307,054
	14,045,233	13,575,454

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 2013, the Cash Reserve Ratio requirement was 5.25% (2012 – 5.25%) of all deposits. These funds are 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

	2013	2012
Group and Company	**KShs '000**	KShs '000
Treasury bonds	**2,478,935**	439,849
Treasury bills	**–**	2,474,707
Government and other securities held for trading	**2,478,935**	2,914,556

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

	2013				2012			
	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	439,849	2,474,707	–	2,914,556	–	–	41,222	41,222
Additions	9,900,000	1,660,000	–	11,560,000	13,228,300	4,396,000	–	17,624,300
Disposals and maturities	(7,850,000)	(4,160,000)	–	(12,010,000)	(12,828,300)	(1,896,000)	(42,200)	(14,766,500)
Changes in fair value	(10,914)	25,293	–	14,379	39,849	(25,293)	978	15,534
At 31 December	**2,478,935**	**–**	**–**	**2,478,935**	**439,849**	**2,474,707**	**–**	**2,914,556**

The weighted average effective interest rate on government and other securities held for trading at 31 December 2013 was 11.87% (2012 – 12.04%).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

20 DERIVATIVE FINANCIAL INSTRUMENTS

The types of derivatives used by the Group are set out below.

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

	2013			2012		
	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	11,540,335	241,102	363,791	6,789,564	356,588	510,744
Forward exchange contracts	54,556,927	–	–	50,016,524	_	_
Commodity derivative contracts	–	–	–	_	_	96,481
	66,097,262	**241,102**	**363,791**	56,806,088	356,588	607,225

21 LOANS AND ADVANCES TO BANKS

Group and Company	2013 KShs '000	2012 KShs '000
Loans and advances to local banks	**1,942,781**	2,163,132
Loans and advances to foreign banks	**156,086**	210,448
	2,098,867	2,373,580

The weighted average effective interest rate on loans and advances to banks at 31 December 2013 was 9.20% (2012 – 8.35%).

22 LOANS AND ADVANCES TO CUSTOMERS

Group and Company	2013 KShs '000	2012 KShs '000
(a) Classification		
Overdrafts	**20,753,509**	16,728,497
Loans	**110,355,046**	96,934,273
Bills discounted	**857,406**	872,217
Gross loans and advances	**131,965,961**	114,534,987
Less: Impairment losses on loans and advances	**(2,293,957)**	(1,840,464)
Net loans and advances	**129,672,004**	112,694,523
Repayable on demand	**27,691,290**	19,686,997
Less than 3 months	**33,236,301**	38,439,425
3 months to 1 year	**5,794,438**	7,588,401
1 to 5 years	**38,403,736**	32,228,336
5 to 10 years	**17,920,228**	9,671,152
Over 10 years	**8,919,968**	6,920,676
Gross loans and advances	**131,965,961**	114,534,987

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

Group and Company

(b) Impairment losses on loans and advances

31 December 2013:	Specific impairment losses KShs '000	Portfolio impairment provision KShs '000	Total KShs '000
At 1 January 2013	944,208	896,256	1,840,464
Provisions recognised during the year	820,090	197,210	1,017,300
Amounts written off during the year	(490,485)	–	(490,485)
Amounts released to interest income	(73,322)	–	(73,322)
At 31 December 2013	**1,200,491**	**1,093,466**	**2,293,957**
Provisions recognised during the year	820,090	197,210	1,017,300
Amounts recovered during the year	(234,250)	–	(234,250)
Net charge to profit or loss	**585,840**	**197,210**	**783,050**
31 December 2012:			
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**

The weighted average effective interest rate on loans and advances to customers at 31 December 2013 was 12.97% (2012 – 13.05%).

23 INVESTMENT SECURITIES

Group and Company	2013 KShs '000	2012 KShs '000
Available-for-sale		
Treasury bonds	**31,572,926**	26,069,146
Treasury bills	**21,590,667**	16,337,266
Money market bonds	**537,708**	559,267
Equity shares	**8,637**	8,245
Total investment securities	**53,709,938**	42,973,924

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

23 INVESTMENT SECURITIES (Continued)

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

	2013				2012			
	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Equity shares KShs '000	Total KShs '000	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Equity shares KShs '000	Total KShs '000
At 1 January	42,406,412	559,267	8,245	42,973,924	24,584,908	427,513	–	25,012,421
Additions	46,142,568	–	–	46,142,568	42,772,667	–	7,755	42,780,422
Disposals and maturities	(37,854,801)	(22,220)	–	(37,877,021)	(29,984,450)	(11,095)	–	(29,995,545)
Changes in fair value	137,724	661	392	138,777	3,496,987	142,849	490	3,640,326
Amortisation of discounts and premiums	2,331,690	–	–	2,331,690	1,536,300	–	–	1,536,300
At 31 December	**53,163,593**	**537,708**	**8,637**	**53,709,938**	**42,406,412**	**559,267**	**8,245**	**42,973,924**

The weighted average effective interest rate on treasury bonds at 31 December 2013 was 11.87% (2012 – 13.36%) and on treasury bills was 10.73% (2012 – 11.46%).

There were no treasury bills under repurchase agreements outstanding at 31 December 2013 and 2012.

The weighted average effective interest rate on money market bonds at 31 December 2013 was 8.95% (2012 – 9.99%).

At 31 December 2013, unamortised premiums on investment securities amounted to KShs 157,790,000 (2012 – KShs 450,789,000) and unamortised discounts amounted to KShs 689,946,000 (2012 – KShs 786,802,000).

24 OTHER ASSETS

Group and Company	2013 KShs '000	2012 KShs '000
Uncleared effects	**641,349**	958,096
Prepayments	**383,595**	397,224
Other receivables	**896,315**	654,500
	1,921,259	2,009,820

25 GROUP COMPANY BALANCES

Group and Company

	2013	2012
Amounts due from group companies	**8,465,151**	10,158,076
Amounts due to group companies	**15,029,481**	13,751,932

Included in amounts due to group companies is an amount of US$ 40 million or KShs 3,454,105,000 (2012 – US$ 20 million or KShs 1,716,000,000) relating to subordinated debt made up of two amounts of US$ 20 million each advanced on 18 August 2011 and 30 December 2013 respectively. The subordinated debts are unsecured 10 year loan capital issued by Standard Chartered PLC to enhance the Company'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 2013 on the subordinated debt was 2.45% (2012 – 2.49%).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

25 GROUP COMPANY BALANCES (Continued)

The weighted average effective interest rate at 31 December 2013 on amounts due from group companies was 0.31% (2012 – 1.04%) and on amounts due to group companies was 1.24% (2012 – 3.05%).

26 INVESTMENT IN SUBSIDIARIES

The following subsidiaries are wholly owned by the Company:

Company	Status	2013 KShs '000	2012 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 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 2013

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:	**2013**	2012
	KShs '000	KShs '000
Operating income	**1,599,404**	1,053,074
Profit before taxation	**1,004,201**	504,673

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 2013

28 NON-CURRENT ASSET HELD FOR SALE

Group and Company

	2013			2012		
	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
Transfer from property and equipment (Note 29)	253,531	–	253,531	–	–	–
Transfer from prepaid operating lease rentals (Note 31)	–	7,333	7,333	–	–	–
Disposals	(116,500)	(7,227)	(123,727)	(57,161)	(563)	(57,724)
At 31 December	**137,031**	**106**	**137,137**	**–**	**–**	**–**

The outstanding balance of the non-current asset held for sale relates to two properties which are being sold.

The properties have been placed on the market with the sale expected within the 2014 financial year.

The asset of KShs 137,137,000 (2012 – Nil) is classified under the unallocated portion of the operating segment report in Note 6.

29 PROPERTY AND EQUIPMENT

Group and Company

2013:	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 2013	150,000	1,339,186	4,665,513	15,422	251,797	6,421,918
Transfer to non-current asset held for sale (Note 28)	–	(259,000)	–	–	–	(259,000)
Additions	–	–	449,656	–	–	449,656
Transfers	–	–	130,923	–	(130,923)	–
Disposals	–	–	(222,112)	–	–	(222,112)
At 31 December 2013	**150,000**	**1,080,186**	**5,023,980**	**15,422**	**120,874**	**6,390,462**
Depreciation:						
At 1 January 2013	2,000	21,066	2,355,353	9,289	–	2,387,708
Transfer to non-current asset held for sale (Note 28)	–	(5,469)	–	–	–	(5,469)
Charge for the year	1,600	15,292	523,927	3,785	–	544,604
Disposals	–	–	(208,292)	–	–	(208,292)
At 31 December 2013	**3,600**	**30,889**	**2,670,988**	**13,074**	**–**	**2,718,551**
Carrying amount:						
At 31 December 2013	**146,400**	**1,049,297**	**2,352,992**	**2,348**	**120,874**	**3,671,911**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

29 PROPERTY AND EQUIPMENT (Continued)

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**

Included in property and equipment at 31 December 2013 are assets with a gross value of KShs 1,336,180,829 (2012 – KShs 1,475,686,286) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been KShs 475,110,758 (2012 – KShs 504,871,775).

There were no idle assets as at 31 December 2013 and 2012.

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

Freehold land and buildings were revalued on an open market basis by Lloyd Masika Limited, a firm of professional valuers as at 30 September 2011. The book values of the properties were adjusted to the revaluations, and the resulting surplus, net of deferred tax, was credited to the revaluation reserve.

Freehold land and buildings are revalued every 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 2013 (2012 - Nil).

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

	2013 KShs '000	2012 KShs '000
Cost	**698,907**	760,260
Accumulated depreciation	**(87,432)**	(84,183)
Carrying amount	**611,475**	676,077

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

30 INTANGIBLE ASSETS

Group and Company

	2013				2012			
	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	226,318	**5,045,467**	3,707,038	1,112,111	196,893	**5,016,042**
Additions	–	–	30,049	**30,049**	–	–	29,425	**29,425**
At 31 December	**3,707,038**	**1,112,111**	**256,367**	**5,075,516**	**3,707,038**	**1,112,111**	**226,318**	**5,045,467**
Amortisation:								
At 1 January	845,219	–	200,685	**1,045,904**	449,662	–	193,073	**642,735**
Charge for the year	420,002	–	16,607	**436,609**	395,557	–	7,612	**403,169**
At 31 December	**1,265,221**	**–**	**217,292**	**1,482,513**	**845,219**	**–**	**200,685**	**1,045,904**
Carrying amount:								
At 31 December	**2,441,817**	**1,112,111**	**39,075**	**3,593,003**	**2,861,819**	**1,112,111**	**25,633**	**3,999,563**

As at 31 December 2013, assets with a gross value of KShs 196,892,659 (2012 – 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 65,994,149 (2012 – KShs 62,300,426).

There were no idle assets as at 31 December 2013 and 2012.

The goodwill is wholly attributable to the Securities Services department of the Company. The directors having assessed the goodwill are of the opinion that the goodwill was not impaired at the reporting date (2012 - 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 2013 was determined similarly as in 2012. 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 Gross Domestic Product (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 2013

31 PREPAID OPERATING LEASE RENTALS
Group and Company

	2013	2012
Cost:	KShs '000	KShs '000
At 1 January	289,273	131,804
Addition	–	157,469
Transfer to non-current asset held for sale (Note 28)	(10,984)	–
At 31 December	278,289	289,273
Amortisation:		
At 1 January	26,811	24,762
Transfer to non-current asset held for sale (Note 28)	(3,651)	–
Charge for the year	2,236	2,049
At 31 December	25,396	26,811
Carrying amount at 31 December	252,893	262,462

32 DEPOSITS FROM BANKS
Group and Company

	2013	2012
Balances due from local banks	5,014,840	1,147,931
Balances due from foreign banks	3,575,974	2,366,313
	8,590,814	3,514,244

The weighted average effective interest rate on deposits from banks at 31 December 2013 was 7.96% (2012 – 2.68%).

33 DEPOSITS FROM CUSTOMERS
Group and Company

	2013	2012
	KShs '000	KShs '000
From government and parastatals		
Payable on demand	10,752,754	4,878,990
Payable within 3 months or less	2,929,062	3,920,093
Payable after 3 months	1,785	–
	13,683,601	8,799,083
From private sector and individuals		
Payable on demand	102,456,539	96,480,899
Payable within 3 months or less	25,402,444	22,643,018
Payable after 3 months	13,177,427	12,601,846
	154,720,011	140,524,846
Current and demand accounts	93,375,340	87,421,523
Savings deposits	12,241,533	10,770,506
Time deposits	47,980,734	41,215,862
Other	1,122,404	1,116,955
	154,720,011	140,524,846

The weighted average effective interest rate on interest bearing deposits from customers at 31 December 2013 was 4.02% (2012 – 5.04%).

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

34 OTHER LIABILITIES

	2013		2012	
	Group KShs '000	**Company KShs '000**	Group KShs '000	Company KShs '000
Bills payable	**1,621,642**	**1,621,642**	516,105	516,105
Dividends payable	**452,569**	**452,569**	430,692	430,692
Other trade payables	**2,946,837**	**2,925,733**	3,959,965	3,941,816
	5,021,048	**4,999,944**	4,906,762	4,888,613

35 DEFERRED TAX LIABILITY

The net deferred tax (liabilities)/assets at 31 December 2013 and 2012 are attributable to the following:

2013

(a) Group

	At 1 January 2013 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2013 KShs '000
Asset/(liability)				
Tax losses in subsidiaries	1,774	(173)	–	1,601
Property and equipment	38,429	(95,003)	–	(56,574)
Acquired intangible asset	(858,546)	126,001	–	(732,545)
Portfolio impairment provision	268,877	59,163	–	328,040
Revaluation surplus	(178,157)	2,355	–	(175,802)
Fair value reserve	28,878	–	(95,717)	(66,839)
Accrued interest	303,962	(85,060)	–	218,902
Other provisions	49,418	(19,535)	–	29,883
Retirement benefit obligations	7,500	(4,800)	–	2,700
	(337,865)	**(17,052)**	**(95,717)**	**(450,634)**

(b) Company

	At 1 January 2013 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2013 KShs '000
Asset/(liability)				
Property and equipment	38,426	(95,002)	–	(56,576)
Acquired intangible asset	(858,546)	126,001	–	(732,545)
Portfolio impairment provision	268,877	59,163	–	328,040
Revaluation surplus	(178,157)	2,355	–	(175,802)
Fair value reserve	28,878	–	(95,717)	(66,839)
Accrued interest	303,962	(85,060)	–	218,902
Other provisions	47,468	(19,535)	–	27,933
Retirement benefit obligations	7,500	(4,800)	–	2,700
	(341,592)	**(16,878)**	**(95,717)**	**(454,187)**

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2013

35 DEFERRED TAX LIABILITY (Continued)

2012

(c) 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)**

(d) 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)**

The tax losses expire from 2014 under the current tax legislation.

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 2012 by an independent qualified actuary.

However, the Company's actuary did a review for the year ended 31 December 2013. The review was consistent with previous valuations performed using the projected unit credit method.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

36 RETIREMENT BENEFIT OBLIGATIONS (Continued)

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	2013 KShs '000	2012 KShs '000
Fair value of plan assets	835,956	771,036
Present value of funded obligations	(735,800)	(759,000)
Retirement benefit obligations before asset ceiling	100,156	12,036
Irrecoverable surplus	(100,156)	(12,036)
Additional liability for minimum funding requirements	(9,000)	(25,000)
Retirement benefit obligations as at 31 December	(9,000)	(25,000)
Plan assets consist of the following:		
Offshore investments	–	115,611
Government bonds	407,418	250,482
Corporate bonds	237,258	152,308
Other	191,280	252,635
	835,956	771,036
Movement in plan assets		
Fair value of plan assets at 1 January	771,036	808,158
Expected return on plan assets	95,979	129,100
Benefits paid by the plan	(120,167)	(117,700)
Employer contributions	56,500	56,500
Recognised actuarial gains/(losses)	38,608	(105,022)
Administrative expenses paid	(6,000)	–
Fair value of plan assets at 31 December	835,956	771,036
Movement in the present value of the retirement benefit obligations		
Retirement benefit obligations at 1 January	759,000	611,000
Interest cost	94,231	93,200
Past service cost	30,000	30,000
Benefits paid by the plan	(120,167)	(117,700)
Recognised actuarial (gains)/losses	(27,264)	142,500
Retirement benefit obligations at 31 December	735,800	759,000

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

36 RETIREMENT BENEFIT OBLIGATIONS (Continued)

The net charge recognised in profit or loss is as follows:

	2013 KShs '000	2012 KShs '000
Interest cost	(94,231)	(93,200)
Expected return on plan assets	95,979	129,100
Past service cost	(30,000)	(30,000)
Movement in irrecoverable surplus	(88,120)	185,122
Movement in liability for minimum funding requirements	16,000	24,000
Recognised actuarial gains/ (losses)	65,872	(247,522)
Administration expenses	(6,000)	–
Total charge included in staff costs	(40,500)	(32,500)

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

	2013 % pa	2012 % pa
Discount rate	14	13
Expected return on plan assets	14	13
Future pension increases	–	–

The overall expected long-term rate of return on the assets is 14% (2012 – 13%) 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:

	2013 KShs '000	2012 KShs '000
At 1 January	(25,000)	(49,000)
Employer contributions	56,500	56,500
Charge to profit or loss	(40,500)	(32,500)
At 31 December	(9,000)	(25,000)

Historical information	2013 KShs '000	2012 KShs '000	2011 KShs '000	2010 KShs '000	2009 KShs '000
Fair value of plan assets	835,956	771,036	808,158	810,624	710,587
Present value of funded obligations	(735,800)	(759,000)	(611,000)	(975,700)	(832,000)
Retirement benefit obligations before asset ceiling	100,156	12,036	197,158	(165,076)	(121,413)
Irrecoverable surplus	(100,156)	(12,036)	(197,158)	–	–
Additional liability for minimum funding requirements	(9,000)	(25,000)	(49,000)	–	–
Retirement benefit obligations	(9,000)	(25,000)	(49,000)	(165,076)	(121,413)

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2013

37 SHARE CAPITAL AND RESERVES

Company

(a) Share capital

Authorised

The authorised share capital of the Company at 31 December 2013 was KShs 1,905 million (2012 – KShs 1,905 million) made up of 325 million (2012 – 325 million) ordinary shares of KShs 5.00 each and 56 million (2012 – 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
2013:			
At 1 January 2013 and 31 December 2013	**325,000**	**56,000**	**1,905,000**
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**

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2013

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
2013:			
At 1 January 2013 and 31 December 2013	**309,159**	**56,000**	**1,825,798**
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**

The shareholders at 31 December 2013 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 Limited	1,307	0.42
6. Standard Chartered Nominees Limited – A/C 9230	1,262	0.41
7. Old Mutual Life Assurance Company Limited	1,184	0.38
8. Standard Chartered Nominees Limited – A/C 1256B	923	0.30
9. Standard Chartered Nominees Limited – A/C 9389	878	0.28
10. NIC Custodial Services – A/C 016	759	0.24
11. Others	67,642	21.88
	309,159	**100.00**

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

37 SHARE CAPITAL AND RESERVES (Continued)

Company

(a) Share capital (Continued)

Issued and fully paid (Continued)

The distribution of shareholders as at 31 December 2013 and 2012 was as follows:

	2013			2012		
Share range	Number of shareholders	Shares held ('000)	%	Number of shareholders	Shares held ('000)	%
Less than 500	9,507	1,835	0.60	9,320	1,845	0.60
501 to 5,000	20,852	26,208	8.48	21,557	27,134	8.78
5,001 to 10,000	368	2,594	0.84	388	2,734	0.88
10,001 to 100,000	473	13,951	4.51	498	14,434	4.67
100,001 to 1,000,000	110	25,613	8.28	105	25,342	8.20
Above 1,000,000	7	238,958	77.29	6	237,670	76.87
Total	**31,317**	**309,159**	**100.00**	**31,874**	**309,159**	**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.

	2013 KShs '000	2012 KShs '000
At 1 January	7,792,427	4,836,258
Rights issue during the year	–	3,091,533
Issue costs	–	(135,364)
At 31 December	7,792,427	7,792,427

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.

(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 investment is derecognised.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

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 operating activities

	2013 KShs '000	2012 KShs '000
Profit before taxation	13,354,965	11,556,191
Depreciation	544,604	493,354
Amortisation of intangible assets	436,609	403,169
Profit on sale of non-current asset held for sale	(141,851)	(94,843)
(Loss)/profit on sale of property and equipment	13,270	(1,919)
Amortisation of prepaid operating lease rentals	2,236	2,049
Retirement benefit obligations	40,500	32,500
(Increase)/decrease in operating assets		
Balances with Central Bank of Kenya		
– Cash Reserve Ratio	(987,823)	19,579
Government and other securities held for trading	435,621	(2,873,334)
Derivative financial instruments	115,486	28,221
Loans and advances to banks	(9,096)	225,000
Loans and advances to customers	(16,977,481)	(16,596,700)
Investment securities	(10,416,958)	(17,152,430)
Amounts due from group companies	3,906,261	841,585
Other assets	88,561	354,037
Increase/(decrease) in operating liabilities		
Deposits from banks	(2,219,002)	1,745,400
Deposits from customers	14,195,165	18,201,797
Derivative financial instruments	(243,434)	(215,581)
Amounts due to group companies	(595,944)	2,114,978
Defined benefit obligations	(56,500)	(56,500)
Other liabilities	114,286	779,822
Cash from/(used in) operating activities	1,599,475	(193,625)
Income taxes paid	(5,110,807)	(2,961,531)
Net cash used in operating activities	(3,511,332)	(3,155,156)

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

38 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

Group

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

	2013	2012
	KShs '000	KShs '000
Cash on hand	**3,991,672**	3,158,221
Unrestricted cash balances with Central Bank of Kenya	**1,955,559**	3,307,054
Loans and advances to banks	**764,771**	1,048,580
Deposits from banks	**(8,590,814)**	(1,295,242)
Amounts due from group companies	**5,874,651**	3,661,315
Amounts due to group companies	**(8,743,258)**	(6,869,765)
	(4,747,419)	3,010,163

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:

	2013	2012
	KShs '000	KShs '000
Guarantees and standby letters of credit	**26,236,137**	23,232,098
Letters of credit, acceptances and other documentary credits	**10,613,114**	13,846,585
	36,849,251	37,078,683

Nature of contingent liabilities

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

Letters of credit commit the Company 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 Company 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.

Three 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.

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.

Notes to the Consolidated Financial Statements (Continued)

for the year ended 31 December 2013

40 OTHER CONTINGENT LIABILITIES (Continued)

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 KShs14.6 billion on grounds that the lump sum benefits paid to them, over 10 years ago following their retrenchment, were miscalculated. The claimants are yet to provide the particulars of the claim. The pension payments were computed based on professional advice.

The third is a claim by a former customer and is made up of two cases. The customer had defaulted on his borrowings and the Company attempted to realise the securities held for the borrowings. The customer sued the Company in this matter alleging that the Company did not account for some KShs 55 million deposited in the customer's account. The effect of this case was to stop the Company from realising the securities. The customer reported the matter to the Anti-Banking Fraud Unit and recently applied to the High Court in a Constitutional Petition to compel the Director of Public Prosecutions to prosecute the Company. The application was declined but the customer has filed Notice of Appeal.

In addition, the Company has some on-going matters with the Kenya Revenue Authority. As at 31 December 2013, the directors have not made provisions for tax demand letters amounting to KShs 96 million (2012 - KShs 96 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 2013, 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 632,414,726,436 (2012 – KShs 381,760,740,865). 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 2013, deposits from SCKPF and SCKSRBS 2006 amounted to KShs 82,936,094 (2012 – KShs 115,822,552).

At 31 December 2013, balances relating to deposits from directors, employees and associates amounted to KShs 780,209,149 (2012 – KShs 755,433,058).

The interest expense paid during the year on deposits from directors, employees and associates amounted to KShs 8,164,334 (2012 – KShs 11,567,530).

Notes to the Consolidated Financial Statements (Continued)
for the year ended 31 December 2013

43 RELATED PARTY TRANSACTIONS (Continued)
Group and company

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

	2013	2012
Loans and advances to directors, employees and their associates	KShs '000	KShs '000
At start of the year	3,257,279	2,764,899
Amounts advanced during the year	2,763,678	1,802,932
Amounts repaid during the year	(1,765,736)	(1,310,552)
At end of the year	4,255,221	3,257,279
Loans and advances to directors or companies controlled by directors or their families	46,353	52,748
Loans and advances to employees	4,208,868	3,204,531
	4,255,221	3,257,279

The interest income earned during the year on loans and advances to directors, employees and associates amounted to KShs 234,241,579 (2012 – KShs194,036,182).

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

None of the loans and advances above are impaired at 31 December 2013 (2012 – Nil).

	2013	2012
Key management compensation	KShs '000	KShs '000
Salaries and other employee benefits	303,363	288,828

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:

	2013		2012	
	Premises KShs '000	Equipment KShs '000	Premises KShs '000	Equipment KShs '000
Within 1 year	277,991	196,042	237,594	205,635
After 1 year but less than 5 years	664,400	252,261	539,159	341,605
After 5 years	88,807	–	93,300	–
	1,031,198	448,303	870,053	547,240

The Group leases a number of premises and equipment under operating leases. The leases typically run for a period of less than 5 years with an option to renew the lease after the lease expiry date. Lease payments are typically increased every year to reflect market rentals.

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-eighth Annual General Meeting of the Company will be held at the Safari Park Hotel, Thika Road, Nairobi on Thursday, 22 May 2014 at 11:30 a.m. to conduct the following business of the Company:

ORDINARY BUSINESS

1. To receive and consider the Report of the Directors and Statement of Accounts and the Statement of Financial Position of the Company for the year ended 31 December 2013 with the Auditor's report thereon.

2. To approve the payment of a dividend of KShs 14.50 for each ordinary share of KShs 5.00 on the issued share capital of the Company in respect of the year ended 31 December 2013.

3. To elect the following Directors:
   (a) Mr. Lamin Manjang, a casual director retiring by rotation who being eligible offers himself for re-election in accordance with Article 98 (1) of the Memorandum and Articles of Association;

   (b) Mr. Les Baillie, a director retiring by rotation who being eligible offers himself for re-election in accordance with Article 96 (1) of the Memorandum and Articles of Association;

   (c) Mr. Kaushik Shah, a director retiring by rotation who being eligible offers himself for re-election in accordance with Article 96 (1) of the Memorandum and Articles of Association;

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.

BY ORDER OF THE BOARD

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

15 April 2014

Note: Every member of the Company is entitled to attend and vote at the above Meeting or in the alternative to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. A form of proxy is available on page 115 of this Annual Report or can be downloaded from the Company's website, **www.sc.com/ke/investor-relations** 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 20 May 2014 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 22, May 2014 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 ____2014

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 20 May 2014, 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 22 2014, Safari Park Hotel, Thika Road, Nairobi na wakati wa ahirisho lolote litakalotokea baadaye.

Kama shahidi siku hii: ____2014

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 20 2014. Mwanahisa/wanahisa watakaowasilisha fomu hii baada ya saa tisa, hataruhusiwa/hawataruhusiwa kushiriki katika uchaguzi wowote.**
2. **Ikiwa mteuzi ni Shirika, fomu hii ya uwakilishi lazima ifungwe kwa lakiri.**

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

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Here for good