Standard Chartered

Standard Chartered Bank Kenya Limited Annual Report 2014

Driving investment, trade and the creation of wealth in Kenya

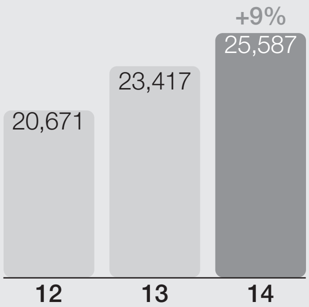
Contents


Standard Chartered
Here for generations
You have spent a lifetime growing your business and building wealth. Now you want future generations to understand the responsibilities that come with it. Supported by the bank that helps them aim higher. That's good for a legacy beyond wealth.
Here for good
sc.com/hereforgood

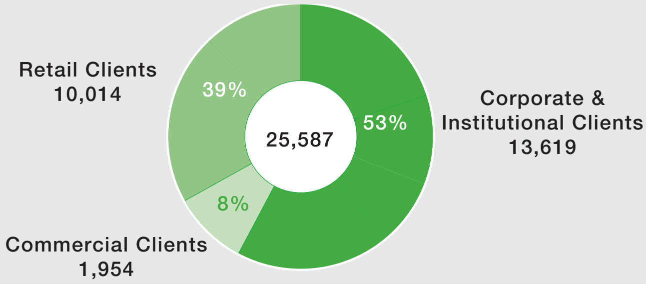
Performance Highlights
Strong foundations, consistent growth

Financial Highlights

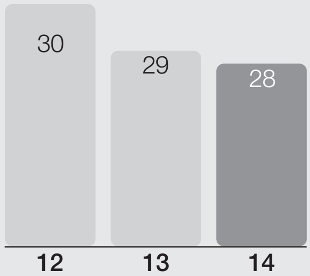
Operating income
KShs m



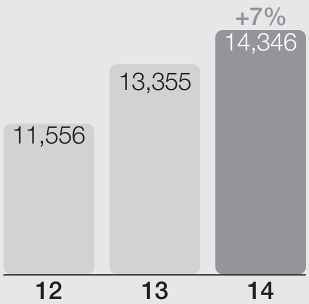
Operating Income by client segment
KShs m



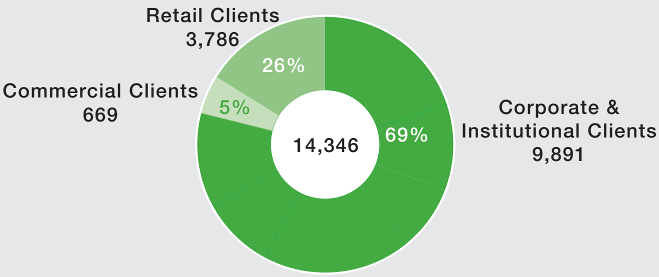
Return on equity
%



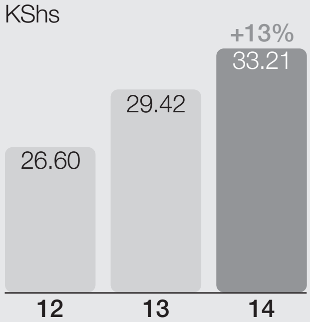
Profit before taxation
KShs m



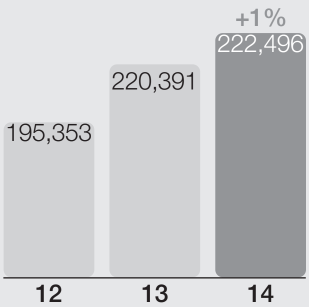
Profit before taxation by client segment
KShs m



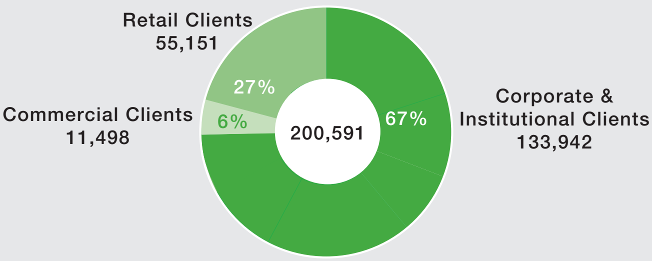
Earnings per share
KShs



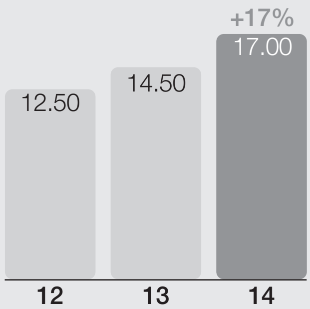
Total assets
KShs m



Total assets by client segment (excluding unallocated assets)
KShs m



Dividend per share
KShs



Non-financial Highlights

Employees
2,048
2013: 1,850 2012: 1,903

Branches
37
2013: 37 2012: 34

ATMs
95
2013: 98 2012: 97

Five Year Summary

Income Statement	2014 KShs '000	2013 KShs '000	2012 KShs '000	2011 KShs '000	2010 KShs '000
Operating income	25,587,016	23,417,444	20,671,436	15,913,511	13,902,729
Impairment losses on loans and advances	(1,047,430)	(783,050)	(716,650)	(412,739)	(332,321)
Operating expenses	(10,193,605)	(9,279,429)	(8,398,595)	(7,245,637)	(5,888,524)
Profit before taxation	**14,345,981**	**13,354,965**	**11,556,191**	**8,255,135**	**7,681,884**
Taxation	(3,909,801)	(4,092,044)	(3,486,658)	(2,418,314)	(2,305,693)
Profit after taxation	**10,436,180**	**9,262,921**	**8,069,533**	**5,836,821**	**5,376,191**
Information per ordinary share					
Basic earnings per share (EPS) (2011 Restated)	33.21	29.42	26.60	19.28	18.58
Dividend per share on each ordinary share (DPS)	17.00	14.50	12.50	11.00	13.50
Statement of Financial Position					
Loans and advances to customers (gross)	126,275,274	131,965,961	114,534,987	97,417,343	61,599,405
Impairment losses on loans and advances	(3,526,041)	(2,293,957)	(1,840,464)	(1,319,520)	(1,262,576)
Government securities	58,215,860	55,642,528	45,320,968	24,584,908	54,540,817
Other assets	41,530,731	35,076,648	37,337,265	43,363,893	27,868,603
Total assets	**222,495,824**	**220,391,180**	**195,352,756**	**164,046,624**	**142,746,249**
Deposits from customers	154,066,931	154,720,011	140,524,846	122,323,049	100,504,065
Other liabilities	27,770,719	29,464,768	24,075,096	21,029,119	21,911,062
Total liabilities	**181,837,650**	**184,184,779**	**164,599,942**	**143,352,168**	**122,415,127**
Net assets	**40,658,174**	**36,206,401**	**30,752,814**	**20,694,456**	**20,331,122**
Shareholders' funds	**40,658,174**	**36,206,401**	**30,752,814**	**20,694,456**	**20,331,122**
Ratios					
Cost income ratio	40%	40%	41%	46%	42%
Return on capital employed	28%	29%	30%	33%	30%
Impairment charge/gross loans and advances	1%	1%	1%	1%	2%
Gross loans and advances to deposits ratio	82%	85%	82%	80%	61%
Gross non performing loans and advances/total gross loans and advances	9%	3%	2%	1%	2%
Core capital/total deposit liabilities	19%	17%	15%	12%	11%
Core capital/total risk weighted assets	16%	17%	16%	12%	14%
Total capital/total risk weighted assets	20%	21%	18%	14%	14%

Chair to the Board's Statement

> Much of what drives the Bank's story remains constant: high liquidity, solid funding and strong capitalisation. This leaves us well placed to weather the vagaries of the economy, support our clients and to capture more market share.

2014 saw a challenging operating environment and a year we took action to refocus our business to respond to the changing landscape. In spite of this we delivered a good set of results confirming we have the right leadership and supportive teams in place to continue to deliver value for our stakeholders.

Our overall performance was driven by prudent cost management, effective risk management, the strength of our personnel and our continued unwavering determination to live up to our brand promise of being 'Here for good' to all our stakeholders.

Operating Environment

With the rebasing of its GDP, Kenya is now classified as a lower-middle-income country, placing it as the ninth largest economy in Africa and the fifth largest in Sub-Saharan Africa (after Nigeria, South Africa, Angola and Sudan). According to the World Bank's Kenya Economic Update (December 2014), the rebasing revealed that Kenya's economy is larger and growing faster than was previously estimated.

The economy is estimated to have grown 5.4 percent in 2014 and is poised to be among the fastest-growing economies in the region in the next three years. Growth in 2014 was broad based. On the supply side, agricultural production saw robust growth, driven by increased use of high-quality inputs; increased livestock output, as a result of better pasture; and expanded credit to the sector. A favourable macroeconomic environment—low inflation, a stable exchange rate, expanded private credit—as well as more reliable supply and lower prices of electricity boosted manufacturing output. On the demand side, aggregate demand was the main driver of growth as private consumption rose (as a result of increased credit) and government consumption increased at both the national and sub-national level. Public investment, mainly in massive road and energy projects, also spurred growth.

In 2014, the banking sector performed well and recorded significant growth in deposits as a result of aggressive mobilisation of deposits, remittances and receipts from exports. Growth in loans and advances was attributed to increase in lending to personal, households, trade, manufacturing, transport and communication, and real estate sectors. The level of non-performing loans increased compared to 2013 and this was attributed to a challenging business environment.

The sector also registered improved capital levels with an increase in total shareholders' funds. Core capital and total capital increased. However the respective ratios to total risk-weighted assets declined. The decline in capital adequacy ratios was as a result of an increase in total risk weighted assets occasioned by the capital charge for market and operational risks that took effect from January 2014.

In January 2014, a high level committee was established under the leadership of the Cabinet Secretary to the National Treasury to explore ways of increasing the supply of private sector credit and mortgage finance in Kenya. The main focus of the committee was to make proposals for transparent pricing that would allow competition and movements in the market and thus lower lending rates commensurate to returns on investments as well as reduce the risk profile and premium loaded to market participants. Among the recommendations made by the committee was the introduction of a transparent pricing mechanism, where all banks price their loans based on a common reference rate, the Kenya Banks' Reference Rate (KBRR). KBRR became effective in July 2014 and borrowers are now able to compare lending rates across banks. As a result, banks are now required to explain to their customers and the Central Bank the composition of the premium charged above the KBRR.

To facilitate safe and efficient cross border payments, in May 2014 the Central Bank of Kenya jointly with other East African Community (EAC) partner states' Central Banks and in partnership with commercial banks, launched the East African Payments System (EAPS). The system integrates the real time gross settlement in the EAC member countries to settle intra EAC payments using member country currencies. EAPS is the fastest and most efficient way to make payments in the EAC. The system is a boost to regional trade and is expected to promote, facilitate and support trade within the EAC. The system is easily accessible as it is available in all the commercial banks in the EAC countries. Participating commercial banks credit customer accounts within two hours of receiving a credit entry notification on their settlement account at the Central Bank.

The Central Bank also operationalised the file information sharing among banks in February 2014 to enhance efficiency in credit risk assessment. In order to achieve an optimal credit information sharing (CIS) mechanism, more credit providers will be incorporated.

Financial Results

Against a challenging operating environment Standard Chartered continued to perform well demonstrating our ability and commitment to build a sustainable business in Kenya.

Here are some highlights:

- Profit before taxation was KShs 14.3 billion compared to KShs 13.4 billion in 2013, a 7% increase;
- Total income increased by 9% to KShs 25.6 billion compared to KShs 23.5 billion in 2013;
- Net interest income increased to KShs 17.3 billion or 5% from KShs 16.4 billion in 2013;
- Non interest income increased 18% from KShs 7.0 billion in 2013 to KShs 8.3 billion;
- Net bad debt charge increased from KShs 783 million to KShs 1,047 million driven by a small number of accounts. We continue to have a proactive approach to risk management;
- Total operating costs grew by 10% to KShs 10.2 billion (2013: KShs 9.3 billion) driven by continued investment, business reorganisations and inflationary pressures. We continue to be disciplined in managing costs;
- Loans and advances declined by 5% to KShs 122.7 billion (2013: KShs 129.7 billion) while customer deposits declined marginally to KShs 154.1 billion (2013: KShs 154.7 billion);
- Our investment in government securities increased from KShs 55.6 billion to KShs 58.2 billion;
- Earnings per share increased from KShs 29.42 per ordinary share in 2013 to KShs 33.21 per ordinary share in 2014.

Much of what drives the Bank's story remains constant: high liquidity, solid funding and strong capitalisation. This leaves us well placed to weather the vagaries of the economy, support our clients and to capture more market share.

I feel immensely proud to be the Chairperson of this performance oriented institution that has delivered shareholder value consistently for close to three decades since it became a listed company on the Nairobi Securities Exchange.

Dividend

The Board is recommending the payment of a final dividend for the year of KShs 12.50 for every ordinary share of KShs 5.00. This, in addition to the interim dividend paid in December 2014 of KShs 4.50 for every ordinary share of KShs 5.00, brings the total dividend to KShs 17.00. This compares to a total dividend of KShs14.50 per ordinary share paid in 2013. This dividend payout gives us the right balance between bolstering our capital base to enable us pursue growth, 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

The Board holds good governance as one of its core values and confirms its commitment to the implementation of effective corporate governance principles in its business operations. The regulatory environment has continued to be rigorous and stringent in making the banking systems safer and less prone to crisis. It also ensures there is an efficient and effective financial services system that can provide support for the economy and ensure quick recovery in the event of systemic upheavals.

In the year under review, the Board continued to play its role effectively under the robust corporate governance structure. The directors provided leadership through oversight, review and guidance whilst setting the strategic direction. While focusing on key strategic and risk issues, the Board also maintained a balance in pursuing growth opportunities in tandem with appropriate governance systems, controls, processes and information flows.

In recognition of our adherence to good governance, I am delighted to inform you the Bank received the following awards in 2014:

- Overall Champion of Governance Award in the 2014 Champion of Governance Awards organised by the Institute of Certified Public Secretaries of Kenya (ICPSK);
- Winner of the Financial and Investment Sector Corporate Governance Award in the 2014 Champion of Governance Awards organised by the Institute of Certified Public Secretaries of Kenya (ICPSK); and
- 2nd Runners-up in the Corporate Governance Category in the 2014 Financial Reporting (FiRe) Awards organised by the Institute of Certified Public Accountants of Kenya (ICPAK), the Capital Markets Authority and the Nairobi Securities Exchange.

In 2014, a number of changes were made to the Board. Lamin Manjang was appointed to the Board on 1 March 2014, as the Managing Director. Lamin has over 16 years banking experience in Standard Chartered Bank across Africa and the Middle East.

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.

On 22 May 2014, Mike Hart retired from the Board after 11 years both as the Managing Director and later as a non-executive director. I would like to thank him for his dedicated service and significant contribution to the impressive growth and success of the Bank during the period he was on the Board especially the years he was the Managing Director.

Community Partnership

Banks play an essential and immensely valuable role in society, fuelling economic activity and enabling people, businesses and communities to thrive. At Standard Chartered, we are very clear about our purpose. Our brand promise, 'Here for good', captures our commitment to be a force for good in the communities in which we live and work.

Governments, regulators and communities are demanding that banks raise their standards and focus more on what they can contribute to the broader economy and society.

For us, running business in a sustainable way means making sure that our banking services promote sustainable economic and social development in the communities in which we work. We seek to embed this mindset in every aspect of our business activity, from strategy to operational process, across all the different products and segments. In doing this, we focus on three key aspects of sustainability: contributing to sustainable economic growth, being a responsible company and investing in communities.

Contributing to sustainable economic growth is about using our core capabilities as a Bank to support our clients and customers in generating economic activity and jobs. By facilitating investment, lending and trade, we help markets grow and clients and customers generate wealth.

Being a responsible company, our second sustainability priority, is about making sure we run our business in a way that delivers long-term value for our shareholders and society. Our culture and values emphasise responsibility and collaboration.

Investing in communities, our third sustainability priority, captures our commitment to work with local communities to promote sustainable development. We focus our community investment on education, health and environment programmes that encourage economic inclusion.

To find out more of what the Bank did in delivering the three areas during the year in review I urge you to read the Sustainability Review contained in this Annual Report.

Summary

2014 was a challenging year, but it was also a year we took action to refocus our business to respond to the changing landscape and ensure we fulfil our aspiration to bank the people and companies driving trade, investment and the creation of wealth across Asia, Africa and the Middle East.

We have the management depth to execute our strategy and we are attracting talented employees from all over the country. We believe that we are operating in an increasingly robust economy with huge potential and improving macroeconomic fundamentals. These factors always invariably aid the development of solid banking industries. We have the dexterity and the right acumen to maintain the momentum of our strong performance. We will endeavour to continue driving operational excellence, implement strict risk management practices and seek to further differentiate ourselves on the basis of our solid pedigree. We have good momentum, which I am confident will lead to good performance in 2015.

Our brand promise, 'Here for good', remains an integral part of how we conduct our affairs. This means we will do our best to exercise our day to day conduct to reflect our obligations to all stakeholders in the communities in which we operate. We will continue to uphold our values of courageous, responsive, international, creative and trustworthy, in our conduct, interactions and our way of doing business. 'Here for good', remains the standard by which we 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.

I want to particularly thank our customers for their continued patronage and support. Our members of staff also deserve special commendation for their unrelenting commitment and dedication to service. Their resourcefulness, enthusiasm, professionalism and diligence are the qualities which have placed Standard Chartered Bank Kenya in the great shape it is in today. These are also the traits driving our optimism about the future.

Finally, I want to thank my colleagues on the Board for their continued exemplary support and co-operation over the years. I count on their unwavering commitment to the Bank's progress in 2015 and the future.

Anne Mutahi
Chair to the Board

26 March 2015

Taarifa ya Mwenyekiti

"Mengi yanayochangia katika habari hizi njema za Benki yetu milele yanabakia kuwa ni yale yale: ukwasi wa hali ya juu wa hela, ufadhiliaji imara na uwepo wa mtaji wa kutosha. Hili linatuweka katika nafasi nzuri ya kukabiliana na hali ngumu za kiuchumi, kuwasaidia wateja wetu na kupanua nafasi mgao wa soko letu."

Mwaka wa 2014 ulikuwa na mazingira ya kiutendakazi yenye changamoto nyingi na ni mwaka tuliochukua hatua ili kumakinikia upya biashara zetu katika kukabiliana na hali zinazobadilika badilika. Licha ya haya yote tulifikia kuwa na matokeo mazuri kwa jumla, jambo lililothibitisha kuwa tunao uongozi unaofaa na wafanyakazi wanaojituma kazini katika kuendelea kuwapa thamani wadau wetu.

Utendakazi wetu kwa jumla uliendeshwa na tabasuri na hekima ya kusimamia gharama, usimamizi wa kupunguza hatari unaofaa, uwezo wa wafanyakazi wetu na dhamiri imara isiyoteteleka ya kuzingatia kikamilifu kauli mbiu ya chapa ya kuwa 'Here for good' kwa wadau wetu wote.

Mazingira ya kiutendakazi

Baada ya kuainishwa upya kwa Pato lake la jumla la taifa (GDP), nchi ya Kenya sasa imeorodheshwa kama taifa lenye pato la wastani-daraja ya chini, na kujiweka katika nafasi ya tisa kwa ukubwa wa uchumi barani Afrika na nambari ya tano kiuchumi katika bara la Afrika lililo chini ya jangwa la Sahara (baada ya Nigeria, Afrika Kusini, Angola na Sudani). Kulingana na ripoti ya Benki ya Dunia ya Hali ya Uchumi nchini Kenya (Desemba 2014) yaani World Bank's Kenya Economic Update (December 2014), uainishwaji-upya huo umefichua kuwa uchumi wa Kenya ni mkubwa zaidi na unakua kwa kasi zaidi ya uliokadiriwa hapo awali.

Uchumi unakadiriwa kuwa uliimarika kwa asilimia 5.4 katika mwaka wa 2014 na kufikirika kuwa miongoni mwa chumi zinazoimarika zaidi katika kanda hii katika miaka mitatu ijayo. Ukuaji wa mwaka 2014 ulikuwa mpana katika nyanja zote. Katika upande wa ugavi uzalishaji wa kilimo ulishuhudia ukuaji imara, uliosababishwa na matumizi ya pembejeo za viwango vya juu; mazao ya mifugo yaliyoongezeka, kutokana na nyasi bora zaidi; na upanuzi wa mikopo katika sekta hiyo. Hali nzuri za kiuchumi kwa jumla – mfumuko wa bei wa viwango vya chini, viwango imara vya ubadilishanaji wa hela, upanukaji wa mikopo katika sekta ya kibinafsi – na pia ugavi unaotegemeka na bei ya chini ya nguvu za umeme viliinua mazao ya viwanda. Katika upande wa utashi, ukuaji iliimarishwa zaidi na utashi wa kijumla huku matumizi katika sekta ya kibinafsi yakiongezeka (kutokana na ongezeko la mikopo) na matumizi ya serikali yakaongezeka katika viwango vya kitaifa na mashinani. Uwekezaji wa umma, hasa katika miradi mikubwa ya barabara na kawi, pia ulisababisha ukuaji wa kiuchumi.

Katika mwaka wa 2014, sekta ya benki ilinawiri na kushuhudia ukuaji mkubwa katika amana zilizowekwa kutokana na juhudi kabambe zilizofanywa na benki katika kuhamasisha umma kuweka hela na mapato yaliyotokana na bidhaa zilizouzwa nje ya nchi. Ongezeko katika mikopo na arbuni lilihusishwa na kuongezeka kwa kuwakopesha watu binafsi, familia, biashara, na sekta za viwanda, usafiri na mawasiliano na pia sekta ya nyumba na ujenzi. Viwango vya mikopo isiyoendelea kulipwa vilipanda ikilinganishwa na mwaka 2013 na hili lilihusishwa na mazingira ya kibiashara yenye changamoto nyingi.

Sekta ya benki pia iliandikisha uimarikaji katika viwango vya mtaji uliletwa na ongezeko la jumla la pesa za wenyehisa. Mtaji msingi na mtaji wa jumla viliongezeko ila uwiano wa viwango mbali mbali vikilinganishwa na amana ya jumla iliyokadiriwa hatari, vilishuka. Kufifia kwa uwiano wa viwango vya ushoshelevu wa mitaji ilitokana na ongezeko la jumla la amana iliyokadiriwa hatari, hali iliyosababishwa na ada zilizoanza kutozwa kwa mtaji katika soko na hatari za kiutendakazi kuanzia Januari 2014.

Mnamo Januari 2014, kamati ya kiwango cha juu ilianzishwa chini ya uongozi wa Katibu wa Wizara ya Hazina ya kitaifa ili ibuni njia za

Taarifa ya Mwenyekiti (Yaendelea)

kuongeza ugavi mikopo katika sekta ya kibinafsi na ufadhili wa mikopo ya kununua makao nchini Kenya. Lengo kuu la kamati hii lilikuwa ni kuibuka na mapendekezo ya mfumo wazi wa bei utakaoruhusu mashindano na usongaji mbele katika soko na hivyo kupunguza riba katika mikopo ikilinganishwa na mapato ya uwekezaji na pia kupunguza viwango vya hatari na malipo ya mara kwa mara yanayosukumiwa washiriki katika soko hili. Miongoni mwa mapendekezo yaliyofanywa na kamati hii, ilikuwa ni kuanzishwa kwa utaratibu wa kuweka bei ulio wazi, ambapo benki zote uamua bei ya kutoza mikopo yao kulingana na kiwango sawa kinachorejelewa, kilichofahamika kama Mwongozo wa Viwango vya Riba wa Benki nchini Kenya yaani (Kenya Banks' Reference Rate (KBRR). KBRR ilianza utenda kazi wake kuanzia Julai 2014 na wakopaji sasa wanaweza kulinganisha viwango vya riba za mikopo vya benki tofauti tofauti. Kutokana na hili, benki sasa huwa zinahitajika kuwafafanulia wateja wake na pia Benki Kuu ya Kenya ni nini kinachojumuishwa katika ushuru wowote unaotozwa juu ya viwango vya KBRR.

Ili kufanikisha malipo nje ya mipaka ya kitaifa kwa njia salama na yenye ufasaha, mnamo Mei 2014 Benki Kuu ya Kenya ikiungana pamoja na Benki Kuu za mataifa wanachama wa Jumuiya ya Afrika Mashariki na kwa ushirikiano na benki za kibiashara zilizindua Mfumo wa Malipo wa Afrika Mashariki yaani East African Payment System (EAPS). Mfumo huu unashirikisha kijumla malipo ya wakati huo-huo katika mataifa wanachama wa Jumuiya ya Afrika Mashariki ili kuweza kulipana baina ya mataifa ya Afrika Mashariki kwa kutumia hela za taifa mwanachama. EAPS ndio njia ya kasi zaidi na yenye ufasaha zaidi katika ulipaji ndani ya EAC- Jumuiya ya Afrika Mashariki. Mfumo huu unapiga jeki biashara katika kanda hii na unatarajiwa kuinua, kusaidia na kuunga mkono biashara ndani ya Jumuiya ya Afrika Mashariki. Mfumo huu unafikiwa kwa urahisi kwa kuwa unapatikana kwa katika benki za kibiashara za mataifa ya EAC. Benki za kibiashara zinazoshirikisha mfumo huu huweka hela kwenye akaunti za wateja wao ndani ya saa mbili baada ya kupokea ujumbe wa taarifa ya kuingizwa kwa malipo katika akaunti zao za malipo zilizo kwenye Benki Kuu.

Benki Kuu pia ilishirikisha usambazianaji wa habari kwenye majalada miongoni mwa benki kutoka Februari 2014 ili kuhimiza utendaji bora katika utathmini wa hatari katika mikopo. Ili kufikia viwango vya juu vya utaratibu wa usambazianaji wa habari kuhusu mikopo (CIS), watoaji mikopo wengi zaidi watashirikishwa.

Matokeo ya kifedha

Dhidi ya mazingira ya kiutendakazi yenye changamoto Benki ya Standard Chartered iliendelea kufanya vyema na kuonyesha uwezo wetu na kujitolea katika kujenga biashara ya kudumu nchini Kenya.

Hivi ni vipengele muhimu vya matokeo hayo

- Faida kabla ya ushuru ilikuwa Shilingi bilioni 14.3 ikilinganishwa na Shilingi bilioni 13.4 katika mwaka wa 2013, ambayo ni ongezeko la asilimia 7;
- Mapato ya jumla yaliongezeka kwa asilimia 9 na kufikia Shilingi bilioni 25.6 ikilinganishwa na Shilingi bilioni 23.5 katika mwaka wa 2013;
- Mapato halisi kutokana na riba yaliongezeka na kufikia Shilingi bilioni 17.3 au asilimia 5 kutoka Shilingi bilioni 16.4 mwaka 2013;
- Mapato yasiyotokana na riba yaliongezeka kutoka Shilingi bilioni 7.0 za mwaka 2013 hadi kufikia Shilingi bilioni 8.3. Katika mwaka 2014 mapato yasiyotokana na riba yalijumuisha mauzo ya kitita ya mali ya kampuni;
- Gharama halisi za mikopo isiyojilipa iliongezeka kutoka Shilingi milioni 783 hadi Shilingi milioni 1,047 ikitokana na idadi dogo ya akaunti za wakopeshwa;
- Gharama ya jumla ya kuendesha biashara ilikua kutoka asilimia 10 na kufikia Shilingi bilioni 10.2 (2013: Shilingi bilioni 9.3) kutokana na uendelezaji wa uwekezaji, upangaji upya wa biashara na shinikizo za mifumko ya bei. Tunazidi kuwa na nidhamu katika kupunguza gharama;
- Mikopo na arbuni vilishuka kwa asilimia 5 na kufikia Shilingi bilioni 122.7 (2013: Shilingi bilioni 129.7) ambapo fedha zilizowekwa na wateja zilipungua kidogo na kufikia Shilingi bilioni 154.1 (2013: Shilingi bilioni 154.7);
- Uwekezaji wetu katika hati na bondi za serikali uliongezeka kutoka Shilingi bilioni 55.6 hadi Shilingi bilioni 58.2;
- Faida kwa kila hisa iliongezeka kutoka Shilingi 29.42 mnamo 2013 hadi Shilingi 33.21 katika mwaka wa 2014.

Mengi yanayochangia katika habari hizi njema za Benki yetu milele yanabakia kuwa ni yale yale: ukwasi wa hali ya juu wa hela, ufadhiliaji imara na uwepo wa mtaji wa kutosha. Hili linatuweka katika nafasi nzuri ya kukabiliana na hali ngumu za kiuchumi, kuwasaidia wateja wetu na kupanua nafasi mgao wa soko letu. Nina fahari kuu kuwa Mwenyekiti wa taasisi hii ilijikita katika misingi ya kiutendakazi na inayoendelea kila uchao kuwapa wenyehisa thamani yao kwa muda wa miongo miwili tangu ilipoorodheshwa katika Soko la Ubadilishanaji Hisa la Nairobi.

Gawio

Bodi inapendekeza kulipa Shilingi 12.50 kama gawio la mwisho la mwaka huu kwa kila hisaya kawaida ya Shilingi 5.00. Malipo hayo, pamoja na gawio la muda lililolipwa Desemba 2014 la Shilingi 4.50 kwa kila hisa ya kawaida, litafikisha gawio la jumla kuwa Shilingi 17.00. Hali hii ikilinganishwa na gawio la jumla la Shilingi 14.50 kwa hisa ya kawaida lililolipwa mwaka 2013 linaonyesha kuwa tumepiga hatua kwa Shilingi 2.50 kwa hisa.

Malipo ya gawio kwa wenyehisa huleta usawa ufaao kati ya utegemezi wa msingi wa mtaji wetu ili kutuwezesha kufuatilia ukuaji na maendeleo; yaani kuendelea kutoa natija za kupendeza kwa wawekezaji wetu na pia kuhakikisha kuwa tunakidhi mahitaji ya mtaji unaoongezeka. Tunaazimia kudumisha uwiano ufaao wa mtaji kwa kutekeleza hatua kadha pamoja na kuwezesha ukuaji wenye msingi imara wa mtaji unaozidi kujilimbikiza.

Usimamizi wa kampuni

Bodi inachukulia uongozi dhabiti kama moja ya maadili makuu na kuthibitisha kuwa imejitolea kikamilifu katika kuhakikisha utekelezwaji wa kanuni bainifu za kiutawala katika shughuli zake zote za kibiashara. Mazingira haya ya kudhibiti yameendelea kuzingatiwa vikali na kwa uangalifu na hivyo kufanya sekta ya benki kuwa salama na isiyo na uwezekano wa kukumbwa na misukosuko na migogoro ya mara kwa mara. Pia inahakikisha kuwa kuna mifumo madhubuti na ifaayo ya huduma za fedha ambayo inaweza kusaidia sekta kamili na kuhakikisha kuwa inajirekebisha kwa haraka iwapo patatokea mizozo yoyote ya kimifumo.

Katika mwaka tunaouangazia, Bodi iliendelea kutenda majukumu yake kwa ufasaha chini ya miundo kakamavu ya utawala wa kampuni. Wakurugenzi wanaongoza kupitia kwa uangalizi, uchunguzi, ukaguzi na uelekezaji huku wa wakitoa mwelekeo ya kimikakati. Huku tukiangazia masuala muhimu ya kimikakati na yanayohusu hatari Bodi pia ulisawazisha suala la kuandama nafasi zaidi ya kupanuka kulingana na mifumo ifaayo ya kiutawala, udhibiti, michakato na usambasaji wa habari.
Katika kutambua uaminifu wetu wa kufuatia uongozi bora, ni furaha yangu kuwafahamisha kuwa benki yetu ilipata tuzo zifuatazo katika mwaka wa 2014:

- Tuzo ya Bingwa wa Uongozi bora katika Tuzo za uongozi bora zilizoandaliwa na Taasisi ya Wahazili Wa Umma Waliothibitishwa nchini Kenya yaani Institute of Certified Public Secretaries of Kenya (ICPSK);

Taarifa ya Mwenyekiti (Yaendelea)

- Mshindi wa Tuzo ya Usimamizi wa Kampuni katika Sekta ya Fedha na Uwekezaji katika mashindano ya Tuzo za mwaka wa 2014 za Bingwa wa Uongozi zilizoandaliwa na Taasisi ya Wahazili Wa Umma Waliothibitishwa nchini Kenya yaani Institute of Certified Public Secretaries of Kenya (ICPSK);
- Nambari ya Pili katika kitengo cha Usimamizi Kampuni katika Tuzo za mwaka 2014 za Utoaji wa Repoti za Kifedha yaani Financial Reporting (FiRe) Awards zilizoandaliwa na Taasisi ya Wahazili Wa Umma Waliothibitishwa nchini Kenya yaani Institute of Certified Public Accountants of Kenya (ICPAK); Halmashauri ya Masoko ya Mitaji na Soko la Ubadilishanaji Hisa la Nairobi.

Mabadiliko mengi yamefanywa kwenye Bodi katika mwaka wa 2014. Lamin Manjang aliteuliwa katika Bodi tarehe 1 Machi 2014, akiwa Mkurugenzi Msimamizi. Lamin ana tajriba ya miaka 16 katika sekta ya benki aliyoipata katika Benki ya Standard Chartered barani Afrika na Mashariki ya Kati.

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.

Mnamo tarehe 22 Mei 2014, Mike Hart alistaafu kutoka kwa Bodi baada ya miaka 11 akiwa Mkurugenzi Msimamizi na baadaye akiwa Mkurugenzi asiye na wadhifu wa kiutendaji. Ningependa kumshukuru kwa sababu ya hudumu yake ya kujitolea na mchango muhimu kwa ukuaji na mafanikio ya Benki wakati alipokuwa katika Bodi hususan ile miaka alikuwa Mkurugenzi Msimamizi.

Kushirikiana na Jamii

Benki hutekeleza jukumu muhimu na lenye thamani kubwa katika jamii, katika kuendesha shughuli za kiuchumi na kuwezesha watu, biashara na jamii kustawi. Hapa katika Standard Chartered, tunatambua wazi kusudi letu. Na ahadi ya chapa yetu, 'Here for good', inafumbata kujitolea kwetu kuwa nguvu ya kuleta wema katika jumuiya tunamoishi na kutenda kazi.

Serikali, wadhibiti na jamii wanataka benki ziinue viwango vyao na kumakinika zaidi na mchango wanaoweza kuleta katika uchumi kwa jumla na katika jamii.

Kwetu sisi, kuendesha biashara zetu kwa njia endelevu kunamaanisha kuhakikisha kuwa huduma zetu za benki zitainua uchumi endelevu na maendeleo ya kijamii katika jumuiya tunamofanyia kazi. Tunajitahidi kushirikisha fikira hizi katika kila nyanja ya shughuli zetu za kibiashara, kutoka kiwango cha mikakati hadi mchakato wa kiutekelezaji, kupitia bidhaa zetu na vitengo vyetu vyote. Katika kutenda hili, tunamakinikia vipengele vitatu vikuu vya uendelevu; kutoa mchango kwa ukuaji endelevu wa uchumi, kuwa kampuni ya kuwajibika na kuwekeza katika jamii.

Kuchangia katika ukuaji endelevu wa kiuchumi kunahusu matumizi ya uwezo wetu muhimu kama Benki ili kusaidia wadau wetu na wateja wetu katika kuzalisha shughuli za kiuchumi na nafasi za kazi. Kwa kurahisisha uwekezaji, mikopo na biashara, tunasaidia masoko kukua, na hivyo wadau na wateja wetu kuzalisha mali.

Tukiwa kampuni iliyowajibika, kipaumbele cha pili katika uendelevu, ni kuhusu kuhakikisha kuwa tunaendesha biashara yetu kwa njia inayoleta thamani ya kudumu kwa wenyehisa wetu na jamii kwa jumla.Utamaduni wetu na maadili yetu husisitiza uwajibikaji na ushirikiano.

Kuwekeza katika jamii, ambalo ni la tatu tunalolipa kipaumbele katika misingi ya uendelevu, linafumbata kujitolea kwetu katika kufanya kazi na jamii zetu mashinani ili kuleta maendeleo endelevu. Tunamakinisha uwekezaji wetu kwa jamii katika miradi ya elimu, afya na mazingira ambayo inasaidia katika ushirikishwaji wa kiuchumi.

Ili kupata mengi kuhusu kile Benki ilifanya ili iweze kutimiza haya katika maeneo hayo matatu ndani ya mwaka unaorejelewa, ninakuhimiza usome Mapitio ya Uendelevu yaliyo kwenye Ripoti ya 2014.

Muhtasari

Mwaka wa 2014 ulikuwa mwaka wenye changamoto, lakini pia tulichukua hatua katika kuimakinisha biashara yetu ili kukabiliana na hali zinazobadilika badilika na kuhakikisha kuwa tumetimiza azimio la kuwahudumia watu na kampuni zinazoendesha biashara, uwekezaji na uzalishaji mali barani Asia, Afrika na Mashariki ya Kati.

Tunao uwezo wa kiusimamizi wa kutekeleza mikakati yetu na tuynavutia wafanyakazi wenye talanta kutoka kila mahali nchini. Tunaamini kuwa tunafanyia kazi katika mazingira yanayozidi kuimarika kiuchumi na yenye uwezo mkubwa na misingi na kanuni za kiuchumi kwa jumla zinazozidi kunawiri. Masiala haya huwa siku zote yanasaidia maendeleo ya sekta thabiti ya benki. Tunao umahiri stadi na busara ifaayo ya kudumisha kasi ya utendakazi wetu imara. Tutajitahidi kuendelea kuimarisha ufasaha wa utendakazi wetu, kutekeleza desturi kali za kupunguza hatari na kusaka kujitenga katika kiwango chetu kwa msingi wa jadi yetu imara. Tunao msukumo mzuri, ambao ninahakika kuwa utatufikisha kupata matokeo bora zaidi.

Ahadi ya chapa yetu, 'Here for good', inabakia sehemu muhimu ya vile tunavyofanya mambo yetu. Hii inamaanisha ya kuwa tutafanya kila zuri tuwezalo katika kuonyesha maadili yetu yanayoakisi majukumu yetu kwa wadau katika jumuiya tunamofanyia kazi. Tutaendelea kuonyesha maadili yetu ya ujasiri, mwitiko, umataifa, ubunifu na uaminifu, katika mienendo au tabia zetu, mahusiano na katika jinsi tunavyoendesha biashara zetu. Kauli mbiu yetu ya 'Here for good' kumaanisha 'Tuko hapa milele kwa mazuri' inabakia kiwango ambacho tunajipima nacho na ambacho tunatarajia kupimwa nacho. Ni kuhusu sisi ni kina nani tunapokuwa katika hali bora zaidi ya kiutendakazi na hili ni muhimu sana kwa Bodi, Usimamizi na wafanyakazi wa Benki hii.

Ningependa hasa kuwashukuru wateja wetu kwa kuendelea kuwa waaminifu na kutuunga mkono. Wafanyakazi wenzetu pia wanastahili pongezi za kipekee kwa jinsi walivyowajibika kikamilifu na kujitolea kwa huduma bila ya kulegea hata kidogo.

Mwisho, ningependa kuwashukuruwenzangu kwenye Bodi kwa kuendelea kuungana mkono kwa njia ya kutolewa mfano na kushirikiana name kwa miaka yote hii. Ninawategemea katika uwajibika wao kikamilifu katika maendeleo ya Benki katika mwaka wa 2015 na katika siku za usoni.

Anne Mutahi
Mwenyekiti wa Bodi

26 Machi 2015

Chief Executive Officer's Statement

> We continue to deepen our client relationship proposition as we make disciplined investments in key product capabilities to support companies that drive investment, trade and creation of wealth across our footprint.
>
> In 2015, our focus remains largely on our clients. We will also continue to strengthen our workforce, as well as collaborate both internally and externally to ensure that our solutions and services provide optimum value to the clients we serve. Thus, proving that, we are 'Here for good'.

Introduction

2014 was a challenging year and we have taken a range of actions in response to the changing world. As a result of these changes, we experienced pressure on margins however we still managed to deliver a good set of results.

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

Over the last few years, we have pursued a focused agenda. We have strengthened the infrastructure and technology of the Bank; reinvigorated our brand; increased staff engagement and deepened our talent pool. We are focused on strategic growth, investing at pace in the business.

At the forefront of our services remain our best-in-class product offerings which are tailored to fit the very needs of our most esteemed clients. The robust nature of our delivery channels also further illustrates our ability to serve our clients with a wide range of products and services.

Our business has grown substantially over the last decade and we continue to view Standard Chartered as an exciting growth story. We will continue to support the growth of trade and wealth and drive value for all our clients. 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 with the basics of banking – balancing the pursuit of growth with disciplined management of costs and risks, keeping a firm grip on liquidity and capital. We continue to focus on culture and values, on the way we work together across our business locations, product and segment groups, and combining deep local knowledge with global capability. These fundamentals underscore everything the Bank does, and everything we stand for as a Bank.

2014 Performance

Our strategy is clear and consistent - to lead the way in financial services; to focus on being a trusted advisor; to stay true to the basics of banking. As a result, we have continued to deliver consecutive income growth year-on-year. In 2014, our financial performance remained strong within the context of an increasingly competitive financial services sector.

Profit before taxation was KShs 14.3 billion compared to KShs 13.4 billion in 2013, an increase of 7%.

Total revenue grew to KShs 25.6 billion, mainly driven by the following:

- Interest income on loans and advances remained flat at KShs 15.5 billion. Growth in average volumes was weighed down by lower interest rates charged compared to 2013.

The growth in non performing loans during the year further muted the growth in interest income;

- Interest income from investments in government securities declined by 4% to KShs 5.6 billion. Increased volumes were tempered by lower interest rates;
- Total interest expense decreased by 13% to KShs 4.4 billion reflective of reduction in overall cost of funds;
- Income from foreign exchange trading decreased by 11% to KShs 2.0 billion as a result of a low rates and low volatility environment coupled with margin compression which offset effects of significant volume growth;
- Fees and commissions increased marginally to KShs 3.9 billion;
- Other income increased to KShs 1.8 billion, a 372% increase from 2013. This increase was largely due to a one-off sale of a property.

Total operating expenses increased by 10% to KShs 10.2 billion as a result of the following:

- Staff costs grew by 13% to KShs 5.8 billion as we continued to invest in talent to support our business growth, in addition to redundancy costs as we reorganised our business in 2014;
- Premises and equipment costs increased to KShs 0.8 billion from KShs 0.7 billion in 2013;
- Depreciation and amortisation remained flat at KShs 1.0 billion;

Gross non-performing loans increased to KShs 10.8 billion compared to KShs 3.8 billion in 2013. This translates to 8.5% of gross loans and advances (2013: 2.9%). Compared to June 2014 where the non performing loans peaked at KShs 14.5 billion, gross non-performing loans decreased by 26% as we continue to support our clients. This is as a result of active management actions around the Corporate & Institutional Clients portfolio which saw non-performing loans increase in 2014, although this was due to a small number of problem accounts. We are pleased to further report that as at February 2015, we had made further progress and reduced the gross non-performing loans to 6.8% of gross loans and advances.

Overall we remain disciplined in our approach to risk management and proactive in our collection efforts to minimise account delinquencies. While we do not see a broad based deterioration in asset quality, the number of clients subject to additional, precautionary monitoring remains elevated reflecting our proactive approach to managing risks in an uncertain environment. Corporate & Institutional Clients loans as well as Commercial Clients loans are largely short tenor. The Retail Clients 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.

The balance sheet remains resilient and well diversified. We continue to be highly liquid and primarily deposit funded, with an advances to deposits ratio of 80% down from the previous year end position of 84%. The Bank remains well capitalised, with a total capital to risk weighted assets ratio standing at 20%, and the profile of our balance sheet remains stable with over 70% of our financial assets held at amortised cost. This strategically places us in a position to accommodate any further regulatory requirements and simultaneously take advantage of growth opportunities in our businesses.

Business Review

In January 2014, Standard Chartered Bank PLC announced changes to its global business operating model. This was the outcome of a comprehensive review of a global strategy that has worked well for the Bank over the past decade. However it is also important to recognise emerging and sometimes new realities that create both opportunities and threats to our markets. The global financial crisis precipitated a tighter regulatory ecosystem around the world and closer scrutiny of financial institutions in general. This action by the regulatory community is to ensure that financial stability is not compromised in any material manner. Within the current market reality and regulatory environment, the way the Bank allocates capital for growth and for investment across branches is being carefully prioritised.

Our global strategic intent has seen a revision which may appear minor in its re-statement but very profound in its potential impact to deliver shareholder value within the current realities. The focus is on banking people and companies who are integral in driving trade, investment and wealth creation in our markets including Kenya. A new framework that redefines the way the Bank is run and how performance and strategy can be aligned better came into effect on 1 April 2014. Under this new framework, we are paying greater attention to our client relationships. What was previously known to the market as Wholesale Banking and Consumer Banking have now been merged into a single business comprising three client segments supported by five product groups. We will leverage our network strength and full product capability to develop and deepen our client relationships across the three business segments i.e. Corporate & Institutional Clients, Commercial Clients and Retail Clients.

Going forward, we will be putting a lot of emphasis on supporting the growth of the new Commercial Clients segment which comprises small and medium sized enterprises (SMEs) and midsized corporates in Kenya in an integrated approach. As we support this very crucial segment, we expect to see stronger growth over time and smooth transitioning into the Corporate & Institutional Clients segment ultimately as our clients grow.

In 2014, we saw strong-based momentum across the business, with activity levels and volumes up sharply in a number of products as we helped our clients' trade and invest.

Retail Clients

In 2014, we began to execute the Retail Clients strategy at a much faster pace and reorganised the entire sales force around our three client groups – Business Clients, Priority Clients and Personal Clients. We also sharpened our focus on Priority and Business Clients. With our cross-border reach and products designed to meet their needs, we are extremely well positioned to do more with these two affluent client groups. This is a strategy that puts our clients at the centre of what we do and positions us for strong growth.

Chief Executive Officer's Statement (Continued)

Building better technology is another key element of our Retail Clients strategy and we continued to invest more in the digital and mobile channels that will deliver easy and convenient banking to our clients.

The Retail Clients operating income was up 8% to reach KShs 10.0 billion. This was as a result of strong growth in customer loans and deposits which increased by 19% and 4% to close at KShs 55.2 billion and KShs 74.7 billion respectively. Expenses rose by 9% driven by the repositioning programme, investment in our branch network and in our digital agenda.

In 2015, we will continue to focus on delivering our strategy to become the bank that our customers recommend to friends, family and colleagues. We are well positioned to navigate the uncertain external environment and will continue to invest in growing the franchise. As consumer behaviours shift, we will seek to better serve our customers according to their needs and preferences in order to provide a more seamless experience across all our channels while delivering on our brand promise to be 'Here for good'.

Commercial Clients

Established in April 2014, Commercial Clients brought together the medium-sized enterprises component of small and medium-sized enterprises (SME) from the erstwhile Consumer Banking and the Middle Market segment from the erstwhile Wholesale Banking. This enabled us to sharpen focus on serving the needs of mid-sized local companies at an early stage of their lifecycle, leveraging our cross-border network capabilities to support their growth aspirations.

While we made excellent progress in establishing the segment, and improving our risk and controls, operating profit was KShs 0.7 billion, a reduction from KShs 1.1 billion in 2013. Lending and cash management income fell due to lower volumes and inter-segment transfers respectively while total impairment rose by 15% driven by a small number of specific loan impairments. Customer loans and advances closed at KShs 11.5 billion and deposits at KShs 16.3 billion.

As we look to change our growth trajectory, we will focus on growing our reach among those companies in our market that are expanding internationally, enhancing our systems and platforms and investing in and strengthening our frontline staff.

Corporate & Institutional Clients

Despite challenging market conditions, Corporate & Institutional Clients which serves Financial Institutions, Global and Local Corporate clients executed well on strategy, delivering a year-on-year income growth of 12% to KShs 13.6 billion with the underlying profit before tax up 17% to KShs 9.9 billion. Disciplined investments in key sales and product teams and control functions delivered good results across all products and customer segments.

By simplifying our processes and ensuring that our systems are more efficient, we have freed up more time for our people to spend with clients, and this is yielding returns. Our focus on deepening relationships and product value add has seen us maintain the average number of products per client at 3.2 despite the challenging market conditions.

We continue to deepen our client relationship proposition as we make disciplined investments in key product capabilities to support companies that drive investment, trade and creation of wealth across our footprint.

In 2015, our focus remains largely on our clients. We will also continue to strengthen our workforce, as well as collaborate both internally and externally to ensure that our solutions and services provide optimum value to the clients we serve. Thus, proving that, we are 'Here for good'.

People

The reorganisation in the first half of 2014 was a critical step to regaining our performance momentum and ensuring that we remain on track to achieve our aspirations. From 1 April 2014, we changed our organisation structure to drive operational efficiencies, collaboration and long-term employee engagement.

Through the new business structure we reiterated our commitment to operate as one bank. We also aligned our people priorities to deepen our organisational culture and strengths in conduct, values, leadership, diversity and inclusion. These are key differentiators that will enable us to deliver on the Bank's aspirations and brand promise.

Our overall employee attrition rate has improved, with turnover rates declining year-on-year. We have established a framework that allows us to identify and proactively address areas where attrition is acute. This approach has proved successful in 2014 and we are confident that we can deploy this in areas where attrition is above acceptable levels.

Having conducted an annual Group-wide Gallup employee engagement survey between 2001 and 2012 the Standard Chartered Group decided to refresh our approach. In 2014, we launched a new bespoke employee engagement survey aligned to our organisational aspirations. The new 'My Voice' survey provides greater insight into our engagement drivers across the Group. We will now also be able to run regular, smaller-scale 'pulse surveys' that allow us a more detailed understanding of engagement within specific groups.

The survey measures both the engagement of employees and the importance they attribute to various engagement factors; by looking at the gap between the two we are able to identify opportunities to improve the experience of our employees. Strong scores were registered for employee engagement with the brand, strategy, and diverse and inclusive culture. There were also positive results across the Bank on conduct and culture, as well as a high level of individual commitment and job engagement. Areas that need attention include collaboration, and clarity about growth opportunities and career paths. The managers are currently working on actions to address the opportunities identified through the survey, building engagement and delivering on our 'Here for good' brand promise to make Standard Chartered a great place to work.

Chief Executive Officer's Statement (Continued)

Developing the next generation of business leaders is vital to our performance and remains a priority for the Bank. We continue to invest in our employees at all levels to help them grow their careers. We have also reviewed our leadership development approach to equip our leaders for an increasingly complex operating environment. We have streamlined and aligned the content of our leadership programmes so that our leaders are equipped with a consistent skill set, knowledge and behaviour. To ensure we continue to build sufficient leadership capacity, we have doubled the number of leadership programmes that we run for middle management, and increased the frequency of other manager programmes.

Outlook

We have a heritage of over 100 years in Kenya. Our deep knowledge, trust and network of lasting relationships in this market comes from doing the right thing to provide opportunities for those we serve. We remain committed to helping our clients make greater contributions to the sustainability of economic growth of Kenya.

We recognise that we face pressures from external challenges and also from within our organisation and are taking action to address those that are within our control. We are making changes to adapt to new realities. We have a strong balance sheet, excellent client relationships and outstanding capabilities. We are executing our strategy, including reprioritising investments and re-allocating capital. This restructuring of the underlying business will position us well for future growth.

Looking ahead to 2015 and to our medium to long term plans, there are a number of areas on which we will focus to ensure we get back on to the right performance trajectory, delivering returns above our cost of capital. These include performance, client relationships, organisational effectiveness, efficiency, people, culture and conduct.

Specifically, we will ensure that we deliver on our performance commitments: place greater emphasis on collaboration across client segments, product groups and functions to maximise the opportunity presented by our network; and increase profitability through our Retail Clients transformation. We will continue to drive cost and capital efficiency, and invest in our conduct agenda, doing what we should, not just what we can.

We operate in some of the most attractive segments, which will continue to present huge opportunities for us. Our distinctive business model, superb client franchise and 'Here for good' culture position us well to take advantage of this. We have refreshed our strategy, and in 2014, took steps to ensure that we are organised to support it. In 2015, we will execute our strategy to regain a trajectory of growth and our ambition to become the leading bank in Kenya.

We are well placed to capture the opportunities that exist within and between our client segments and product groups. Across all client segments our aim is to build sustainable, long-term and trusted relationships with our clients. With the creation of Commercial Clients, our segment for mid-sized corporates, we are now better able to deliver on this, serving clients across different segments to meet their changing needs as they diversify, grow and prosper. This approach also enables us to drive referrals between segments – banking both the personal and business needs of our clients – and draw on the capabilities from across the breadth of the business to bank the employees and supply chains of our clients.

I am aware the road ahead will not be easy. In fact the bar has been raised even higher and more is expected of us going forward, but I am confident that the Bank is in great shape and we have the ability to deliver in 2015.

In conclusion, I would like to thank our clients, customers and shareholders for their support during 2014 and, above all, our great people for their hard work and ongoing commitment to Standard Chartered.

Lamin Manjang
Managing Director & Chief Executive Officer

26 March 2015

Taarifa ya Afisa Mkuu Mtendaji

> "Tunaendelea kuboresha uhusiano wetu na wateja wetu huku tunawekeza kwa uangalifu katika uwezo wa bidhaa muhimu ili kusaidia kampuni ambazo zinaendesha uwekezaji, biashara na uzalishaji wa mali popote palipo na shughuli zetu.
>
> Katika mwaka wa 2015 msisitizo wetu unabakia kwa kiasi kikubwa katika wateja wetu. Pia tutazidi kuimarisha nguvu kazi yetu, huku tukishirikiana wenyewe kwa wenyewe na pamoja na wadau wa nje kuhakikisha kuwa suluhisho na huduma zetu zinaleta thamani ya juu kwa wateja tunaohudumia. Na hilo linathibitisha kweli kuwa tuko 'Here for good'."

Utangulizi

Mwaka wa 2014 ulikuwa mwaka wenye changamoto nyingi na hivyo tumechukua hatua kadhaa kwa mwitiko wa jinsi ulimwengu wetu unavyobadilika. Kutokana na hilo, tulipata shinikizo katika juhudi za kuleta matokeo yafaayo lakini bado tiliweza kufanikisha kuleta matokeo mbali mbali yanayoridhisha.

Hadithi ya Benki ya Standard Chartered inahusu uwasilishaji wa matokeo bora mfululizo na ukuaji endelevu.Tunamakinikia kuleta matokeo bora kwa wenyehisa wetu, kuwasaidia wateja na wadau wetu, na kuleta athari nzuri katika jamii tunamoishi na kufanyia kazi. Tumejiweka vyema katika sehemu za uchumi wetu ambazo zinakua kwa kasi zaidi. Kama Benki, tunaendelea kunufaika kutokana na uhusiano wa ndani na wadau wetu, mtandao wetu na mizania zinazoonyesha mtaji tosha.

Katika miaka michache iliyopita, tumeandama ajenda makinifu. Huwa tunajiwekea wenyewe malengo ya mbali zana ya kiutendakazi na tumefanikiwa kuyafikia mfululizo. Tumeimarisha miundo-msingi na teknolojia ya Benki; tumeitia kumeitia nguvu chapa yetu; na tumezidisha kumezidisha juhudi za kuwahusisha wafanyakazi na kuzamia katika upanuzi wa talanta miongoni kutokana na wafanyakazi tunaowaajiri. Tunalenga ukuaji kwa misingi ya mikakati yetu, yaani kuwekeza hatua kwa hatua katika biashara hii.

Tukiangalia huduma zetu, ni wazi kuwa zinabakia kuwa bora zaidi na katika kiwango chake sokoni na huwa zimeegemezwa katika mahitaji mahsusi ya wateja wetu wapendwa. Hali ya kuimarika na kukomaa kwa mbinu za kutoa huduma pia kunaonyesha uwezo wetu wa kuhudumia wateja wetu kwa kuwapa bidhaa na huduma za aina nyingi.

Biashara yetu imezidi kukua kwa kihalisi katika mwongo mmoja uliopita na tunaendelea kuona Benki ya Standard Chartered kama hadithii inayopendeza ya ukuaji. Tutaendelea kuunga mkono ukuaji wa biashara na rasilmali na kuongeza thamani kwa wateja wetu. Pia tunaweka hata makini zaidi kwa wadau na wateja wetu, kwa kujenga uhusiano wa ndani, wa karibu na wa kudumu na kwa kuimarisha ubora wa huduma zetu na masuluhiso yetu.

Tunaendelea kujitolea kikamilifu katika misingi ya biashara ya benki – kusawazisha ufuatiliaji wa ukuaji na usimamizi wa kupunguza hatari na gharama yenye nidhamu kuu, na kuhakikisha kuwa tunafumbatia kikamilifu uwepo wa hela taslimu na mtaji. Tunaendelea kumakinikia utamaduni na maadili, kuhusu jinsi tunavyofanya kazi katika biashara zetu popote zilipo, bidhaa na makundi ya sehemu mbali mbali, na kuchanganya maarifa asilia ya mashinani na uwezo wa kimataifa. Misingi hii hutilia maanani mambo yote ambayo Benki hufanya, na chochote tunachosimamia kama Benki.

Matokeo ya 2014

Mkakati wetu uko wazi na haubadiliki- kuonyesha njia katika huduma za kifedha; kumakinikia kuwa mshauri anayeaminika; kuwa mwaminifu kwa masuala muhimu ya sekta ya benki. Kutokana na hayo, tumeendelea kuonyesha ukuaji wa mapato mwaka baada ya mwingine bila kukosa. Katika mwaka wa 2014, matokeo yetu ya kifedha yalibakia imara katika muktadha wa sekta ya huduma za kifedha wenye ushindani unaoendelea kuongezeka.

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

Faida kabla ya ushuru ilikuwa Shilingi bilioni 14.3 ikilinganishwa na Shilingi bilioni 13.4 mwaka wa 2013, ambalo ni ongezeko la asilimia 7.

Pato la jumla lilikua hadi Shilingi bilioni 25.6, hasa likiwezeshwa sukumwa na sababu zifuatazo:

- Mapato ya riba kutokana na mikopo na arbuni yalifika Shilingi bilioni 15.5. Ukuaji wa kadiri wa viwango vya mikopo yalipunguzwa na viwango vya chini vya riba vilivyotozwa vikilinganishwa na mwaka 2013. Ongezeko la mikopo isiyoweza kujilipa katika mwaka ulipita ilififisha zaidi ukuaji wa pato litokanalo na riba;
- Mapato ya riba kutokana na uwekezaji kwenye bondi za serikali yalipungua kufikia Shilingi bilioni 5.6. Ongezeko la kiasi cha uwekezaji likipunguzwa na viwango vya chini vya riba;
- Gharama ya jumla kwa riba ilipungua kwa asilimia 13 na kufikia Shilingi bilioni 4.4 suala linaloakisiwa na kupungua kwa jumla ya gharama za hazina;
- Mapato yatokanayo na ubadilishanaji wa fedha za kigeni yalipungua kwa asilimia 11 na kufikia Shilingi bilioni 2.0 kwa sababu ya viwango vya chini na hali ya chini ya mabadiliko ghafla ya mazingira pamoja na ubanaji wa faida ambao unafidia athari za viwango vya ukuaji bayana;
- Ada za benki na malipo ya sehemu ya mauzo (komisheni) yaliongezeka kufikia Shilingi bilioni 3.9;
- Mapato mengine yaliongezeka kufikia Shilingi bilioni 1.8, ambayo ni asilimia 372 kutoka mwaka 2013. Ongezeko hili lilitokana na mauzo ya mara-moja ya mali ya kampuni.

Gharama ya jumla ya kuendesha kampuni iliongezeka hadi asilimia 10 na kufikia Shilingi bilioni 10.2 kutokana na masuala yafuatayo:

- Gharama ya wafanyakazi iliongezeka kwa asilimia 13 na kufikia Shilingi bilioni 5.8 tunapoendelea kuwekeza katika talanta ili kuinua ukuaji wa biashara, pamoja na gharama ya wafanyakazi wa ziada tulipokuwa tunapanga biashara upya mnamo 2014;
- Gharama za nyumba zilizo na biashara zetu ziliongezeka kufikia Shilingi bilioni 0.8 kutoka Shilingi bilioni 0.7 za mwaka 2013;
- Kupungua kwa thamani ya fedha na akiba ya kulipia deni vilibakia pale pale kwenye Shilingi bilioni 1.0.

Jumla ya mikopo isiyojilipa iliongezeka na kufika Shilingi bilioni 10.8 ikilinganishwa na Shilingi bilioni 3.8 mnamo 2013. Hii inamaanisha asilimia 8.5 ya jumla ya mikopo na arbuni zote (2013: asilimia 2.9). Ikilinganishwa na Juni 2014 pale ambapo mikopo ambayo haiendelei kujilipa ilifikia kilele katika Shilingi bilioni 14.5, na jumla ya mikopo yote isiyolipika ikapungua kwa asilimia 26 huku tukiendelea kuwasaidia wateja wetu. Hii ni kutokana na matendo shughulishi ya uongozi kuhusu hali za wateja wa kampuni na wa taasisi ambayo yalisababisha ongezeko la mikopo ambayo haijilipi katika mwaka 2014, hata kama hili lilisababishwa na idadi ndogo ya akaunti zenye utata. Pia tunafurahi kuripoti kuwa kufikia Februari 2015, tulikuwa tumepiga hatua zaidi katika kupunguza jumla ya mikopo ambayo haijilipi kwa asilimia 6.8 ya mikopo na arbuni zote.

Kwa jumla tunayo nidhamu ya juu katika uendeshaji wa shughuli ya upunguzaji wa hatari na kujikusuru katika juhudi za kuokota madeni ili kupunguza makosa katika akaunti zetu. Licha ya kuwa hatutarajii kushuhudia udororaji mpana wa ubora wa mikopo yetu, idadi ya wateja wakilinganishwa na ongezeko, uangalizi wa kitahadhari unabakia katika viwango vya juu kuakisi mwelekeo wetu wa kuchukua hatua za kimbele katika upunguzaji wa hatari katika mazingira yasiyotabirika. Mikopo ya kampuni na ya kitaasisi na pia mikopo ya wateja wa kibiashara huwa kwa kiasi kikubwa ni ya muda mfupi. Mikopo ya wateja rejareja huwa imewekewa dhamana kabisa na pia tumeazimia kukuza viwango vya fedha zetu zilizowekwa kwa faida. Mikopo yetu inabakia katika hali nzuri, ikiwa katika aina anuwai na kuhifadhiwa ili isijikute hatarini.

Mizania zetu za mikopo na mapato zinabakia imara na kutandazwa katika nyanja anuwai. Tunaendelea kuwa na fedha za kutosha hasa kutokana na amana iliyowekwa, ikiwa na uwiano wa asilimia 80 kati ya arbuni na amana kutoka mwisho wa mwaka uliopita katika kiwango cha asilimia 84. Benki inabakia kuwa na mtaji wa kutosha, tukiwa na jumla ya mtaji kwa mikopo iliyopunguziwa hatari kuwa katika kiwango cha uwiano cha asilimia 20 na hadhi ya mizania kubakia imara, na zaidi ya asilimia 70 za mikopo ya kifedha kugawika katika viwango vya gharama za kuilipia. Hili linatuweka kimkakati kwenye nafasi nzuri ya kuhimili zaidi vikwazo vyovyote vya kuidhibiti na sambamba na hilo kuchukua fursa ya nafasi za uimarikaji katika biashara zetu.

Utathmini wa Biashara

Mnamo Januari 2014, Kampuni ya Umma ya Benki ya Standard Chartered ilitangaza mabadiliko katika utaratibu wake wa kiutendakazi katika viwango vya biashara za kimataifa. Haya yalikuwa matokeo ya utathmini mpana na bainifu wa mikakati ya kimataifa ambayo imezaa matunda kwa Benki hii, kampuni zake shirika na matawi yake kwa mwongo mmoja uliopita. Hata hivyo ni muhimu pia kutambua hali mpya halisi na pengine ibuka zinazotuletea nafasi nzuri za kibiashara na pia vitisho vya hatari kwa masoko yetu. Mfumko wa kifedha ulimwenguni ulimesababisha mazingira magumu ya kiudhibiti kote duniani na uchunguzi wa kina wa taasisi za kifedha kwa jumla. Tendo hilo la jumuiya ya udhibiti ni la kuhakikisha kuwa ustawi wa kifedha katika masoko yao mbali mbali haujahujumiwa kimapato kwa njia yoyote. Katika uhalisia wa sasa wa soko na mazingira ya kiudhibiti, jinsi Benki hii inavyogawa mtaji wake kwa ukuaji na kwa uwekezaji katika matawi yake na kwa kampuni shirika unapewa kipaumbele kwa uangalifu mkubwa.

Lengo letu la mkakati wa kimataifa limeshuhudia urekebishaji ambao unaweza kuonekana kuwa kama juhudi kidogo linavyowasilishwa ila lina uzito sana katika uwezo wake wa athari za kuwasilishia wenyehisa thamani ya uwekezaji wao katika uhalisia wa mazingira haya. Lengo letu ni kuwekeza katika watu na kampuni ambazo ni muhimu katika uendeshaji wa biashara, uwekezaji na uzalishaji mali katika masoko yetu yakishirikisha Kenya. Mfumo mpya unaofafanua tena jinsi benki inavyopaswa kufanya kazi na jinsi utendakazi na mkakati vinavyofaa kuoanishwa ulianzishiawa mnamo Aprili 1, 2014. Chini ya mfumo huu mpya tunamakinika sana zaidi na mahusiano na wateja wetu. Kilichofahamika kitambo na masoko kama Huduma za Benki kwa Mashirika (Wholesale Banking) na Huduma za Benki kwa Watu binafsi (Consumer Banking) sasa zimeunganishwa na kuwa biashara moja yenye sehemu tatu za wateja zinazogawika katika makundi matano ya huduma mbali mbali. Tunatumia nguvu za mitandao yetu na uwezo kamili wa bidhaa zetu ili kuendeleza na kuboresha mahusiano yetu na wateja wetu katika sehemu hizi tatu za biashara ambazo ni Wateka Wateja wa Kampuni na Taasisi, Wateja rejareja na Wateja wa kibiashara.

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

Tukisonga mbele, tutakuwa tunatilia msisitizo katika kuunga mkono ukuaji wa sehemu mpya ya Huduma za BenkiWateja za wa Kibiashara ambayo inashirikisha Mashirika Madogo ya ukopeshaji Ukopeshaji Fedha (SME's) na Kampuni za Viwango vya Kadiri nchini Kenya katika mtazamo wa kiushirikishi. Huku tunasaidia sehemu hii muhimu, tunatarajia kuona ukuaji mkubwa baada ya muda na pia utaratibu wa mpito kuingia katika katika sehemu ya Huduma za Benki kwaWateja wa Kampuni na Taasisi huku wateja wetu wakiongezeka.

Katika mwaka wa 2014 tulishuhudia msukumo wenye msingi imara katika biashara zote, huku shughuli za kibiashara na viwango vya biashara zenyewe vikiongezeka katika bidhaa zetu kadha tulipokuwa tunawasaidia wateja wetu kufanya biashara na kuwekeza.

Wateja Rejareja

Mnamo 2014, tulianza kutekeleza mkakati wa Wateja Rejareja kwa kasi zaidi na kupanga upya kikosi kizima cha wanamauzo katika makundi matatu ya wateja- Wateja wa Biashara, Wateja wa Kipaumbele na Wateja Binafsi. Pia tulilenga makini yetu katika Wateja wa Kipaumbele na Wateja wa Biashara. Tukiegemea uwezo wetu wa kufikia nje ya mipaka yetu na bidhaa zilizoundwa ili kuendana na mahitaji yao, sisi tuko katika nafasi nzuri ya kupiga hatua pamoja na vikundi hivi viwili vyenye uwezo. Huu ni mkakati unaoweka wateja wetu katikati ya lile tunalolifanya na kutuelekeza katika njia ya ukuaji.

Kujenga Teknolojia bora zaidi ni kipengele kingine muhimu katika mkakati wetu wa Wateja Rejareja na tunaendelea kuwekeza zaidi katika nyenzo za kidijitali na kwenye simu za mkononi ambazo zitarahisisha matumizi yafaayo ya huduma za benki kwa wateja wetu.

Mapato kutoka kwa Wateja Rejareja yalipanda kwa asilimia 8 na kufikia Shilingi bilioni 10.0. Hii ni kutokana na ukuaji imara kutoka kwa mikopo ya wateja na amana iliyowekwa ambayo iliongezeka kwa asilimia 19 na asilimia 4 na kufikia Shilingi bilioni 55.2 na Shilingi bilioni 74.7 mtawalia.

Katika mwaka wa 2015, tunaendelea kumakinika kufanikisha mkakati wa kuwa benki ambayo wateja wetu wanawapendekezea marafiki, familia na wenzao kazini. Tunajiweka chonjo ili kukabiliana na mazingira ya nje yasiyotabirika na tutaendelea kuwekeza katika kukuza biashara hii. Huku tabia za wateja wetu zikibadilika badilika, tunajitahidi kuwahudumia kwa njia bora zaidi kulingana na mahitaji na mapendeleo yao ili kutoa huduma mufti na shwari katika vituo vyetu vyote huku tukitimiza ahadi yetu ya kuwa 'Here for good'.

Wateja wa kibiashara

lipozinduliwa mnamo Aprili 2014, huduma ya Wateja wa Kibiashara ilileta pamoja kipengele cha biashara za wastani cha Kampuni ndogo na za Kadiri (SME's) kutoka kwa Huduma za Benki kwa Watu binafsi (Consumer Banking) na kipengele cha kati cha soko kutoka Huduma za Benki kwa Mashirika (Wholesale Banking). Hili limetusaidia kuimarisha makini yetu katika kuhudumia haja za kampuni za wastani za humu nchini katika hatua za mapema maisha yao, katika kutumia uwezo wa mtandao wetu wa nje ya mipaka ya nchi kusaidia kampuni hizi kuendeleza matamanio yao.

Licha ya kuwa tulifanya bidii kabambe katika kuanzisha sehemu hiyo, na kuboresha udhibiti wetu wa upunguzaji wa hatari, bado faida iliyopatikana ni Shilingi bilioni 0.7 chini kutoka Shilingi bilioni 1.1 katika mwaka wa 2013. Ukopeshaji na mapato ya usimamizi wa fedha vilishuka kutokana na kupungua kwa viwango vya biashara na uhamishaji wa baina ya sehemu mtawalia huku hasara ikipanda kwa asilimia 15 kutokana na upungufu zilizosababishwa na idadi mahsusi ya mikopo maalum. Mikopo na arbuni kwa wateja vilifikia Shilingi bilioni 11.5 na amana kuwa Shilingi bilioni 16.3.

Huku tunatazamia kubadilisha mkondo wa ukuaji wetu, tunamakinika katika kupanua mawanda ya kampuni zetu katika soko letu linalotanuka kimataifa, tukiimarisha mifumo na majukwaa yetu na kuwekeza katika kuwapa nguvu zaidi wafanyakazi wetu wa mstari wa mbele.

Wateja wa Huduma za Benki za Kampuni na Taasisi

Licha ya hali za soko zenye changamoto kocho, Wateja wa Huduma za Benki za Kampuni na Taasisi wanaohudumia taasisi za kifedha, na wateja wa kampuni za kimataifa na za humu nchini ikiendeshwa kulingana na mikakati iliyopo, na kuwasilisha ukuaji wa mapato mwaka baada ya mwaka kwa asilimia 12 ambazo ni Shilingi bilioni 13.6 na faida inayopatikana baada ya kutozwa ushuru kufikia asilimia 17 kufikia Shilingi bilioni 9.9. Uwekezaji wa kiuangalifu katika wafanyakazi wa mauzo na bidhaa na shughuli za udhibiti vilitupatia matokeo bora katika bidhaa zote na kwenye sehemu mbali mbali za wateja.

Kwa kurahisisha michakato yetu na kuhakikisha kuwa mifumo yetu ni madhubuti, tumeokoa muda wa watu wetu kuweza kuwa na wateja wetu, na hili linazaa matunda. Lengo letu katika kuimarisha mahusiano yetu na ongezeko la thamani kwa bidhaa limetufanya tushikilie viwango vya kadiri vya idadi ya bidhaa kwa mteja vikifikia 3.2 licha ya hali za kisoko zenye changamoto kadha.

Tunaendelea kuboresha uhusiano wetu na wateja wetu huku tunawekeza kwa uangalifu katika uwezo wa bidhaa muhimu ili kusaidia kampuni ambazo zinaendesha uwekezaji, biashara na uzalishaji wa mali popote palipo na shughuli zetu.
Katika mwaka wa 2015 msisitizo wetu unabakia kwa kiasi kikubwa katika wateja wetu. Pia tutazidi kuimarisha nguvukazi yetu, huku tukishirikiana wenyewe kwa wenyewe na pamoja na wadau wa nje kuhakikisha kuwa suluhisho na huduma zetu zinaleta thamani ya juu kwa wateja tunaohudumia. Na hilo linathibitisha kweli kuwa tuko 'Here for good'.

Watu

Kujipanga upya katika nusu ya kwanza ya mwaka wa 2014 ilikuwa ni hatua muhimu ya kurejelea msukumo wa kupata matokeo na kuhakikisha kuwa tunabakia kwenye njia ya kufikia matamanio yetu. Kutoka Aprili 2014, tulibadilisha mpangilio wa shirika letu ili kuwezesha ufanisi wa kiutendakazi, ushirikiano na utangamano wa wafanyakazi wa kudumu.

Kupitia kwa muundo huu wa kibiashara tulisisitiza kujitolea kwetu kufanya kazi kama Benki moja. Pia tulilainisha vipaumbele vya watu wetu ili kuimarisha utamaduni wa kampuni yetu na kutilia nguvu maadili yetu. Haya ni masiala muhimu ambayo hutuwezesha kuafikia malengo ya matamanio ya Benki na ahadi ya chapa yetu.

Kampuni kwa jumla, imeweza kupunguza kiasi cha wafanyakazi wanaoondoka kutoka kwetu, kwa kupunguza viwango vya waondokao mwaka baada ya mwaka. Tumeanzisha mfumo

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unaoruhusu kutambua na kushughulikia mara moja maeneo ambapo uhamaji unaweza kuwa kero kuu. Mtazamo huu umeonyesha mafanikio katika mwaka wa 2014 na tuna Imani kuwa tunaweza kuutumia katika maeneo ambayo viwango vya wanaoacha kampuni vimekithiri zaidi.

Baada ya Gallup kufanya utafiti wa kila mwaka wa Kampuni yote kuhusu kushirikishwa kwa wafanyakazi kati ya 2001 na 2012 Kampuni hii iliamua kubadilisha mtazamo wetu. Mwaka 2014 tulianzisha utafiti mpya wa kushirikishwa kwa wafanyakazi ambao unalingana na malengo ya kampuni yetu. Utafiti huo mpya kwa jina ‘My Voice’ (Sauti Yangu) unatoa maelezo ya kina kuhusu mambo yanayofanikisha kushirikishwa kwa wafanyakazi katika Kampuni. Sasa tutakuwa tukifanya tafiti ndogo ndogo na za mara kwa mara ambazo zitatuwezesha kupata ufahamu wa kina kuhusu kushirikishwa kwa wafanyakazi katika makundi maalum.

Utafiti huu utapima kushirikishwa kwa wafanyakazi na umuhimu ambao wanatilia mambo muhimu ya kushirikishwa; kwa kuangalia pengo kati ya mambo hayo mawili tutaweza kutambua mambo tunayoweza kufanya kuimarisha hali ya wafanyakazi wetu. Alama za juu zilipatikana katika kujishirikisha kwa wafanyakazi na nembo, mkakati, na utamaduni anuwai na wa kujumuisha wote. Kulikuwa pia na matokeo mema kote kwenye Benki kuhusu tabia na utamaduni, pamoja na kujitolea kwa watu binafsi na kujihusisha na kazi. Sehemu amabzo zinahitaji kuangazia ni pamoja na ushirikiano, na uwazi kuhusu ukuaji na maendeleo ya kikazi. Mameneja kwa sasa wanatafakari hatua za kuchukuliwa kuangazia mambo yaliyogunduliwa kutokana na utafiti huo, kukuza ushirikishi na kutumikia nembo yetu ya Kuwa hapa daima na kufanya Standard Chartered pahala bora zaidi pa kufanyia kazi.

Kukuza viongozi wa kibiashara wa kizazi kijacho ni muhimu kwa ufanisi wetu na hili linabaki kupewa kipaumbele zaidi na Benki. Tunaendelea kuwekeza katika wafanyakazi wetu katika ngazi zote na kuwasaidia wakue katika kazi zao. Pia tumetathmini upya mtazamo wetu wa ukuaji wa viongozi ili kuwawezesha viongozi wetu kufanya kazi vyema katika mazingira yanayoendelea kubadilika sana. Tumelainisha na kuboresha kozi zetu za uongozi ili viongozi wetu wapate ujuzi na maarifa yafaayo na pia tabia. Ili kuhakikisha tunaendelea kukuza uwezo wetu wa uongozi, tumeongeza maradufu kozi za uongozi ambazo tunatoa kwa viongozi wa ngazi ya wastani, na pia kuongeza idadi ya kozi nyingine za umeneja.

Mustakabali

Tuna historia ya zaidi ya miaka 100 Kenya. Ujuzi wetu wa kina, imani na mtandao wa uhusiano wa kudumu katika soko hili vinatokana na kufanya mambo vyema kutoa nafasi bora kwa wale tunaohudumia. Tunabaki kujitolea kusaidia wateja wetu wachangie zaidi katika kuendeleza ukuaji wa uchumi wa Kenya.

Tunatambua kwamba tunakabiliwa na changamoto kutoka kwa matatizo ya kutoka nje na pia kutoka ndani ya kampuni yetu na tunachukua hatua kukabiliana nay ale tunayoweza. Tunafanya mabadiliko kuenda sambamba na mabadiliko sokoni. Tuna rekodi thabiti za kifedha, uhusiano mwema na wateja na uwezo wa kipekee. Tunatekeleza mkakati wetu, ikiwa ni pamoja na kutathmini upya mambo ya kuyapatia kipaumbele katika uwekezaji, kuachana na biashara zisizo muhimu zaidi, kumaliza hatari katika baadhi ya uwekezaji na kuhamisha mtaji. Kupangwa upya kwa biashara kutatuwezesha kuwa katika nafasi bora kukua siku za usoni.

Tukitazama mbele 2015 na kwa mipango yetu ya muda wa wastani na muda mrefu, kuna mambo kadha ambayo tutaangazia zaidi kuhakikisha tunarejea katika njia ifaayo ya ukuaji, na kupata mapato zaidi kutoka kwa mtaji. Haya ni pamoja na utendakazi, uhusiano na wateja, kufanikisha utekelezaji wa shughuli katika kampuni, wafanyakazi, utamaduni na tabia.

Hasa, tutahakikisha tunatimiza malengo yetu: kuangazia zaidi uhusiano katika ngazi mbalimbali za wateja, makundi ya bidhaa na huduma na shughuli zetu kuongeza fursa zinazotolewa na mtandao wetu; na kuongeza faida kupitia kuboresha mfumo wetu wa Rejareja. Tutaendelea kuwa makini zaidi katika gharama na mtaji, kuwekeza katika ajenda yetu ya utendakazi bora, kufanya yale tufaayo kufanya, na si yale tu tunayoweza kufanya. Huwa tunahudumu katika mojawapo ya sehemu za biashara zinazovutia zaidi, ambayo itaendelea kutoa fursa kubwa sana kwetu. Muundo wetu wa kipekee wa biashara, msingi thabiti wa wateja na utamadi wetu wa Kuwa hapa daima, vinatuweza katika nafasi nzuri sana ya kutumia haya vyema. Tumeangalia upya mkakati wetu ili kurejelea ukuaji wa biashara na azma yetu ni kuwa benki inayoongoza Kenya.

Tuko kwenye nafasi nzuri na kuchukua fursa zilizopo ndani na nje ya sehemu zetu za wateja na makundi ya bidhaa na huduma. Katika sehemu zote za wateja, lengo letu ni kuunda uhusiano endelevu, wa muda mrefu na wa kuaminika na wateja wetu. Kwa kuunda Wateja wa Kibiashara, sehemu yetu maalum ya kampuni za wastani, sasa tuko katika nafasi nzuri ya kuwahudumia, na pia kuhudumia wateja katika sehemu mbalimbali kutimiza mahitaji yao yanayobadilika huku wakilenga kupanua biashara, kukua na kustawi. Mtazamo huu unatusaidia kufanikisha uhusiano wa kupashana habari katika sehemu mbalimbali za kibiashara – kwa kutimiza mahitaji ya kibinafsi na ya kibiashara ya wateja wetu – na kutumia uwezo unaopatikana katika sehemu hizo mbalimbali za kibiashara kutoa huduma za benki kwa wafanyakazi na wanaouzia au kununuliwa wateja wetu.

Ninaelewa kwamba safari iliyo mbele yetu haitakuwa rahisi. Ukweli ni kwamba vigezo vimewekwa hata juu Zaidi na mengi yanatarajiwa kutoka kwetu tunaposonga mbele, lakini nina Imani kwamba Benki hii imo katika hali nzuri na tuna uwezo wa kuendelea kufana 2015.

Kwa kuhitimisha, ningependa kuwashukuru wadau wetu, wateja wetu na wenyehisa wetu kwa kutuunga katika mwaka 2014 na, zaidi ya yote, watu wetu kwa bidii yao na kuendelea kujitolea kwa Benki ya Standard Chartered.

Lamin Manjang
Mkurugenzi Msimamizi na Afisa Mkuu Mtendaji

26 Machi 2015

Sustainability Review

Promoting sustainable economic and social development

About us

Standard Chartered Bank Kenya Limited started operating in Kenya in 1911 when the first branch was opened at Treasury Square Mombasa. We have a total of 37 branches, 95 automated teller machines (ATMs) spread across the country and 2,048 employees.

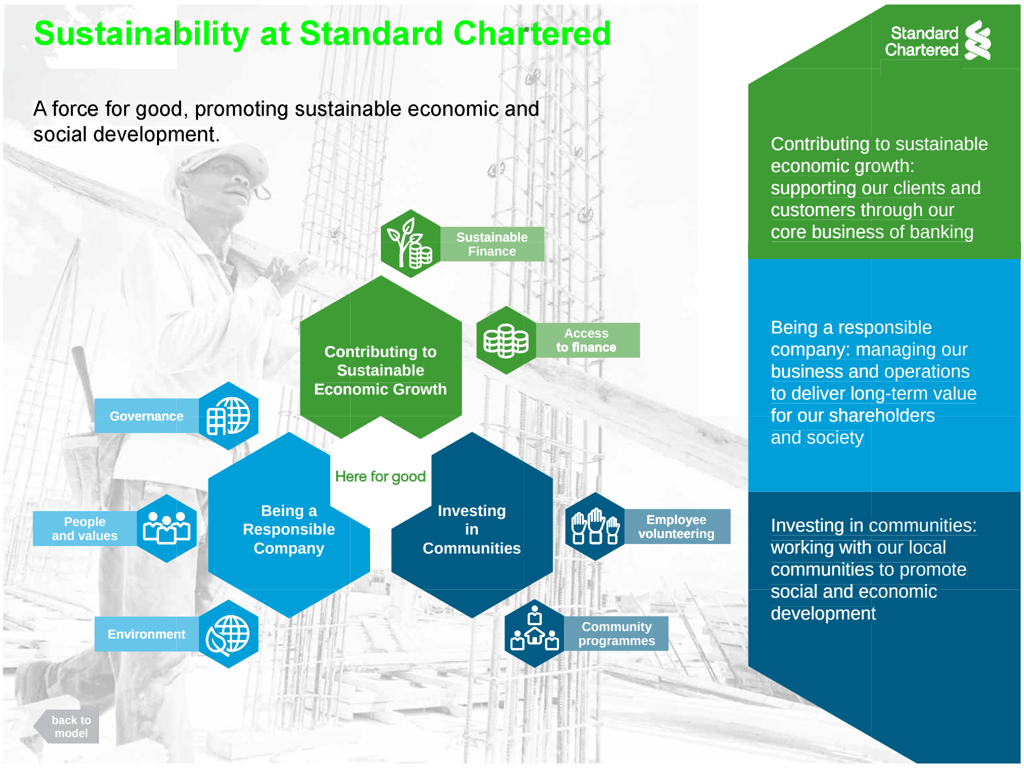
In 1989, the Bank was listed on the Nairobi Securities Exchange and currently has a local shareholding of 26%, comprising 30,657 shareholders.

We are the oldest foreign bank in Kenya. 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 Oil and Gas, Energy and Electricity, Fast Moving Consumer Goods, Transport and Communication, Financial Services, Manufacturing, Trade, Real Estate and Agriculture.

Highlights in 2014

- Overall winner in the Institute of Certified Public Secretaries of Kenya (ICPSK) Champions of Governance;
- Best Foreign Bank in Kenya – EMEA Awards;
- 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 90.5 million;
- We raised KShs 28.3 million from the Standard Chartered Nairobi Marathon. This surpassed the amount raised in the 2013 marathon by KShs 5.8 million. All funds raised from the event will go towards 'Seeing is Believing' (SIB), the Bank's global initiative aimed at combating avoidable blindness;
- Through the Employee Volunteering programme, our staff spent a total of 2,210 days supporting various community initiatives across the country;
- The number of completed staff initiated community projects increased to 34 in 2014 up from 24 in the previous year.

Our sustainable business priorities



Sustainability Review (Continued)

Contributing to sustainable economic growth

Sustainability and our business

Banks play an essential and immensely valuable role in society, fuelling economic activity and enabling people, businesses and communities to thrive. At Standard Chartered, we are very clear about our purpose. Our brand promise, 'Here for good', captures our commitment to be a force for good in the communities in which we live and work.

Governments, regulators and communities are demanding that banks raise their standards and focus more on what they can contribute to the broader economy and society. For us, running our business in a sustainable way means making sure that our banking services promote sustainable economic and social development in the communities in which we work. We seek to embed this mindset in every aspect of our business activity, from strategy to operational processes, across all the different products and customer segments. In doing this, we focus on three key aspects of sustainability: contributing to sustainable economic growth, being a responsible company, and investing in communities.

Contributing to sustainable economic growth

Through our business of banking, we fuel economic activity and job creation in our markets. Over the past five years, we have increased our lending to clients and customers by 100% to KShs 126 billion, making a substantial contribution to the Kenyan economy.

The credit and other financial services we provide help businesses to set up, trade and expand, and enable people to buy their own homes, save and protect their wealth for the future. We believe that by providing these services efficiently and responsibly, we can make a real impact on sustainable development in Kenya, contributing to economic growth for the long term.

Anna Marrs, Group Head of Commercial and Private Banking talks to customers during a visit to Kenya.

Access to finance

Our financing helps households, businesses and economies move forward. By the end of 2014, gross lending to individuals stood at KShs 56 billion, whilst lending to Commercial Clients and Corporate & Institutional Clients stood at KShs 12 billion and KShs 58 billion respectively.

Business Clients attend a financial management workshop organised in partnership with PwC.

We provide financing to key sectors that enable trade, investment and job creation across our markets. These sectors form the foundation for a balanced economy that furthers inclusive and sustainable growth.

Commercial Clients

At Standard Chartered we know that Small and Medium-sized Enterprises (SMEs) are the backbone of the economy. We provide SMEs with the financing and training they need to grow. With this support, SMEs help Kenya build a strong base for job creation and economic development over the long term.

Sustainability Review (Continued)

Contributing to sustainable economic growth (Continued)

A trainer engages Business Clients during a financial management workshop.

To deepen our support, the sector is now serviced through the newly created Commercial Clients segment. Geographically, Commercial Clients has 4 key hubs, namely; Nanyuki, Kisumu, Nairobi and Mombasa. It caters for medium-sized enterprises and high value small businesses. We have consciously repositioned the Commercial Clients segment in line with customer needs. We are leveraging off our technology platforms to offer a variety of cutting edge products and services.

Since the Commercial Clients segment was created in April 2014, it continues to experience growth as result of migrating from product orientation to focusing on relationships. This is reflected in the way we distribute client portfolios and the manner in which Relationship Managers interact with clients.

Retail Clients

The Company's business model is designed to make us more effective and responsive to the needs of our clients. We are reshaping the Retail Clients segment to accelerate the shift to Priority Clients and Business Clients groups that will help improve efficiency, manage risk and further strengthen the way we conduct our business.

To support the segment's strategy in delivering customer focused solutions, we have launched a series of new and innovative products including credit cards, product bundles, and offshore investment products and services. Our strategy revolves around sharpening our focus on Priority and Business Clients, while continuing to grow the Personal Clients group.

Our customer solutions are tailor-made to bank all our individual clients throughout their life journey, from college loans and mortgages to wealth management and retirement. For Business Clients, we support their journey from lending and cash management to trade and foreign exchange.

Our continued investment in technology and standardised platforms across our network has been instrumental in improving client experience. We deliver easy, convenient banking through continued investment in digital and mobile channels.

We have exclusive and differentiated banking channels with seven Priority Centers namely: Kenyatta Avenue, Yaya Centre, Muthaiga, Westlands, Chiromo, Upper Hill and Treasury Square. The convenience is complemented by our unrivalled credit card capabilities; clients using our credit cards can access cash advances from thousands of Visa outlets plus ATMs worldwide providing access to cash anywhere, anytime plus interest-free credit for up to 50 days. Our cards are welcomed and honoured in more than 23 million establishments across more than 200 countries including access to more than 60,000 hotels in 134 countries and territories.

REWARDS: Lucky winners of a Customer Promotion receive prizes from CEO Lamin Manjang and Executive Committee members.

Sustainability Review (Continued)

Contributing to sustainable economic growth (Continued)

We pride ourselves in having highly trained Relationship Managers. The relationship teams are committed to keeping our customers well informed and be responsive to their needs.

As a leading international bank, we offer solutions that meet our clients' needs for international banking and wealth diversification. We connect them to opportunities in the world's fastest growing markets through a team of specialised International Relationship Managers. We have established trade corridors and propositions in recognition and response to our customers' trading and travelling needs. Our International corridors focus on offering and facilitating cross border transactional, investment banking and property solutions.

Corporate & Institutional Clients

Our Corporate & Institutional Clients segment continues to play a pivotal role in the local economy, acting as a reliable and dependable partner in the development of key sectors of the economy. Through the provision of advisory, technical and financial support, Corporate & Institutional Clients supports both Government and key private sector entities in the actualisation of their economic and social initiatives.

Corporate & Institutional Clients segment Kenya continues to be a market-leader in the provision of transactional, strategic and value-add solutions to both local and international firms doing business in and around Kenya. Through leveraging the Company's international network, we intend to strengthen and grow our support to local, regional and international clients taking part in international trade and commerce.

Jane Kimemia (centre) Head of Wealth Management conducts a draw during a customer promotion event.

Sustainable finance

We recognise that managing and protecting limited natural resources is essential to maintaining economic growth over the long term. Upholding leading Environment and Social (E&S) standards through our financing is integral to our way of doing business. Our Position Statements set out the environmental and social standards that we expect of ourselves and encourage our Corporate and Commercial clients to follow.

We have 20 Position Statements covering agribusiness, chemicals and manufacturing, fisheries, infrastructure, renewable energy and an expanded statement on childrens' rights.

A Standard Chartered Commercial Clients Relationship Manager (right) engages Chinese clients during a training session.

We conduct business in accordance with our sustainable finance framework, as outlined in our Position Statements. While our preference is to engage with clients and customers to meet our standards, we will turn down transactions where certain environmental and/or social risks and impacts cannot be successfully mitigated.

For example, this may include turning down transactions where clients and customers produce commodities with heightened potential for forced or child labour and who cannot demonstrate

Sustainability Review (Continued)

Being a responsible Company

Mr. Lamin Manjang, CEO Standard Chartered Bank Kenya (left), Dr. Rene Kim (centre) and Mr. Polycarp Igathe, Director at KEPSA during the launch of the Banking on Africa report.

alignment with International Finance Corporation (IFC) standards; or where clients or customers significantly impact on, or have operations located within UNESCO World Heritage Sites and RAMSAR (Convention on Wetlands of International Importance) sites.

Being a responsible company

Our commitment to sustainability is not only about the economic activity we finance, but also about how we run our business. Our focus is on effective corporate governance, underpinned by strong processes and the right values and culture.

By creating a great place to work for our people, selling our products and services responsibly, tackling financial crime and mitigating the environmental impact of our operations, we believe that we can make a greater positive contribution to the communities in which we operate.

Governance

Strong governance is the foundation for establishing trust and promoting engagement between a company and its stakeholders. The right culture, values and behaviour must be adopted by the Board and actively promoted by the Chief Executive Officer and managers at all levels. The Board continues to have oversight over sustainability, including environmental and social governance.

To enhance governance we have put in place a strong sustainability management structure and risk management framework. We have established separate committees to manage risk and control our business and financial activities. These include: Audit, Risk, Credit, Nomination & Remuneration committees.

Tackling Financial Crime

Financial crime impedes economic progress. We strive to limit the risk of financial crime within our business by having strong policies and procedures. These are underpinned by important programmes to continually enhance our systems and controls and to raise awareness of the critical role of employees in combating financial crime.

We continue to enhance our governance and control framework to ensure we remain aligned with industry best practice. The Bank's financial crime strategic objective is: to prove that we are leading the way in combating financial crime, while providing quality service to our clients. Our Financial Crime Risk Mitigation (FCRM) programme enables us to deliver more sustainable, industry leading, financial crime systems and controls across our business.

We have made significant progress in building a strong financial crime control framework. The strategic objective and the FCRM programme allows us to recognise the need to do more and the importance of continued focus and

Lake Turkana Wind Power Project Chairman Mugo Kibati, Standard Chartered CEO Lamin Manjang, Treasury Cabinet Secretary Henry Rotich and KETRACO MD Eng. Joel Kiilu after signing a risk guarantee agreement.

investment in this critical area. We have built capability, capacity and expertise in our financial crime compliance function by adding resources and by making a number of strategic hires in monitoring, training, sanctions compliance and customer due diligence.

We continue to create sanctions' awareness across the Bank through local broadcasts, scheduled training and ongoing updates of our watch lists to ensure we do not deal with sanctioned parties. More than 1,000 employees, including branch staff and relevant head office staff, were trained on sanctions in 2014.

Through our values, policies, training and controls, we are committed to combating bribery and corruption. We continue to increase awareness of staff on the Standard Chartered Bank Bribery and Corruption Policy through broadcasts and training of the Bribery and Corruption Working Group. We also engaged with our suppliers on the Bank's Bribery and Corruption policy.

In recognition of the need to engage our customers on our commitment to fight financial crime, we held two workshops with our Corporate & Institutional Clients (correspondent relationships) both in Kenya and Ethiopia. The workshops covered various compliance themes including Money Laundering, Sanctions, Foreign Accounts Tax Compliance Act (FATCA), Bribery and Corruption and Market Manipulation.

Our internal anonymous channel, 'Speak Up', was refreshed and a campaign carried out through the use of local broadcasts and posters across the branch network and head office to ensure staff awareness and understanding on how to use the channel. To enhance investigations, we increased the number of those in the compliance investigations team by hiring professional investigators and fraud risk managers. Lessons learnt from investigations across the Standard Chartered Group were shared with the senior management.

CELEBRATION: Standard Chartered Bank staff display the 2014 Corporate Governance Award.

Responsible selling and marketing

Delivering appropriate products and services to our clients and customers is fundamental to our business.

Treating customers fairly (TCF) is a core principle that underpins our business strategy. We deliver the promise of 'Here for good' by bringing our Customer Charter to life in all that we do, whether at the frontline when interacting with our customers or in support functions when implementing policies and processes.

The shift to a customer focused business is a tangible change that is beginning to impact both customers and employees. Retail Clients segment constantly challenges itself to raise the bar on providing superior customer service and this is evidenced by the Net Promoter Score of 65 an increase from 59 in 2013.

This improvement has been driven by the implementation of a stronger edifice for handling grievances, automated self service channels and increased control around online banking and transacting.

People and values

We are focused on building a culture that is based on responsibility and accountability and aligned with our values. Our diverse and collaborative workforce and deep commitment to doing the right thing are what makes our culture stand out. Our brand promise, 'Here for good', helps our people to act with conviction, nurture relationships with our clients and customers and uphold the highest standards of conduct and integrity.

We aim for new employees to establish a connection with our culture and values from day one through our refreshed induction

Sustainability Review (Continued)

Being a responsible Company (Continued)

programme. In the last ten years, staff performance reviews have taken into account the extent to which employees demonstrate our values through their everyday actions. The introduction of an annual recommitment to our Group Code of Conduct is part of a systematic approach to reinforcing the importance of conduct within our culture.

Talent attraction

Our approach to recruitment is aligned to our business strategy and focuses on attracting top performers who share our vision and are aligned with our values.

In Kenya, with a workforce of more than 2,000, one of our best sources of talent continues to be our own employees. We take a long-term view on career development, providing opportunities to move internally and gain experience in different functions or geographies, or to develop a world class specialism.

In Kenya, in 2014, five graduates were hired in the International Graduate Programme and seven in the Retail Clients Fast Track Programme. Through our induction process we help new entrants understand our culture and values, what it means to be an employee at Standard Chartered and how to be successful in their role.

Learning and development

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. Our learning curriculum is aligned to our Code of Conduct and the broader regulatory agenda, ensuring that the requirements are reinforced at every opportunity.

To support our employees in creating meaningful and engaging careers, we are evolving our approach to learning and talent development by providing wider access to learning through multiple channels.

The Bank has an in-house Learning Academy that facilitates induction, work based learning and coaching. The learning facilitators are certified in such programmes as Wealth Management, Customer Engagement and Business Banking among others. Our training modules are managed from our Group Learning team, which allows us to leverage on our global presence and experience to provide local learning solutions to improve careers of individuals.

We encourage line managers to continuously have a development plan and career discussions with their team members. To facilitate the process, line managers have also been trained on coaching for performance so that they have fruitful and guided discussions with their direct reports. This not only helps staff to take care of their own development, but also drives staff engagement and productivity.

New job opportunities are posted in our internal network and are open to all employees. These opportunities are spread all over our global offices. Our job watch policy ensures that all vacancies are open to people from all walks of life and communities. In addition, our recruitment practices are non discriminatory; we offer equal opportunities. We have human resource policies in place which are discussed and reviewed every two years ensuring any feedback or regulatory updates are considered.

Performance and reward

Our performance and reward policy supports our performance-oriented culture, ensuring that individual reward and incentives relate to our overall performance, the relevant business unit and individual employee performance.

The measurement of values, conduct and behaviour remains an integral component of our performance management assessment process through our distinctive five-point values rating scale, with reward decisions directly impacted by the level of adherence to our values.

CEO Lamin Manjang hosts children in his office during the Children's Fun Day held in August 2014 at the Head Office.

Sustainability Review (Continued)

Being a responsible Company (Continued)

The correlation between employee engagement and performance cannot be overemphasised. Engaged employees provide high quality, customer centric services, leading to high customer satisfaction and in turn increasing sales. We help engage employees by organising events such as 'A Day with Mum and Dad in the Office', a day where children spend a fun-filled day in the office and get to understand how and where their parents work. Every end year, we also host employees to a themed end year staff party. We also encourage and fund team building and sporting events for members of staff.

In tandem with the dynamic technology trends, we have set up AskHR, a self-navigating portal where staff can raise all queries regarding issues they face during their day to day activities at the workplace. AskHR is an easy-to-use self-service tool where the Bank's employees get answers to all HR queries – all at the touch of a button. Available via our intranet (PeopleSoft), the page has a rich menu ranging from shares, to learning and development, payroll, appraisal, benefits, and more.

Diversity and inclusion

We continue to create a workplace that endorses the rich diversity within the organisation and maximises the energy and innovation created by our growing multi-generational workforce.

Our Equal Opportunities Policy applies to our recruitment and employment terms, practices, procedures, processes and decisions. We appoint, train, develop, reward and promote employees and contingent workers on the basis of their merit and capability. This enables us to get the best out of the broadest spectrum of people in order to sustain strong business performance.

We have supported the hiring of people with disabilities. In Kenya, we have visually impaired members of staff working as voice and virtual telesales officers and we support their personal and professional development through various platforms.

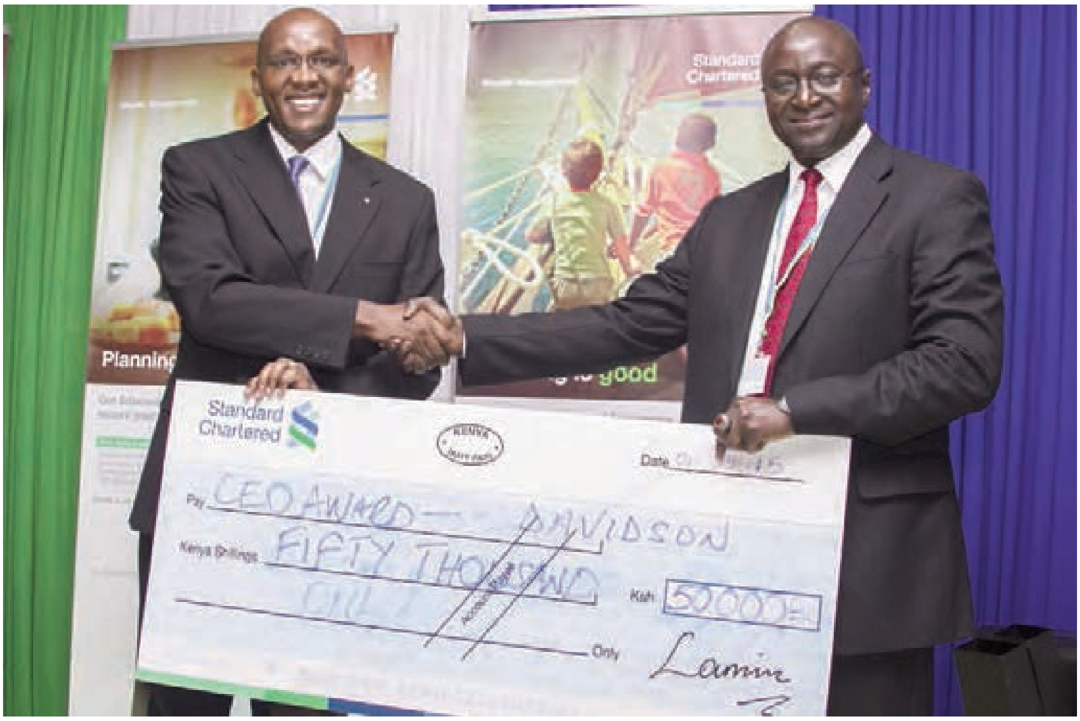
Under the Diversity & Inclusion programme we continue to work towards improving work-life balance for staff. We are currently in the process of developing flexible working arrangements for our staff.

We continue to promote inclusion through our employee networks covering the topics of women, men, generations and future leaders. Our very active Diversity & Inclusion Council is instrumental in incorporating Gen Y (employees below 35 years of age) into the Bank's culture. Our Gen Y Committee creates engaging activities for the young and young at heart. Some of the activities include a Mentorship programme by middle level management. 'BOOTS' and 'SKIRTS' are other avenues for engaging male and female colleagues respectively.

Health, Safety and Security

We focus on providing a safe, secure and healthy working environment for our people, clients and customers. We maintain high standards that are aligned with international best practice as well as local laws and regularly review the health and safety performance of our properties.

We comply with local laws through annual audits, registration of work places, risk assessments, staff training and having an active Health and Safety Committee. The Chief Executive Officer has primary responsibility for the implementation of our Group Health and Safety Policy in Kenya. This includes developing and implementing annual health and safety action plans. These plans set out our risk mitigation actions, health and safety standards, legal, compliance and communications risk assessments and other health and safety governance-related items.



WELL DONE: A member of staff is honoured at the quarterly CEO Awards ceremony.

Sustainability Review (Continued)

Being a responsible Company (Continued)

A number of health and safety awareness messages are shared weekly with all the employees through internal broadcasts, posters and talks. The key themes in these messages include road safety, ergonomics, fire safety and electrical safety amongst others. In 2014, more than 100 employees from various departments and branches were trained on first aid and fire marshalling.

Environment

We seek to minimise the environmental impact of our operations and have targets in place to reduce the rate of our energy, water and paper consumption. This noble task is spearheaded by our Group Technology and Operations and Corporate Real Estate Services (CRES) departments.

In 2014, Standard Chartered Group achieved the fourth highest score of any FTSE company as ranked by the Carbon Disclosure Project which ranks 2,000 of the world's largest companies on the basis of their environmental performance. As we continue to assess our impact on the environment and to collectively contribute to the above successes, we are closely monitoring the energy use and the water usage across our buildings.

In Kenya in 2014, we installed LED lights in various sections of our head office building in a bid to reduce our negative impacts on the environment. In 2015, we shall install LED lights to the remaining sections of our head office as well as install check meters in our generators in the Global Environment Management System (GEMS) buildings for closer monitoring of our generator fuel consumption. So far, the installation of the LED lights at the head office resulted in a 30% reduction in our Energy Use Intensity (EUI). In 2014, we opened three branches (Thika Road Mall, Kitale and Nyali) which are all fitted with modern energy saving lighting systems.

We have been keenly tracking our EUI and Water Use Intensity (WUI) against the 2019 Glide Path target. The 2019 Glide Path target for EUI is 230kwh/yr/m2 and the WUI is 0.5m3/yr/m. In comparison to 2013, there was an overall reduction in our EUI in 2014 by 22%. However our WUI went up by 14%. The increase was mainly due to increased accuracy in reporting, malfunctions on water supply system and over-reliance on water bowzers in some GEMS buildings due to irregular water supply by the Nairobi Water Company.

The Bank is also involved in re-forestation activities across the country. In partnership with the Green Belt Movement and Starehe Girls we planted 20,000 trees in 2014. Apart from covering the costs of seedlings and planting, the Bank contributes towards the maintenance of the trees for three years to ensure sustainability.

The staff of the Bank funded and implemented water harvesting and management projects in three schools and homes across the country. They also established two biogas stations as well as constructed two refuse chambers in Mathare to clean up the environment and to encourage reuse and recycling of waste. During the Standard Chartered Nairobi Marathon, over 150,000 bottles were collected for recycling.

Our position as the leading corporate in environment management was confirmed by the Institute of Certified Public Secretaries of Kenya (ICPSK), when they conferred us with the 2014 Champion of Governance Awards. One of the parameters that were keenly scrutinised was our environmental management standards and general sustainability.

Suppliers

We support local business through our growing demand for goods and services and are committed to conduct our dealings with suppliers to the highest standards of quality and integrity. We encourage all of our suppliers to uphold the standards in our Supplier Charter which sets out the environmental and social standards and values we expect of our suppliers. It covers: ethics, human rights, environment, health and safety standards and labour.

Members of staff taking part in a cleanup during the 'Here for good' Day at Mathare.

Investing in communities

Investing in communities

Promoting the social and economic well-being of communities is a critical component of our strategy to support sustainable development in our markets. Our community investment activities focus on health and education, with youth as a target demographic.

Community programmes

Health

The economic prosperity of a community is closely linked with the health of its population. Through our health programmes addressing avoidable blindness and HIV and AIDS, we seek to improve health outcomes and economic opportunities for individuals in our communities.

Standard Chartered Group Chairman Sir John Peace plants a tree at Starehe Girls during his visit to Kenya.

'Seeing is Believing'

'Seeing is Believing' is our flagship community investment programme that tackles avoidable blindness and visual impairment. Blindness can have a devastating economic impact on individuals, families and communities.

'Seeing is Believing' raises funds to eliminate avoidable blindness, resulting in increased opportunities for education and employment. Standard Chartered Group's aim is to raise US$100 million by 2020.

Working with more than five community partners, we focus on the prevention and treatment of avoidable blindness and strive to embed long-term sustainability in each project. Through our employee, client and supplier networks, we promote awareness and employability of people who are visually impaired.

In Kenya through the Nairobi Marathon, to date we have raised KShs 114.8 million. Through this initiative we have helped to restore sight to over 8,000 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.

2014 Highlights

- Standard Chartered Kenya donated KShs 28.3 million to the Bank's global initiative 'Seeing is Believing'. This was raised through the 2014 Standard Chartered Nairobi Marathon;

- In August 2014, the Bank through its 'Seeing is Believing' initiative donated eye care equipment valued

Sustainability Review (Continued)

Investing in communities (Continued)

at KShs 18.5 million to the Ministry of Health. The equipment included slit lamps; auto refractors; refraction sets; lenses; spectacle frames and low vision devices.The spectacles and equipment will be distributed to 4 tertiary and 18 secondary hospitals across the country;

- The impact of the programme in 2014 includes:
  - 51,890 children underwent eye screening;
  - 1,914 children underwent surgery and had their sight restored;
  - 6,862 children were treated for allergic conjunctivitis;
  - 1,345 children were treated for refractive error;
  - 754 teachers of sighted children were trained on vision screening; general eye health examination; provision of eye health education in their schools; and making appropriate referrals;
  - 354 community health extension workers and 244 community health workers were trained on conducting eye health education, vision screening and eye health examination.

- The implementing partners together with staff volunteers conducted the following 'Seeing is Believing' clinics where 1,090 people were screened:
  - Eye clinic in Nakuru at Kaptembwa as part of the Bank's community support during the Rift Valley Odyssey cycling race sponsored by Standard Chartered; and
  - Eye clinic during the launch of the 2014 edition of the Nairobi Marathon in Mathare.

'Living with HIV'

HIV and AIDS remain a serious challenge in Kenya. 'Living with HIV' is our comprehensive internal programme to provide education about HIV and AIDS and to support employees who are HIV positive. We also work with external organisations to promote education and awareness in local communities.

We run a robust 'Living with HIV' programme which for the last 15 years has been at the forefront in raising awareness among our employees, customers and in the community. We have since expanded the initiative to include people with disabilities out of the realisation that they are routinely left out of HIV and AIDS prevention efforts and service delivery systems.

Since the inception of the Bank's 'Living with HIV' initiative in 2006, in Kenya 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.

2014 Highlights

- Conducted refresher training for 415 staff in head office and upcountry branches;
- Trained 1,362 students and 40 children from special schools;
- Trained over 60 staff of service providers;
- 150 residents of Korogocho underwent HIV training;
- We carried out HIV and Aids testing and counselling during the Nairobi Marathon where 150 participants were tested and thousands of participants received information. This was done in partnership with HIV Free Generation;
- During the 'Seeing is Believing' eye clinics 95 people received HIV training.

Members of staff join pupils of Nachu Primary School in Kikuyu after donating sanitary pads.

Sustainability Review (Continued)

Investing in communities (Continued)

Education

Education builds skilled and productive communities and improves livelihoods. Our education initiatives focus on building the financial capability of young people, with an emphasis on adolescent girls, and SMEs to help them make the most of the opportunities offered by economic growth.

'Global Give Back Circle'

The 'Global Give Back Circle' (GGBC) seeks to "complete" the educational process of the world's disadvantaged girls, so they gain employable skills and become contributing members of society. It accomplishes this through a transitioning model that recognises an impoverished girl needs mentoring, empowerment and financial enablement to step-change her accessibility to 'Life's Chances'.

The Bank funds the secondary education of bright under-privileged girls at the Starehe Girls School. In 2014, we renewed our engagement with GGBC picking a new set of five students who will be sponsored through to their university education. Through the GGBC programme the girls undergo mentorship and are also accorded internship opportunities so that they gain employable skills and become competitive in the job market. To date the Bank has 25 girls under this programme.

Financial Education

It is estimated that there are over 2 billion people around the world lacking the access to basic financial services, which can perpetuate cycles of poverty and hinder economic growth.

Meanwhile, external research and Standard Chartered's own experience has demonstrated that the lack of financial education is limiting economic opportunities for individuals and SMEs across markets where the Bank operates. As such, improving financial education is the key to improving access to finance.

The importance and the need for financial education continues to be highlighted through the media. As bankers and experts in our field, we are uniquely positioned to share our skills and time to help solve these challenges.

Being a responsible company is a key element of Standard Chartered's approach to sustainability. The Bank demonstrates this by conducting Financial Education programmes for youth and SMEs with the aim of promoting financial inclusion and enterprise development across the markets where the Bank operates.

Standard Chartered's financial education programmes target two demographics: youth and SMEs. The Bank views these two segments as having the largest return on investment.

- Financial Education for Youth: the programme targets young people aged 12 years and upwards. The Bank believes by providing financial knowledge early in life, we can help prepare the next generation before they formally take part in the economy.
- Education for Entrepreneurs: small businesses are critical for economic and social development of emerging markets. They are a primary driver in creating jobs and contributing to an economy's GDP; they foster economic growth, social stability and contribute to the development of a dynamic private sector. In recognition of their vital role in economies and societies, the Bank made a 2013 Clinton Global Initiative Commitment to increase both our financing and education of the sector. As part of this commitment the Bank has developed a rigorous toolkit to help non-client micro and small businesses grow their capacity and businesses.

A staff volunteer conducts an HIV awareness training in the community.

Sustainability Review (Continued)

Investing in communities (Continued)

2014 Highlights

- 549 high school students trained on financial education;
- Trained 255 Strathmore University students on financial education;
- 23 SME customers trained;
- 150 small business owners in Mathare underwent training on proposal writing, book keeping and budgeting;
- 35 male members of ACK St. Gertrude, Kasarani were trained on basics of earning money, spending and balancing in terms of savings, investments and borrowings.

Employee volunteering

We support our local communities by volunteering our time and seek to maximise our impact by encouraging skills based volunteering. All of our employees are entitled to take up to three days paid leave per year for volunteering.

In 2014, our employees contributed a total of 2,210 days volunteering in various projects across the country. During this period our staff undertook 34 self-funded projects that included financial literacy and HIV training for various groups; construction of refuse chambers; tree planting; construction of a computer lab; donation of computers, sanitary towels, knitting and sewing machines.

Standard Chartered Nairobi Marathon

The Standard Chartered Nairobi International Marathon, which is the largest sporting event in Kenya, marked 12 years since inception in 2003. The 12th edition of the Marathon took place on 26 October 2014 at the Nyayo National Stadium.

The 2014 Marathon was a success in the following ways:

- Well organised and executed: Over 19,000 people took part in the marathon. 120 corporate organisations participated;
- Staff volunteering: 600 staff members volunteered at the 2014 marathon through provision of services that included distributing water, taking care of left luggage and hospitality;
- Staff participation: 450 staff members and their families participated in the various race categories, a 5% increase from 2013;
- Increase in the number of exhibitors at the Marathon Expo: to enhance spectator participation in the Marathon, every year we have an exhibition and entertainment area at the Marathon. In 2014, we had an increased number of exhibitors as well as spectators. This signifies that more and more organisations want to be associated with the Marathon;
- Money raised: one of the objectives of the Marathon is to raise money for eradication of avoidable blindness in Kenya. The proceeds (i.e. participant registration fees; donations by individuals and organisations) of the Marathon go towards local eye projects. The amount raised in 2014 was KShs 28.3 million up from KShs 22.5 million in 2013.

Rift Valley Odyssey

Standard Chartered Bank sponsored the fifth Rift Valley Odyssey (RVO) race which took place from 24 September to 28 September 2014.

The 400 kilometer race, from Limuru to Lake Naivasha, is unique amongst mountain bike races in that it requires 100% GPS navigation and self-sufficiency throughout the route. The RVO traverses both eastern and western escarpments of the Rift Valley, through single-track forest

Cabinet Secretary for Health James Macharia (right) tries out a slit- lamp machine donated by Standard Chartered Bank. Looking on is the Bank's CEO Lamin Manjang (centre) and Health Principal Secretary Dr. Khadija Kassachoon.

Investing in communities (Continued)

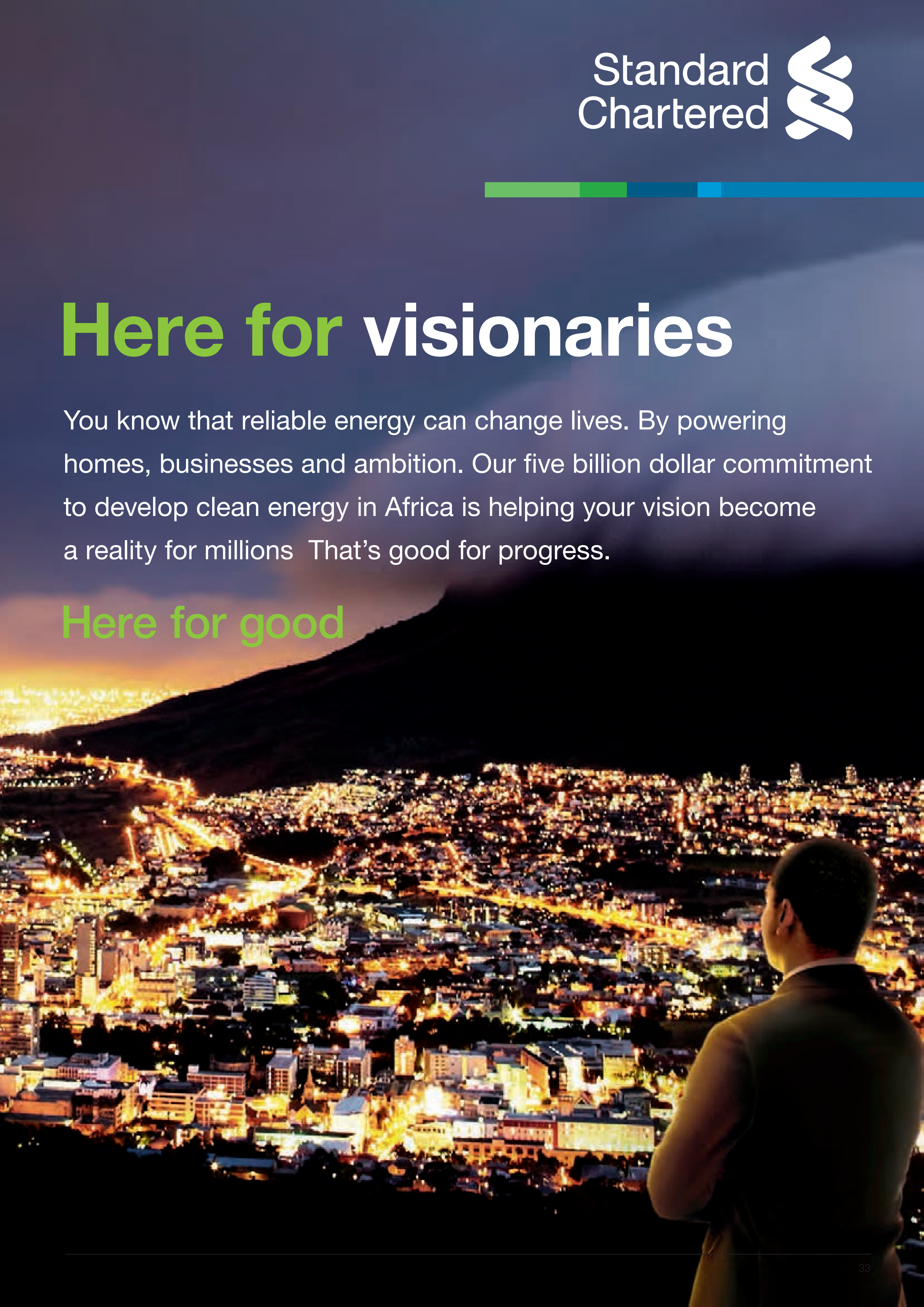
Participants in the 2014 Standard Chartered Nairobi Marathon.

trails with incredible descents and ascents, across open plains teaming with game.

The entry list for 2014 was led by the Standard Chartered team of David Kinjah, the national champion, and Robin Bairstow, a director with the Bank. In total, 60 competitors entered the race representing 8 countries.

As part of its sponsorship, the Bank hosted an eye clinic and provided HIV training during the course of the race among the local communities that border the race route. The clinic was held at Kaptembwa Slum in Nakuru town. On Saturday 27 September 2014 a total of 1,400 children were tested and treated at the eye clinic while 45 underwent HIV training. Seven medical personnel from Tenwek Hospital Eye Unit provided the technical expertise while 30 members of staff provided the necessary support.

RVO: Cyclists embark on the 400 Km Rift Valley Odyssey bicycle challenge.


Standard Chartered
Here for visionaries
You know that reliable energy can change lives. By powering homes, businesses and ambition. Our five billion dollar commitment to develop clean energy in Africa is helping your vision become a reality for millions That's good for progress.
Here for good

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 54.

2. Lamin Manjang

Managing Director & 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 52.

3. 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. 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. Age 48.

4. Chemutai Murgor

Executive Director, Finance

Appointed to the Board on 1 March 2007. She has been with the Bank for 14 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 45.

5. 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 62.

6. 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 54.

7. 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 60.

8. 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 60.

9. Robin Bairstow

Executive Director, Origination and Client Coverage

Appointed to the Board on 24 January 2012. He has been with the Bank for 12 years and his immediate previous appointment was Director Origination and Client Coverage, Zambia. He has wide experience in corporate finance and banking spanning over 24 years. Prior to joining Standard Chartered Bank, Robin worked with Citibank NA South Africa, BOE Bank Limited, ABSA Bank Limited and Nedbank. Age 49.

Executive Committee

Lamin Manjang
Chief Executive Officer
He was appointed Chief Executive Officer Kenya 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 16 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.

Chemutai Murgor
Chief Finance Officer
She has been with the Bank for 14 years. 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 various senior positions at Deloitte & Touche both in Kenya and the United Kingdom.

Robin Bairstow
Head, Corporate & Institutional Clients
He has been with the Bank for 12 years holding various positions within the Bank. He has over 24 years in the financial sector. Prior to joining Standard Chartered Bank, he worked with Citibank NA South Africa, BOE Bank Limited, ABSA Bank Limited and Nedbank.

George Akello
Chief Risk Officer
He has been with the Bank for 17 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.

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 in Credit Risk Control and has risen through the organisation.

Annie Kigira-Kinuthia
Head, Corporate Affairs
She joined the Bank in 2007. She has over 19 years of experience in Corporate Affairs having worked at Equity Bank, World Vision Kenya and Unga Group in senior positions.

Nancy Oginde
Head, Legal & Company Secretary
She has been with the Bank for 23 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.

Executive Committee

Peter Gitau
Head, Technology and Operations, Kenya and CIO East Africa
He has been with the Bank for 12 years and has wide experience in Risk Management and Technology & Operations. He has held various roles in Standard Chartered Kenya including the Regional Head of Group Audit Africa. He also worked in the Standard Chartered Group office in Singapore. Prior to joining Standard Chartered, Peter worked in the Financial Services Group in PwC.

Florence Nyokabi
Head, Human Resources
Florence joined the Bank in 2014. She has a wealth of experience in Human Resources Management having worked as Head of Human Resources and Administration at KPMG Kenya, NIC Bank and Kenya Television Network (KTN).

Emmanuel Banda
Head, Commercial Clients
Emmanuel joined the Bank nine years ago. Prior to his appointment to head the newly created Commercial Clients segment, he was Head of Global Corporates in Zambia. He has held several roles among them Credit Analyst, Relationship Manager, Local Corporates and Global Corporates as well as Head of Corporate & Institutional Clients for Copper Belt Region.

Rebecca 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 & Operations), and Company Secretary, Standard Chartered Bank, Uganda.

Jain Apurva
Head, Transaction Banking
Apurva joined Standard Chartered in 2007, having worked previously with an American technology service provider Fundtech and HSBC in Singapore. After joining Standard Chartered Bank, Apurva was part of the Global Product Management team in Singapore. He then moved to Johannesburg as Head of Cash Management Products for the Standard Chartered franchise in Africa.

Fred Michuki
Head, Corporate Finance
Fred has extensive experience in Standard Chartered, having joined Financial Markets in London in 2000. Prior to Standard Chartered Bank, Fred worked for Citibank N.A. in Kenya as Head of Foreign Exchange Trading.

Olga Arara-Kimani
Head, Brand & Marketing
Olga joined the Bank in January 2014. She has a wealth of experience, gained over a 19 year career in marketing, business/product development and sales, in top blue-chip IT and Telecommunications organisations across the region. She has particular expertise in strategic marketing management, customer analytics and digital marketing.

David Mwindi
Head, Audit - East Africa
David is an accomplished Audit Professional, with over 13 years of experience. He joined the Bank in July 2011 from Barclays Bank and previously worked for KPMG Kenya, PwC in New York and Strathmore University.

Jane Kimemia
Head, Wealth Management
She has been with the Bank for 6 years previously as the Head of Priority and International Clients for Kenya and East Africa. She has extensive experience spanning 18 years in the financial services industry in various roles and capacities mostly in the High Value segments. Prior to this, Jane worked for Barclays Bank of Kenya.

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**	(Resigned 22 May 2014)
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 Limited
6th Floor, Bruce House
Standard Street
P.O. Box 8484
00100 Nairobi GPO.

Board Committees

Board Audit Committee

Members

L. Baillie	Chairman
K. Shah	
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

K. Shah	Chairman
L. Baillie	
P. Obath	
G. Akello*	Country Chief Risk Officer
L. Manjang	
N. Oginde	Secretary
R. Bairstow*	
C. Murgor*	

*By invitation.

Board Credit Committee

Members

K. Shah	Chairman
L. Baillie	
P. Obath	
L. Manjang*	
G. Akello*	Country Chief Risk Officer
N. Oginde	Secretary
R. Bairstow*	
C. Murgor*	

*By invitation.

Board Nomination, Evaluation and Remuneration Committee

Members

A. Mutahi	Chairperson
L. Baillie	
L. Manjang	
F. Nyokabi	
N. Oginde	Secretary

Asset and Liability Committee (ALCO)

Members

L. Manjang	Chairman
R. Bairstow	
B. Shah*	
E. Banda**	
C. Murgor	
G. Akello	
G. Makoko	Secretary

*Resigned 31 December 2014
**Appointed 1 July 2014

Executive Committee

Members

L. Manjang	Chairman
R. Bairstow	
B. Shah*	
E. Banda**	
C. Murgor	
G. Makoko	
F. Nyokabi	
P. Gitau	
N. Oginde	
G. Akello	
R. Kaggwa	

*Resigned 31December 2014
**Appointed 1 July 2014

Report of the Directors
for the year ended 31 December 2014

The directors are pleased to submit their report together with the audited financial statements for the year ended 31 December 2014 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 Company and its subsidiaries.

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 12.50 for every ordinary share of KShs 5.00. One interim dividend of KShs 4.50 was declared and paid in December 2014.

This will bring the total dividend fo the year to KShs 17.00 (2013 – KShs 14.50) per ordinary share.

The Board has also resolved to recommend to the shareholders at the forthcoming Annual General Meeting the payment of a final dividend of KShs 84,690,411 on the non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares. An interim dividend of KShs 83,309,589 was declared and paid in December 2014. This will bring the total dividend for the year to KShs 168,000,000 (2013 – 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 29 April 2015 and will be paid on or after 29 May 2015. The Register will remain closed on 30 April 2015 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:

- Mrs Anne Mutahi and Mr. Patrick Obath retire from office by rotation and will offer themselves for re-election at the forthcoming Annual General Meeting in accordance with Section 96(1) of the Memorandum and Articles of Association.

5. Auditors
The Company's auditor, KPMG Kenya, has indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to Section 24(1) of the Banking Act.

6. Approval of financial statements
The financial statements were approved by the Board of Directors on 26 March 2015.

BY ORDER OF THE BOARD

N.N. Oginde
Company Secretary

Date: 26 March 2015

Statement on Corporate Governance

for the year ended 31 December 2014

As a key player in the banking industry, it is the responsibility of Standard Chartered Bank Kenya Limited (the "Company") to practise high standards of corporate governance and to contribute to the promotion of an environment where such standards are upheld. Exemplary governance is key to our long-term success, enabling businesses to deliver sustainable shareholder value.

The Company has an integrated approach to governance which ensures that it is effectively managed and controlled, in line with the strategy, and with regard to the requirements of the key stakeholders. The Company's culture and values are deeply embedded within the organisation, and are regularly reinforced and updated. The last such refresh of the Code of Conduct was in 2013. The values are embedded in the expected behaviour of all employees and main suppliers as well as in the conduct of all businesses.

Highlights for 2014

- Company's reorganisation which merged the Consumer Bank and the Wholesale Bank businesses into one team. The new structure created a 'One Bank' business with three customer segment groups – Corporate & Institutional Clients; Commercial Clients and Retail Clients.
- 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;
- winner of the Overall Champion of Governance Award in the 2014 Champion of Governance Awards organised by the Institute of Certified Public Secretaries of Kenya (ICPSK);
- winner of the Financial and Investment Sector Corporate Governance Award in the 2014 Champion of Governance Awards organised by the Institute of Certified Public Secretaries of Kenya (ICPSK);
- 2nd Runners – up in the Corporate Governance Category in the 2014 Excellence in Financial Reporting (FiRe) Awards organised by the Institute of Certified Public Accountants of Kenya (ICPAK), the Capital Markets Authority and the Nairobi Securities Exchange; and
- incorporation of Standard Chartered Insurance Agency Limited which has been registered as an insurance agent to conduct bancassurance business on behalf of the Company.

The Board

The Board is responsible for providing leadership by setting the strategic direction of the Company. 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
P. Obath	Oil industry, Private Sector and Financial Management
K. Ngari	Banking
L. Manjang*	Banking
C. Murgor*	Banking and Financial Management
R. Bairstow*	Banking

*Executive directors

There is a cordial working relationship between the non-executive and executive directors, characterised by a healthy level of challenge and debate. The executive team ensures that the non-executive directors receive comprehensive reports on the 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.

The Standard Chartered Bank Kenya Board

The Board has eight members – the Chair, four non-executive directors and three executive directors.

Mr. Lamin Manjang was appointed as the Managing Director and Chief Executive Officer on 1 March 2014, replacing Mr. Richard Etemesi who left the Company to take up other responsibilies within the Standard Chartered Group. Mr. Etemesi helped to steer the balance sheet of the Company and raised revenue to over KShs 23 billion over a period of 7 years. Mr. Michael Hart, a non-executive director, retired from the Board on 22 May 2014 after 10 years of service both as an executive and non-executive director. Mr. Hart contributed tremendously to the embedding of a strong governance culture in Standard Chartered Bank Kenya.

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.

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 listed company. The ongoing development programme continues to evolve and is needs based. The Board Committees also receive specialist presentations on key issues where required. The Board and Committees received training in 2014 on market risk, human resources management, regulatory changes, information technology, macroeconomic changes in the business environment and the general environment, among others.

The directors are kept appraised of all regulations and laws that are enacted and which may impact the operations of the Company no matter how peripheral.

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. The directors always have access to independent professional advice to enable them to discharge their duties.

Whistle Blowing Policy

All employees have the option of reporting alleged irregularities of a general, operational or financial nature in the Company to the directors or designated official through the "Speak Up" portal.

Statement on Corporate Governance (Continued)

for the year ended 31 December 2014

Roles of the Chair to the Board and Chief Executive Officer

The separate roles of the Chair to the Board and the Chief Executive Officer are clearly defined in the Board Charter which is 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 Executive 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 on an ongoing basis.

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

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

Succession planning

The Company has in place a succession plan for the executive directors which is updated regularly and also a plan to maintain a balance of critical skills on the Board of Directors.

The Board in 2014

The Board supported the Company's reorganisation which merged the Consumer Bank and the Wholesale Bank businesses into one team. The new structure created a 'One Bank' business with three customer segment groups – Corporate & Institutional Clients; Commercial Clients and Retail Clients. The Board held special meetings to discuss and approve the new structure and strategy. Further, the Board approved the creation of new internal committees and approved their terms of reference to support the new structure.

The Board reviewed the Company's Internal Capital Adequacy Assessment Process (ICAAP) as required by the Prudential Guidelines and approved the implementation in line with set guidelines. The Board also rotated the respective chairpersons of the Board Credit Committee, Board Risk Committee and Board Audit Committee. The rotation was intended to promote fresh perspectives, enhance independence and also to comply with the Prudential Guidelines.

The 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 special strategy sessions in July and November 2014 to review, discuss and agree the Company's strategy. 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 February 2014 in a process led by the Chairperson and supported by the Company Secretary. The evaluation entailed a self-evaluation for each director, and of the overall Board interactions, conduct of business meetings and scope of control exercised by the directors as well as evaluation of the functioning of the Board Committees. A separate sitting of the directors was held to evaluate the Board Chair in her absence. Following the evaluation excercise, the directors identified areas that required further consideration by the Board and these issues have been actioned. Some have been incorporated in the rolling agenda while others have been addressed through training and board presentations.

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

Board meetings and attendance

The full Board meets regularly, with at least four formal meetings a year and two strategy sessions. A formal schedule of matters reserved for discussion is maintained. The directors receive appropriate and timely reports to enable them to excercise full and effective control over strategic, financial, operational, risk, 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 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 6	Ad Hoc 4*
A. Mutahi (Chair to the Board)	6/6	4/4
R. Etemesi (Resigned 1 March 2014)	1/1	–
L. Manjang (Appointed 1 March 2014)	6/6	–
M. Hart (Resigned 22 May 2014)	2/2	2/2
K. Shah	6/6	3/4
P. Obath	6/6	2/4
C. Murgor	6/6	4/4
K. Ngari	6/6	4/4
L. Baillie	6/6	3/4
R. Bairstow	6/6	4/4

*The ad hoc meetings were held to discuss the Central Bank of Kenya annual audit report and related matters.

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 Executive Committee. The Committee reports are presented to the Board at each scheduled meeting by the respective committee chairperson.

Standard Chartered Bank Kenya Limited Board					
Primary Committees					
Board Audit Committee	**Board Risk Committee**	**Board Credit Committee**	**Board Nomination, Evaluation and Remuneration Committee**	**Asset and Liability Committee**	**Executive 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 Company's Credit Policy and all lending undertaken by the Company 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				Chair
K. Shah	Member	Chair	Chair	
L. Baillie	Chair	Member	Member	Member
P. Obath	Member	Member	Member	
L. Manjang		Member		Member

Chair Member

Details of these committees and membership are indicated below.

Board Audit Committee

Members

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

* By invitation

Highlights for 2014

- rotated the Committee chair;
- continued to robustly monitor the controls in place for the 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;
- reviewed and approved the financial statements of the Company for each quarter; and
- ensured action and follow-up on all compliance monitoring reports.

Role and function

The Committee has a Charter that specifies the qualifications, responsibilities and procedures of the Committee.

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 systems 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.

All the Committee members have relevant experience. The Board is satisfied that Mr. Les Baillie, 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 also submits reports on regulatory compliance. The Director in charge of Finance, Head of Internal Audit, Head of Compliance, the external auditors and the Business Heads are regularly invited to the meetings 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 Audit committee also conducts special investigations as the need arises.

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 2014		4
L. Baillie	(Chairman)	4/4
K. Shah		4/4
P. Obath		3/4

Board Risk Committee

Members	
K. Shah	Chairman
L. Baillie	
P. Obath	
G. Akello*	Country Chief Risk Officer
L. Manjang	
N. Oginde	Secretary
R. Bairstow*	
C. Murgor*	

* By invitation

Highlights for 2014
- rotated the Committee chair;
- enhanced focus on emerging risks including capital, liquidity and market risk;
- 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 all risks within the Company.

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 2014. 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 as well as the regulatory environment and expectations.

Attendance

Number of meetings scheduled in 2014		4
K. Shah	(Chairman)	4/4
L. Baillie		4/4
P. Obath		3/4

Board Credit Committee

Members	
K. Shah	Chairman
L. Baillie	
P. Obath	
L. Manjang*	
G. Akello*	Country Chief Risk Officer
N. Oginde	Secretary
R. Bairstow*	
C. Murgor*	

* By invitation

Highlights for 2014
- rotated the Committee chair;
- 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.

Role and function
The Committee reviewed issues regarding industry concentration, loan impairment, liquidity and compliance. The Committee also reviewed the top country risks and the minutes of the Credit Approvals Committee.

Attendance

Number of meetings scheduled in 2014		4
K. Shah	(Chairman)	4/4
L. Baillie		4/4
P. Obath		3/4

Board Nomination, Evaluation and Remuneration Committee

Members	
A. Mutahi	Chairperson
L. Baillie	
L. Manjang	
F. Nyokabi	
N. Oginde	Secretary

Highlights for 2014
- reviewed the salary survey details, and the general policy and banding for the entire Company;
- adopted an enhanced board evaluation process;
- interviewed senior personnel; and
- succession planning for the Board.

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

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

The Committee adopted an online evaluation process, which is undertaken by Lintstock Limited, a company engaged by the Standard Chartered Group. The online process helps to synthesise the reports more succinctly for action taking.

Asset and Liability Committee (ALCO)
Members

L. Manjang	Chairman
R. Bairstow	
B. Shah*	
E. Banda**	
C. Murgor	
G. Akello	
G. Makoko	Secretary

*Resigned 31 December 2014
**Appointed 1 July 2014

Role and function
The Committee is charged with the responsibility of ensuring the effective implementation of balance sheet management policies; reviewing reports on liquidity, market risk and capital management; and reviewing 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.

Executive Committee
Members

L. Manjang	Chief Executive Officer – Chairman
R. Bairstow	Head of Corporate & Institutional Clients
B. Shah*	Head of Retail Clients
E. Banda**	Head of Commercial Clients
C. Murgor	Chief Financial Officer
G. Makoko	Head of Financial Markets
F. Nyokabi	Head of Human Resources
P. Gitau	Chief Information Officer
N. Oginde	Head of Legal & Company Secretary
G. Akello	Chief Risk Officer
R. Kaggwa	Head of Compliance

*Resigned 31 December 2014
**Appointed 1 July 2014

Standing invitees

F. Michuki	Head of Corporate Finance
A. Jain	Head of Transaction Banking
J. Kimemia	Head of Wealth Management
D. Mwindi	Head of Internal Audit
A. Kigira-Kinuthia	Head of Corporate Affairs

Invitee

Olga Arara-Kimani	Head of Brand and Marketing

Role and function
The Executive 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 Executive 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.

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 mid-year and at the end of the year to inform the annual review of compensation.

Directors' shareholding
One director holds 2,625 shares in the Company. The other directors do not hold any shares in 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 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 of Conduct 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 during 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 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 during the AGM. The Board uses electronic means to communicate with shareholders and shareholders are encouraged to visit *www.sc.com/ke* 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 consolidated and Company statements of financial position as at 31 December 2014, the consolidated income statement, consolidated statement of other comprehensive income, consolidated and Company statements of changes in equity, and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 26 March 2015 and were signed on its behalf by:

Director: A. Mutahi

Director: L. Manjang

Director: C. Murgor

26 March 2015

Independent Auditors' Report

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 consolidated and Company statement of financial position as at 31 December 2014, and the Group income statement, Group statement of other comprehensive income, Group and Company statement of changes in equity, and the Group statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

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.

Auditors' 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 2014, 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

As required by the Kenyan Companies Act we 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 Gathecha - P/1610.

KPMG Kenya

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

26 March 2015

Consolidated Income Statement

for the year ended 31 December 2014

	Note	2014 KShs '000	2013 KShs '000
Interest income	8	**21,742,417**	21,526,288
Interest expense	9	**(4,441,981)**	(5,125,232)
Net interest income		**17,300,436**	16,401,056
Fee and commission income	10	**4,580,546**	4,512,282
Fee and commission expense	10	**(710,043)**	(671,026)
Net fee and commission income		**3,870,503**	3,841,256
Net trading income	11	**2,628,062**	2,796,331
Other operating income	12	**1,788,015**	378,801
OPERATING INCOME		**25,587,016**	23,417,444
Staff costs	13	**(5,767,259)**	(5,094,655)
Premises and equipment costs	13	**(806,172)**	(672,873)
General administrative expenses		**(2,628,909)**	(2,528,452)
Depreciation and amortisation	13	**(991,265)**	(983,449)
OPERATING EXPENSES		**(10,193,605)**	(9,279,429)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		**15,393,411**	14,138,015
Net impairment losses on loans and advances	22(b)	**(1,047,430)**	(783,050)
PROFIT BEFORE TAXATION	14	**14,345,981**	13,354,965
INCOME TAX EXPENSE	15	**(3,909,801)**	(4,092,044)
NET PROFIT FOR THE YEAR		**10,436,180**	9,262,921
BASIC AND DILUTED EARNINGS PER SHARE - (KShs)	16	**33.21**	29.42

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2014

	Note	2014 KShs '000	2013 KShs '000
NET PROFIT FOR THE YEAR		10,436,180	9,262,921
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Actuarial gains on retirement benefit obligations	36	7,200	–
Deferred tax on actuarial gains on retirement benefit obligations	35(a)	(2,160)	–
Revaluation surplus		229,784	–
Deferred tax on revaluation surplus	35(a)	(62,245)	–
		172,579	–
Items that may subsequently be reclassified to profit or loss			
Change in fair value of available-for-sale investments		(68,125)	319,056
Deferred tax on change in fair value of available-for-sale investments	35(a)	20,438	(95,717)
		(47,687)	223,339
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		124,892	223,339
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		10,561,072	9,486,260

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2014

ASSETS	Note	2014 KShs '000	2013 KShs '000
Cash and balances with Central Bank of Kenya	18	**15,383,312**	14,045,233
Government and other securities held for trading	19	**3,076,047**	2,478,935
Derivative financial instruments	20	**100,242**	241,102
Loans and advances to banks	21	**4,802,936**	2,098,867
Loans and advances to customers	22 (a)	**122,749,233**	129,672,004
Investment securities	23	**55,679,006**	53,709,938
Tax recoverable		**77,058**	103,747
Other assets	24	**2,523,551**	1,921,259
Amounts due from group companies	25	**11,004,805**	8,465,151
Non-current assets held for sale	28	**270,537**	137,137
Property and equipment	29	**3,399,132**	3,671,911
Intangible assets	30	**3,180,133**	3,593,003
Prepaid operating lease rentals	31	**249,832**	252,893
TOTAL ASSETS		**222,495,824**	220,391,180
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	32	**9,106,326**	8,590,814
Deposits from customers	33	**154,066,931**	154,720,011
Derivative financial instruments	20	**378,374**	363,791
Other liabilities	34	**4,458,293**	5,021,048
Amounts due to group companies	25	**13,359,389**	15,029,481
Deferred tax liability	35(a,c)	**463,637**	450,634
Retirement benefit obligations	36	**4,700**	9,000
TOTAL LIABILITIES		**181,837,650**	184,184,779
Shareholders' equity (Pages 52-53)			
Share capital	37	**1,825,798**	1,825,798
Share premium	37	**7,792,427**	7,792,427
Capital contribution reserve	37	**1,904,915**	1,888,873
Revaluation reserve	37	**583,707**	450,223
Fair value reserve	37	**108,271**	155,958
Statutory credit risk reserve	37	**3,679,423**	1,323,070
Retained earnings		**20,814,449**	18,119,239
Proposed dividends	17	**3,949,184**	4,650,813
TOTAL SHAREHOLDERS' EQUITY		**40,658,174**	36,206,401
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**222,495,824**	220,391,180

The financial statements set out on pages 48 to 113 were approved by the Board of Directors on 26 March 2015 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 57 to 113 form an integral part of these financial statements.

Company Statement of Financial Position

at 31 December 2014

ASSETS	Note	2014 KShs '000	2013 KShs '000
Cash and balances with Central Bank of Kenya	18	**15,383,312**	14,045,233
Government and other securities held for trading	19	**3,076,047**	2,478,935
Derivative financial instruments	20	**100,242**	241,102
Loans and advances to banks	21	**4,802,936**	2,098,867
Loans and advances to customers	22 (a)	**122,749,233**	129,672,004
Investment securities	23	**55,679,006**	53,709,938
Tax recoverable		**75,699**	96,193
Other assets	24	**2,524,836**	1,921,259
Amounts due from group companies	25	**11,004,805**	8,465,151
Investment in subsidiaries	26	**140,243**	140,243
Non-current assets held for sale	28	**270,537**	137,137
Property and equipment	29	**3,399,132**	3,671,911
Intangible assets	30	**3,180,133**	3,593,003
Prepaid operating lease rentals	31	**249,832**	252,893
TOTAL ASSETS		**222,635,993**	220,523,869
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	32	**9,106,326**	8,590,814
Deposits from customers	33	**154,066,931**	154,720,011
Derivative financial instruments	20	**378,374**	363,791
Other liabilities	34	**4,431,151**	4,999,944
Amounts due to group companies	25	**13,359,389**	15,029,481
Amounts due to subsidiaries		**368,888**	326,657
Deferred tax liability	32(b,d)	**470,381**	454,187
Retirement benefit obligations	36	**4,700**	9,000
TOTAL LIABILITIES		**182,186,140**	184,493,885
Shareholders' equity (Pages 54-55)			
Share capital	37	**1,825,798**	1,825,798
Share premium	37	**7,792,427**	7,792,427
Capital contribution reserve	37	**1,904,915**	1,888,873
Revaluation reserve	37	**583,707**	450,223
Fair value reserve	37	**108,271**	155,958
Statutory credit risk reserve	37	**3,679,423**	1,323,070
Retained earnings		**20,606,128**	17,942,822
Proposed dividends	17	**3,949,184**	4,650,813
TOTAL SHAREHOLDERS' EQUITY		**40,449,853**	36,029,984
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**222,635,993**	220,523,869

The financial statements set out on pages 48 to 113 were approved by the Board of Directors on 26 March 2015 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 57 to 113 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

2014:	Note	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 2014		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
Net profit for the year		–	–	–	–	–	–	10,436,180	–	10,436,180
Other comprehensive income										
Re-measurement of retirement benefit obligations	36	–	–	–	–	–	–	7,200	–	7,200
Deferred tax on re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	(2,160)	–	(2,160)
Change in fair value of available-for-sale investments		–	–	–	–	(68,125)	–	–	–	(68,125)
Deferred tax on change in fair value of available-for-sale investments		–	–	–	–	20,438	–	–	–	20,438
Realised revaluation reserves on sale of property		–	–	–	(43,128)	–	–	43,128	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	13,079	–	–	(13,079)	–	–
Revaluation surplus		–	–	–	229,784	–	–	–	–	229,784
Deferred tax on revaluation surplus	35	–	–	–	(62,245)	–	–	–	–	(62,245)
Excess depreciation transfer		–	–	–	(5,723)	–	–	5,723	–	–
Deferred tax on excess depreciation transfer		–	–	–	1,717	–	–	(1,717)	–	–
Transfer to statutory credit risk reserve		–	–	–	–	–	2,356,353	(2,356,353)	–	–
Total other comprehensive income		**–**	**–**	**–**	**133,484**	**(47,687)**	**2,356,353**	**(2,317,258)**	**–**	**124,892**
Total comprehensive income for the year		**–**	**–**	**–**	**133,484**	**(47,687)**	**2,356,353**	**8,118,922**	**–**	**10,561,072**
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2013 paid		–	–	(65,200)	–	–	–	–	–	(65,200)
– 2014 accrual		–	–	81,242	–	–	–	–	–	81,242
Dividends paid:										
– Ordinary shares – Final 2013		–	–	–	–	–	–	–	(4,482,813)	(4,482,813)
– Preference shares – Final 2013		–	–	–	–	–	–	–	(168,000)	(168,000)
– Ordinary shares – Interim 2014		–	–	–	–	–	–	(1,391,218)	–	(1,391,218)
– Preference shares – Interim 2014		–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed final dividends:										
– Ordinary shares	17	–	–	–	–	–	–	(3,864,494)	3,864,494	–
– Preference shares	17	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners		**–**	**–**	**16,042**	**–**	**–**	**–**	**(5,423,712)**	**(701,629)**	**(6,109,299)**
At 31 December 2014		**1,825,798**	**7,792,427**	**1,904,915**	**583,707**	**108,271**	**3,679,423**	**20,814,449**	**3,949,184**	**40,658,174**

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

2013:	Note	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										
Re-measurement of retirement benefit obligations	36	–	–	–	–	–	–	–	–	–
Deferred tax on re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	–	–	–
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)	–	–
Revaluation surplus		–	–	–	–	–	–	–	–	–
Deferred tax on revaluation surplus	35	–	–	–	–	–	–	–	–	–
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:										
– Ordinary shares – Final 2012		–	–	–	–	–	–	–	(3,864,494)	(3,864,494)
– Preference shares – Final 2012		–	–	–	–	–	–	–	(168,000)	(168,000)
– Ordinary shares – Interim 2013		–	–	–	–	–	–	–	–	–
– Preference shares – Interim 2013		–	–	–	–	–	–	–	–	–
Proposed final dividends:										
– Ordinary shares	17	–	–	–	–	–	–	(4,482,813)	4,482,813	–
– Preference shares	17	–	–	–	–	–	–	(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 57 to 113 form an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2014

2014:	Note	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 2014		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
Net profit for the year		–	–	–	–	–	–	10,404,276	–	10,404,276
Other comprehensive income										
Re-measurement of retirement benefit obligations	36	–	–	–	–	–	–	7,200	–	7,200
Deferred tax on re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	(2,160)	–	(2,160)
Change in fair value of available-for-sale investments		–	–	–	–	(68,125)	–	–	–	(68,125)
Deferred tax on change in fair value of available-for-sale investments		–	–	–	–	20,438	–	–	–	20,438
Realised revaluation reserves on sale of property		–	–	–	(43,128)	–	–	43,128	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	13,079	–	–	(13,079)	–	–
Revaluation surplus		–	–	–	229,784	–	–	–	–	229,784
Deferred tax on revaluation surplus	35	–	–	–	(62,245)	–	–	–	–	(62,245)
Excess depreciation transfer		–	–	–	(5,723)	–	–	5,723	–	–
Deferred tax on excess depreciation transfer		–	–	–	1,717	–	–	(1,717)	–	–
Transfer to statutory credit risk reserve		–	–	–	–	–	2,356,353	(2,356,353)	–	–
Total other comprehensive income		**–**	**–**	**–**	**133,484**	**(47,687)**	**2,356,353**	**(2,317,258)**	**–**	**124,892**
Total comprehensive income for the year		**–**	**–**	**–**	**133,484**	**(47,687)**	**2,356,353**	**8,087,018**	**–**	**10,529,168**
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2013 paid		–	–	(65,200)	–	–	–	–	–	(65,200)
– 2014 accrual		–	–	81,242	–	–	–	–	–	81,242
Dividends paid:										
– Ordinary shares – Final 2013		–	–	–	–	–	–	–	(4,482,813)	(4,482,813)
– Preference shares – Final 2013		–	–	–	–	–	–	–	(168,000)	(168,000)
– Ordinary shares – Interim 2014		–	–	–	–	–	–	(1,391,218)	–	(1,391,218)
– Preference shares – Interim 2014		–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed final dividends:										
– Ordinary shares	17	–	–	–	–	–	–	(3,864,494)	3,864,494	–
– Preference shares	17	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners		**–**	**–**	**16,042**	**–**	**–**	**–**	**(5,423,712)**	**(701,629)**	**(6,109,299)**
At 31 December 2014		**1,825,798**	**7,792,427**	**1,904,915**	**583,707**	**108,271**	**3,679,423**	**20,606,128**	**3,949,184**	**40,449,853**

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2014

2013:	Note	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										
Re-measurement of retirement benefit obligations	36	–	–	–	–	–	–	–	–	–
Deferred tax on re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	–	–	–
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)	–	–
Revaluation surplus		–	–	–	–	–	–	–	–	–
Deferred tax on revaluation surplus	35	–	–	–	–	–	–	–	–	–
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:										
– Ordinary shares – Final 2012		–	–	–	–	–	–	–	(3,864,494)	(3,864,494)
– Preference shares – Final 2012		–	–	–	–	–	–	–	(168,000)	(168,000)
– Ordinary shares – Interim 2013		–	–	–	–	–	–	–	–	–
– Preference shares – Final 2013		–	–	–	–	–	–	–	–	–
Proposed final dividends:										
– Ordinary shares	17	–	–	–	–	–	–	(4,482,813)	4,482,813	–
– Preference shares	17	–	–	–	–	–	–	(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**	**1,889,873**	**450,223**	**155,958**	**1,323,070**	**17,942,822**	**4,650,813**	**36,029,984**

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2014

	Note	2014 KShs '000	2013 KShs '000
Net cash from/(used in) operating activities	38 (a)	**15,337,668**	(3,511,332)
Cash flows from investing activities			
Purchase of property and equipment	29	**(174,734)**	(449,656)
Proceeds from sale of non-current asset held for sale		**1,579,093**	265,578
Proceeds from sale of property and equipment		**2,417**	550
Purchase of intangible assets	30	**(78,015)**	(30,049)
Net cash from/(used in) investing activities		**1,328,761**	(213,577)
Cash flows from financing activities			
Share-based payments:			
– 2013/2012 settled		**(65,200)**	(65,379)
– 2014/2013 allocated during the year		**81,242**	65,200
Dividends paid on ordinary shares:			
– Final 2013/2012	17	**(4,482,813)**	(3,864,494)
– Interim 2014/2013	17	**(1,391,218)**	–
Dividends paid on preference shares:			
– Final 2013/2012	17	**(168,000)**	(168,000)
– Interim 2014/2013	17	**(83,310)**	–
Net cash used in financing activities		**(6,109,299)**	(4,032,673)
Increase/(decrease) in cash and cash equivalents		**10,557,130**	(7,757,582)
Cash and cash equivalents at 1 January		**(4,747,419)**	3,010,163
Cash and cash equivalents at 31 December	38 (b)	**5,809,711**	(4,747,419)

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

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 2014 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 income statement and statement of other 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 International Financial Reporting Interpretations Committee (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.

(v) *Prior period restatements*

- In January 2014, the Group changed its organisation structure. In accordance with IFRS 8, Segmental reporting, the presentation of the Group's results have been updated to reflect the new client segments – Corporate & Institutional Clients, Commercial Clients and Retail Clients.

  While these restatements affect the reported results of the divisions that comprise the Group's business, it has no impact on the Group's overall income statement, balance sheet or reported metrics.

- The Group also made restatements in other comprehensive income to comply with IAS 19, Employee Benefits which became effective 1 January 2013. Re-measurements of actuarial gains or losses are now presented in other comprehensive income.

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 2014. 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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

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).

(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 Group'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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

(ii) Fee and commission income (Continued)

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 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. 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)
(f) Financial assets and financial liabilities (Continued)
(i) Classification (Continued)
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.

(iv) 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.

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 for 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(vi) Identification and measurement of impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial asset not measured at fair value through profit or loss is impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the assets that can be estimated reliably.

The Group considers the following factors in assessing objective evidence of impairment:

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

Assets carried at amortised cost

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

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

3 **SIGNIFICANT ACCOUNTING POLICIES (Continued)**
(f) **Financial assets and financial liabilities (Continued)**

(vii) Reclassifications (Continued)

loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

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

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

(viii) Offsetting of financial assets and financial liabilities

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

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

(ix) Derecognition

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

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

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

Where a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received together with any gain or loss previously recognised in other comprehensive income is recognised in profit or loss. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(g) **Cash and cash equivalents**

Cash and cash equivalents comprise balances with less than 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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Derivative financial instruments (Continued)

Currency and interest rate swaps (Continued)

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. 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Property and equipment (Continued)

(ii) Depreciation (Continued)

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 (as set out in note 27). 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.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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

Pension costs for the defined benefit scheme are assessed using the projected unit credit method. Under this method, the cost of providing pensions is recognised in profit or loss so as to spread the regular cost over the lives of pensioners in accordance with the advice of qualified actuaries who carry out a full valuation of the scheme every three years. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates on government securities that have maturity dates approximating the terms of the Group's obligations.

All the actuarial gains and losses are recognised immediately in profit 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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Employee benefits (Continued)

(ii) Share-based payments (Continued)

Standard Chartered PLC. The price at which they may purchase shares is at a discount of up to twenty per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under all employee share-save schemes.

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

(p) Ordinary share capital and share premium

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

(q) Preference share capital

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

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

(r) Earnings per share

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

(s) Dividends

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

(t) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the directors.

(u) Fiduciary activities

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

(v) Sale and repurchase agreements

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

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

(w) Related parties

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

Accounting standards and Interpretations adopted for reporting periods beginning 1 January 2014

Amendment to IAS 32 *Financial Instruments: Presentation* clarifies the requirement for offsetting financial assets and liabilities and addresses inconsistence noted in current practice when applying the offsetting criteria in IAS 32. The amendments did not have any impact on the Group's financial statements.

3 **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(z) **New standards and interpretations (Continued)**

Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27), requires entities meeting the definition of an investment entity to not consolidate its subsidiaries or apply IFRS 3 Business Combinations when it obtains control of another entity. These amendments did not have any impact on the Group.

IFRIC 21 Levies, an interpretation of IAS 37, *Provision, Contingent Liabilities and Contingent Assets,* provides guidance when to recognise a liability for a levy imposed by a government. IFRIC 21 identifies the obligating event for the recognition of a liability. If that obligating event occurs over a period of time, the levy is recognised proportionately. If it is triggered by a minimum threshold, the liability is recognised when the threshold is reached. The amendments did not have any impact on the Group's financial statements.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurements:* Novation of Derivatives and Continuation of Hedge Accounting clarifies that there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendments did not have an impact on the Group's financial statements.

Amendments to IAS 36 *Impairment of Assets* modifies the disclosure of information relating to the recoverable amount of impaired assets, particularly if that amount is based on fair value less cost of disposal. The amendments did not have an impact on the Group's financial statements.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for periods beginning after 1 January 2014 and have not been applied in preparing these consolidated financial statements. The Group does not intend to early adopt the standards and interpretations but will adopt them when they become effective. These include:

IFRS 15 *Revenue from contracts with customers,* which outlines a single comprehensive model of accounting for revenue arising from contracts with customers. It replaces existing revenue recognition guidance, including IAS 18 Revenue. IFRS 15 is effective for reporting periods beginning on or after 1 January 2017, with earlier application permitted. The Group is yet to assess IFRS 15's full impact but it is not expected to be significant.

IFRS 9 *Financial Instruments (2014)* which will replace IAS 39 and is effective for reporting periods beginning on or after 1 January 2018. The standard replaces earlier versions of IFRS 9. IFRS 9 has three main components; Classification and Measurement, Impairment and Hedge accounting. The Group has started the process of evaluating the full impact of this standard but the assessment has not been completed. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

IAS 19 *Defined benefit plans – Employee contributions* introduces relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedient if they are: set out in the formal terms of the plan; linked to service; and independent of the number of years of service. When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. The amendments apply retrospectively for annual periods beginning on or after 1 July 2014 with early adoption permitted.

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

Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38).

The amendments to IAS 16 *Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 *Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these changes will not affect the amounts and disclosures of the Group's property and equipment and intangible assets.

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.

4 FINANCIAL RISK MANAGEMENT (Continued)

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.

Corporate & Institutional Clients and Commercial Clients Segments

Within the Corporate & Institutional Clients and Commercial Clients segments, 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.

Retail Clients Segment

Credit risk in the Retail Clients segment, 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 Retail Clients segment are based on a probability of default. An alphanumeric grading system identical to that of Corporate & Institutional Clients and Commercial Clients segments is used as an index of portfolio quality.

4 FINANCIAL RISK MANAGEMENT (Continued)
(a) Credit risk (Continued)
Problem credit management and provisioning

(i) Corporate & Institutional Clients and Commercial Clients segments

In Corporate & Institutional Clients and Commercial Clients segments, 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 Corporate & Institutional Clients and Commercial Clients segments, 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) Retail Clients Segment

In the Retail Clients segment, 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 the Retail Clients segments, 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 the Retail Clients segment reflects the fact that the product portfolios (excluding Business Clients segment) 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 Business Clients sub segment of Retail Clients segment are similar to those adopted for Corporate & Institutional Clients and Commercial Clients segments described above.

4 **FINANCIAL RISK MANAGEMENT (Continued)**

(a) **Credit risk (Continued)**

The Group exposure to credit risk is analysed as follows:

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

Group and Company	**2014** **KShs '000**	2013 KShs '000
Individually impaired:		
Grade 13: Impaired	**1,236,810**	634,727
Grade 14: Impaired	**9,515,683**	3,213,389
	10,752,493	3,848,116
Allowance for impairment	**(2,688,144)**	(1,200,491)
	8,064,349	2,647,625
Loans past due but not impaired:		
Past due up to 30 days	**3,384,397**	6,365,379
Past due 31 – 60 days	**530,248**	1,289,643
Past due 61 – 90 days	**226,219**	1,781,548
	4,140,864	9,436,570
Loans neither past due nor impaired:		
Grade 1	**50,896**	502,049
Grade 2	**–**	–
Grade 3	**–**	–
Grade 4	**497,364**	695,976
Grade 5	**6,816,874**	8,666,677
Grade 6	**7,219,468**	5,617,323
Grade 7	**9,337,035**	604,376
Grade 8	**14,881,092**	25,012,741
Grade 9	**10,351,363**	14,325,587
Grade 10	**6,859,053**	12,934,898
Grade 11	**54,652,924**	47,014,862
Grade 12 – watch	**715,848**	3,306,786
	111,381,917	118,681,275
Portfolio impairment provision	**(837,897)**	(1,093,466)
	110,544,020	117,587,809
Net loans and advances	**122,749,233**	129,672,004

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

Group and Company		
Against impaired loans	**7,395,042**	2,037,926
Against past due but not impaired loans	**7,358,618**	6,197,358

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 2014 and 2013.

	2014	2013
(v) Loans and advances concentration by sector	**KShs '000**	KShs '000
Group and Company		
Business services	**5,782,664**	3,147,968
Manufacturing	**22,548,046**	27,324,687
Wholesale and retail trade	**24,013,793**	21,277,146
Transport and communication	**3,974,046**	10,448,579
Real estate	**4,863,572**	6,098,171
Agriculture	**6,329,029**	6,409,964
Energy and water	**6,985,489**	11,571,091
Others	**51,778,635**	45,688,355
	126,275,274	131,965,961

Credit concentration risk in Corporate & Institutional Clients segment and Commercial Clients segment 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 Retail Clients segment 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.

	2014	2013
(vi) Loans and advances concentration by business	**KShs '000**	KShs '000
Group and Company		
Corporate & Institutional Clients	**58,291,749**	68,925,589
Commercial Clients	**12,010,297**	16,116,311
Retail Clients	**55,973,228**	46,924,061
	126,275,274	131,965,961

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(vii) Other financial assets

	2014		2013	
	Group	Company	Group	Company
Neither past due nor impaired:	KShs '000	KShs '000	KShs '000	KShs '000
Cash and balances with Central Bank of Kenya	15,383,312	15,383,312	14,045,233	14,045,233
Government and other securities held for trading	3,076,047	3,076,047	2,478,935	2,478,935
Derivative financial instruments	100,242	100,242	241,102	241,102
Loans and advances to banks	4,802,936	4,802,936	2,098,867	2,098,867
Investment securities	55,679,006	55,679,006	53,709,938	53,709,938
Other assets - uncleared effects	91,992	93,277	641,349	641,349
Amounts due from group companies	11,004,805	11,004,805	8,465,151	8,465,151

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 Market & Traded Credit Risk (MTCR).

Derivatives

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

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

Loans with renegotiated terms

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

Write-off policy

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

(b) Liquidity risk

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

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity 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 inflows 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 MTCR. 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.

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	2014	2013
	%	%
At 31 December	46	38
Average for the year	44	39
Highest for the year	52	43
Lowest for the year	34	34

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 the end of the reporting period was as follows:

Company

	2014	2013
	KShs '000	KShs '000
Loans and advances to customers	122,749,233	129,672,004
Deposits from customers	154,066,931	154,720,011
	%	%
Advances to deposits ratio	80	84

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

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

31 December 2014:

Group	Up to 1	1 – 3	3 – 12	1 – 5	Over 5	
LIABILITIES	month	months	months	years	years	Total
Deposits from banks	7,428,933	724,919	952,474	–	–	9,106,326
Deposits from customers	125,698,384	12,483,601	13,411,436	2,402,716	70,794	154,066,931
Derivative financial instruments	378,374	–	–	–	–	378,374
Other liabilities - bills payable	320,878	–	–	–	–	320,878
Amounts due to group companies	4,981,405	–	228,484	2,722,500	5,427,000	13,359,389
At 31 December 2014	**138,807,974**	**13,208,520**	**14,592,394**	**5,125,216**	**5,497,794**	**177,231,898**

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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**

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 2014.

MTCR 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.

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

MTCR 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.

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

2014:

Daily value at risk:	At 31 December	Average	High	Low
Foreign exchange risk	8,894	8,095	15,065	363
Interest rate risk	38,841	72,746	102,366	33,033
	47,735	**80,841**	**117,431**	**33,396**

2013:

Daily value at risk:				
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**

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

2014:

ASSETS	Weighted average effective interest rate (%)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with Central Bank of Kenya	8.25	1,997,743	–	–	–	–	13,385,569	**15,383,312**
Government and other securities held for trading	10.79	–	–	–	–	3,257,950	(181,903)	**3,076,047**
Derivative financial instruments	–	100,242	–	–	–	–	–	**100,242**
Loans and advances to banks	6.42	3,391,765	–	250,000	1,000,000	–	161,171	**4,802,936**
Loans and advances to customers	12.95	11,297,928	24,970,103	6,631,120	42,728,843	29,056,890	8,064,349	**122,749,233**
Investment securities	10.24	5,200,000	8,223,300	27,842,450	15,359,050	–	(945,794)	**55,679,006**
Other assets - uncleared effects	–	–	–	–	–	–	91,992	**91,992**
Amounts due from group companies	0.31	–	–	220,125	–	1,815,000	8,969,680	**11,004,805**
At 31 December 2014		**21,987,678**	**33,193,403**	**34,943,695**	**59,087,893**	**34,129,840**	**29,545,064**	**212,887,573**
LIABILITIES								
Deposits from banks	1.99	7,081,467	724,919	952,474	–	–	347,466	**9,106,326**
Deposits from customers	4.44	41,612,339	12,468,435	13,134,556	2,434,327	70,585	84,346,689	**154,066,931**
Derivative financial instruments	–	378,374	–	–	–	–	–	**378,374**
Other liabilities – bills payable	–	–	–	–	–	–	320,878	**320,878**
Amounts due to group companies	1.41	4,083,750	–	228,484	2,722,500	5,427,000	897,655	**13,359,389**
At 31 December 2014		**53,155,930**	**13,193,354**	**14,315,514**	**5,156,827**	**5,497,585**	**85,912,688**	**177,231,898**
Interest rate sensitivity gap		**(31,168,252)**	**20,000,049**	**20,628,181**	**53,931,066**	**28,632,255**	**(56,367,624)**	**35,655,675**

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
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**
Loans 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**

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

2014:

	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	1,299,616	141,986	68,751	170,110	**1,680,463**
Loans and advances to customers	35,527,547	562,769	923,572	297,469	**37,311,357**
Other assets	11,071,452	1,345,009	44,619	22,014	**12,483,094**
Amounts due from group companies	6,108,934	2,059,104	768,110	21,385	**8,957,533**
At 31 December 2014	**54,007,549**	**4,108,868**	**1,805,052**	**510,978**	**60,432,447**
LIABILITIES					
Deposits from banks	8,673,962	3,573	48	–	**8,677,583**
Deposits from customers	40,842,936	2,854,338	1,955,207	161,286	**45,813,767**
Other liabilities	9,101,797	160,200	56,610	57,033	**9,375,640**
Amounts due to group companies	12,465,327	11,849	–	38,021	**12,515,197**
At 31 December 2014	**71,084,022**	**3,029,960**	**2,011,865**	**256,340**	**76,382,187**
Net statement of financial position exposure	**(17,076,473)**	**1,078,908**	**(206,813)**	**254,638**	**(15,949,740)**

Group

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)**

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 introduced a requirement to set aside capital charges for market and operational risks faced by banks. The guidelines also introduced 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 were granted a period of 24 months from 1 January 2013 to build up the capital conservation buffer.

The enhanced capital adequacy requirements which require capital for market and operational risks came into effect on 1 January 2014.

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.

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

The Company's regulatory capital position at 31 December 2014 was as follows:

Company	2014 KShs '000	2013 KShs '000
Core capital (Tier 1)		
Share capital	**1,825,798**	1,825,798
Share premium	**7,792,427**	7,792,427
Retained earnings	**20,606,128**	17,942,822
Capital contribution reserve	**1,823,673**	1,823,673
	32,048,026	29,384,720
Less deductions from capital:		
Goodwill on acquired intangible (Note 30)	**(1,112,111)**	(1,112,111)
Acquired intangible (Note 30)	**(1,991,873)**	(2,441,817)
	28,944,042	25,830,792
Supplementary capital (Tier 2)		
Revaluation reserves (25%)	**145,927**	112,556
Statutory credit risk reserve	**1,763,972**	1,323,070
Subordinated debt (Note 25)	**5,434,246**	3,454,105
	7,344,145	4,889,731
Total capital	**36,288,187**	30,720,523
Risk weighted assets		
Credit risk	**141,117,769**	147,682,332
Market risk	**4,627,273**	–
Operational risk	**37,359,617**	–
Total risk weighted assets	**183,104,659**	147,682,332
Deposits from customers	**154,066,931**	154,720,011
Capital ratios		
Core capital/total deposit liabilities (CBK minimum 8%)	**19%**	17%
Core capital/total risk weighted assets (CBK minimum 8%)	**16%**	17%
Total capital/total risk weighted assets (CBK minimum 12%)	**20%**	21%

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

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

Capital allocation (Continued)

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

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

(f) Compliance and regulatory risk

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

(g) Legal risk

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

(h) Reputational risk

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

All members of staff have a responsibility for maintaining the Group's reputation. The Group manages reputational risk through the Reputational Risk Committee.

(i) Independent monitoring

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

5 USE OF ESTIMATES AND JUDGMENTS

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

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

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) Retail Clients segment

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) Corporate & Institutional Clients and Commercial Clients segments

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.

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.

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

(b) Fair value of financial instruments (Continued)

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.

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.

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

(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 three client segments: Corporate & Institutional Clients, Commercial Clients and Retail Clients.

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

The segment results were as follows:

Group

Income Statement for the year ended 31 December 2014

	Corporate & Institutional Clients KShs '000	Commercial Clients KShs '000	Retail Clients KShs '000	Total KShs '000
Net interest income	8,401,837	1,351,030	7,547,569	**17,300,436**
Non funded income	5,217,282	603,113	2,466,185	**8,286,580**
Operating income	**13,619,119**	**1,954,143**	**10,013,754**	**25,587,016**
Operating expenses	(3,711,612)	(1,184,792)	(5,297,201)	**(10,193,605)**
Net impairment losses on loans and advances	(16,830)	(100,041)	(930,559)	**(1,047,430)**
Profit before taxation	**9,890,677**	**669,310**	**3,785,994**	**14,345,981**
31 December 2013				
Net interest income	7,611,217	1,604,223	7,185,616	**16,401,056**
Non funded income	4,503,328	453,168	2,059,892	**7,016,388**
Operating income	**12,114,545**	**2,057,391**	**9,245,508**	**23,417,444**
Operating expenses	(3,570,034)	(854,779)	(4,854,616)	**(9,279,429)**
Net impairment losses on loans and advances	(72,965)	(87,088)	(622,997)	**(783,050)**
Profit before taxation	**8,471,546**	**1,115,524**	**3,767,895**	**13,354,965**

6 OPERATING SEGMENTS (Continued)

Group

Statement of financial position as at 31 December 2014	Corporate & Institutional Clients KShs '000	Commercial Clients KShs '000	Retail Clients KShs '000	Unallocated KShs '000	Total KShs '000
Assets					
Segment assets	133,942,543	11,498,447	55,151,412	–	**200,592,402**
Unallocated assets	–	–	–	21,903,422	**21,903,422**
Total assets	**133,942,543**	**11,498,447**	**55,151,412**	**21,903,422**	**222,495,824**
Liabilities and shareholders' equity					
Segment liabilities	85,937,905	16,259,984	74,713,131	–	**176,911,020**
Unallocated liabilities	–	–	–	45,584,804	**45,584,804**
Inter-segment lending	48,004,638	(4,761,537)	(19,561,719)	(23,681,382)	**–**
Total liabilities and shareholders' equity	**133,942,543**	**11,498,447**	**55,151,412**	**21,903,422**	**222,495,824**
Other segment items					
Depreciation and amortisation	521,623	12,073	236,160	221,409	**991,265**
Capital expenditure	–	–	99,773	82,499	**182,272**

31 December 2013	Corporate & Institutional Clients KShs '000	Commercial Clients KShs '000	Retail Clients KShs '000	Unallocated KShs '000	Total KShs '000
Assets					
Segment assets	138,597,708	15,409,434	46,251,858	–	**200,259,000**
Unallocated assets	–	–	–	20,132,180	**20,132,180**
Total assets	**138,597,708**	**15,409,434**	**46,251,858**	**20,132,180**	**220,391,180**
Liabilities and shareholders' equity					
Segment liabilities	92,309,633	14,604,284	71,790,179	–	**178,704,096**
Unallocated liabilities	–	–	–	41,687,088	**41,687,084**
Inter-segment lending	46,288,075	805,150	(25,538,321)	(21,554,904)	**–**
Total liabilities and shareholders' equity	**138,597,708**	**15,409,434**	**46,251,858**	**20,132,180**	**220,391,180**
Other segment items					
Depreciation and amortisation	504,417	12,188	211,981	254,863	**983,449**
Capital expenditure	–	–	461,494	119,085	**580,579**

7 FINANCIAL ASSETS AND LIABILITIES

(a) Accounting classifications

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

Group

31 December 2014:

	Note	Fair value through profit or loss 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	–	15,383,312	–	–	**15,383,312**
Government and other securities held for trading	19	3,076,047	–	–	–	**3,076,047**
Derivative financial instruments	20	100,242	–	–	–	**100,242**
Loans and advances to banks	21	–	4,802,936	–	–	**4,802,936**
Loans and advances to customers	22(a)	–	122,749,233	–	–	**122,749,233**
Investment securities	23	–	–	55,679,006	–	**55,679,006**
Other assets - uncleared effects	24	–	91,992	–	–	**91,992**
Amounts due from group companies	25	36,524	10,968,281	–	–	**11,004,805**
Total assets		**3,212,813**	**153,995,754**	**55,679,006**	**–**	**212,887,573**
Liabilities						
Deposits from banks	32	–	–	–	9,106,326	**9,106,326**
Deposits from customers	33	–	–	–	154,066,931	**154,066,931**
Derivative financial instruments	20	378,374	–	–	–	**378,374**
Other liabilities - bills payable	34	–	–	–	320,878	**320,878**
Amounts due to group companies	25	30,799	–	–	13,328,590	**13,359,389**
Total liabilities		**409,173**	**–**	**–**	**176,822,725**	**177,231,898**

31 December 2013:

	Note	Fair value through profit or loss 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**
Loans 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	691,803	7,773,348	–	–	**8,465,151**
Total assets		**3,411,840**	**154,230,801**	**53,709,938**	**–**	**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		**875,910**	**–**	**–**	**179,449,829**	**180,325,739**

7 FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy

The valuation hierarchy, and types of instruments measured at fair value 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.

(i) *Financial instruments measured at fair value*

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2014 and 2013:

Group		Level 1	Level 2	Level 3	Total
31 December 2014:	Note	KShs '000	KShs '000	KShs '000	KShs '000
Assets					
Government and other securities held for trading	19	–	3,076,047	–	**3,076,047**
Derivative financial instruments	20	–	100,242	–	**100,242**
Investment securities	23	–	55,679,006	–	**55,679,006**
Amounts due from group companies	7(a)	36,524	–	–	**36,524**
Total assets		**36,524**	**58,855,295**	**–**	**58,891,819**
Derivative financial instruments	20	–	378,374	–	**378,374**
Amounts due to group companies	7(a)	30,799	–	–	**30,799**
Total liabilities		**30,799**	**378,374**	**–**	**409,173**
31 December 2013:					
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	7(a)	532,445	159,358	–	**691,803**
Total assets		**532,445**	**56,589,333**	**–**	**57,121,778**
Derivative financial instruments	20	–	363,791	–	**363,791**
Amounts due to group companies	7(a)	411,342	100,777	–	**512,119**
Total liabilities		**411,342**	**464,568**	**–**	**875,910**

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

7 FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy (Continued)

(ii) Financial instruments measured at amortised cost

The valuation hierarchy, and the main types of instruments classified into each level within the 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.	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable.	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).
Types of financial assets:	Actively traded corporate or other debt.	Cash and balances at central banks. Loans to banks and other financial institutions.	Loans and advances to customers. Illiquid or highly structured corporate bonds. Illiquid loans and advances.
Types of financial liabilities:	Quoted debt securities in issue. Quoted subordinated liabilities.	Unquoted debt securities in issue. Unquoted subordinated liabilities. Time Deposits by customers. Deposits by banks.	Illiquid or highly structured debt securities in issue.

The table below summarises the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value at 31 December 2014 and 2013:

Group
31 December 2014:

	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair values KShs '000	Total carrying amount KShs '000
Assets						
Cash and balances with Central Bank of Kenya	18	–	15,383,312	–	**15,383,312**	**15,383,312**
Loans and advances to banks	21	–	4,802,936	–	**4,802,936**	**4,802,936**
Loans and advances to customers	22(a)	–	–	122,749,233	**122,749,233**	**122,749,233**
Other assets - uncleared effects	24	–	–	91,992	**91,992**	**91,992**
Amounts due from group companies	7(a)	–	–	10,968,281	**10,968,281**	**10,968,281**
Total assets		**–**	**20,186,248**	**133,809,506**	**153,995,754**	**153,995,754**
Deposits from banks	32	–	9,106,326	–	**9,106,326**	**9,106,326**
Deposits from customers	33	–	34,092,034	119,974,897	**154,066,931**	**154,066,931**
Other liabilities - bills payable	34	–	–	320,878	**320,878**	**320,878**
Amounts due to group companies	7(a)	–	5,427,000	7,901,590	**13,328,590**	**13,328,590**
Total liabilities		**–**	**48,625,360**	**128,197,365**	**176,822,725**	**176,822,725**

Group
31 December 2013:

	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair values KShs '000	Total carrying amount KShs '000
Assets						
Cash and balances with Central Bank of Kenya	18	–	14,045,233	–	**14,045,233**	**14,045,233**
Loans and advances to banks	21	–	2,098,867	–	**2,098,867**	**2,098,867**
Loans and advances to customers	22(a)	–	–	129,672,004	**129,672,004**	**129,672,004**
Other assets - uncleared effects	24	–	–	641,349	**641,349**	**641,349**
Amounts due from group companies	7(a)	–	–	7,773,348	**7,773,348**	**7,773,348**
Total assets		**–**	**16,144,100**	**138,086,701**	**154,230,801**	**154,230,801**
Deposits from banks	32	–	8,590,814	–	**8,590,814**	**8,590,814**
Deposits from customers	33	–	47,980,734	106,739,277	**154,720,011**	**154,720,011**
Other liabilities - bills payable	34	–	–	1,621,642	**1,621,642**	**1,621,642**
Amounts due to group companies	7(a)	–	3,454,000	11,063,362	**14,517,362**	**14,517,362**
Total liabilities		**–**	**60,025,548**	**119,424,281**	**179,449,829**	**179,449,829**

7 FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy (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 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 is their carrying amounts.

Loans 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.

	2014 KShs '000	2013 KShs '000
8 INTEREST INCOME		
Loans and advances to customers	15,497,412	15,454,839
Loans and advances to banks	451,211	157,439
Investment securities:		
– Available-for-sale	5,617,406	5,840,688
Accrued on impaired assets (Discount unwind)	176,388	73,322
	21,742,417	21,526,288

	2014 KShs '000	2013 KShs '000
9 INTEREST EXPENSE		
Deposits from customers	3,257,075	3,573,408
Deposits from banks	1,184,906	1,551,824
	4,441,981	5,125,232

		2014	2013
10	**NET FEE AND COMMISSION INCOME**	**KShs '000**	KShs '000
	Fee and commission income		
	Commissions	**3,125,438**	3,009,932
	Service fees	**1,455,108**	1,502,350
		4,580,546	4,512,282
	Fee and commission expense		
	Inter-bank transaction fees and other fees	**710,043**	671,026
11	**NET TRADING INCOME**		
	Gains less losses on foreign currency transactions	**2,017,484**	2,278,145
	Interest income on held-for-trading securities	**377,609**	153,426
	Other trading profits	**232,969**	364,760
		2,628,062	2,796,331
12	**OTHER OPERATING INCOME**		
	Gains less losses on disposal of available-for-sale securities:		
	– Government treasury bonds and bills	**234,396**	234,387
	Rental income	**13,644**	14,452
	Profit on sale of non-current asset held for sale	**1,535,240**	141,851
	Profit on sale of property and equipment	**1,456**	–
	Loss on sale of property and equipment	**(306)**	(13,270)
	Other	**3,585**	1,381
		1,788,015	378,801
13	**OPERATING EXPENSES**		
	Staff costs		
	Salaries and wages	**4,258,991**	3,890,941
	Contributions to defined contribution plan	**481,803**	441,785
	Increase in retirement benefit obligations (Note 36)	**37,900**	40,500
	Redundancy charge	**148,285**	–
	Employee share-based payments expenses	**79,170**	79,156
	Other staff costs	**761,110**	642,273
		5,767,259	5,094,655

	2014	2013
The number of employees at the year end was:	**No.**	No.
Management	**1,204**	1,098
Unionisable	**433**	432
Other	**411**	320
	2,048	1,850

	2014	2013
Premises and equipment costs	**KShs '000**	KShs '000
Rental of premises	**380,672**	363,500
Rental of computers and equipment	**120,725**	135,777
Electricity	**155,527**	114,547
Other premises and equipment costs	**149,248**	59,049
	806,172	672,873
Depreciation and amortisation		
Buildings on leasehold land	**14,461**	16,892
Fixtures, fittings and equipment	**479,690**	523,927
Motor vehicles	**3,300**	3,785
Depreciation on property and equipment (Note 29)	**497,451**	544,604
Amortisation of intangible assets (Note 30)	**490,885**	436,609
Amortisation of prepaid operating lease rentals (Note 31)	**2,929**	2,236
	991,265	983,449

14 PROFIT BEFORE TAXATION

	2014 KShs '000	2013 KShs '000
Profit before taxation is arrived at after charging:		
Depreciation on property and equipment (Note 29)	497,451	544,604
Amortisation of intangible assets (Note 30)	490,885	436,609
Amortisation of prepaid operating lease rentals (Note 31)	2,929	2,236
Directors' emoluments - Fees	11,879	11,749
- Other	154,275	130,607
Auditors' remuneration	14,766	14,766
Loss on sale of property and equipment	306	13,270
And after crediting:		
Profit on sale of non-current asset held for sale	1,535,240	141,851
Profit on sale of property and equipment	1,456	–

15 INCOME TAX EXPENSE

	2014 KShs '000	2013 KShs '000
Current year's tax at 30%	3,943,047	4,071,700
Prior year (over)/under provision	(2,282)	3,292
	3,940,765	4,074,992
Deferred tax (credit)/charge - Note 35(a,c)	(30,964)	17,052
Income tax expense	3,909,801	4,092,044

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

	2014 KShs '000	2013 KShs '000
Accounting profit before taxation	14,345,981	13,354,965
Computed tax using the applicable corporation tax rate at 30%	4,303,794	4,006,489
Tax exempt income	(470,438)	(43,387)
Non-deductible expenses	78,727	125,650
Prior year (over)/under provision	(2,282)	3,292
Income tax expense	3,909,801	4,092,044

16 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2014 and 2013 is based on the profit attributable to ordinary shareholders of KShs 10,268,180,000 (2013 – KShs 9,094,921,000) and a weighted average number of ordinary shares outstanding during the year of 309,159,514 (2013 – 309,159,514).

Profit attributable to ordinary shareholders:

	2014 KShs '000	2013 KShs '000
Net profit for the year	10,436,180	9,262,921
Dividends on non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares	(168,000)	(168,000)
	10,268,180	9,094,921
Basic earnings per share (KShs)	33.21	29.42

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 2014 and 2013.

17 DIVIDEND PER SHARE

Group and Company	2014 KShs '000	2013 KShs '000
Dividends – Ordinary shares	3,864,494	4,482,813
Dividends – Preference shares	84,690	168,000
	3,949,184	4,650,813

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 28 May 2015, a final dividend in respect of the year ended 31 December 2014 of KShs 12.50 (2013 – KShs 14.50) for every ordinary share of KShs 5.00 is to be proposed. One interim dividend of KShs 4.50 (2013 – nil) for every ordinary share of KShs 5.00 was declared and paid during the year. This will bring the total dividend for the year to KShs 17.00 (2013 – KShs 14.50).

At the Annual General Meeting to be held on 28 May 2015, a final dividend in respect of the year ended 31 December 2014 of KShs 84,690,411 (2013 – KShs 168,000,000) for the preference shares is to be proposed. An interim dividend of KShs 83,309,589 (2013 – nil) was declared and paid during the year. This will bring the total dividend for the year to KShs 168,000,000 (2013 – KShs 168,000,000).

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

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

18 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

Group and Company	2014 KShs '000	2013 KShs '000
Cash on hand	3,742,061	3,991,672
Balances with Central Bank of Kenya:		
-Restricted balances (Cash Reserve Ratio)	8,330,371	8,098,002
-Unrestricted balances	3,310,880	1,955,559
	15,383,312	14,045,233

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 2014, the Cash Reserve Ratio requirement was 5.25% (2013 – 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

Group and Company

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

	2014			2013		
	Treasury bonds KShs '000	Treasury bills KShs '000	Total KShs '000	Treasury bonds KShs '000	Treasury bills KShs '000	Total KShs '000
At 1 January	2,478,935	–	2,478,935	439,849	2,474,707	2,914,556
Additions	13,109,500	458,750	13,568,250	9,900,000	1,660,000	11,560,000
Disposals and maturities	(12,301,550)	(458,750)	(12,760,300)	(7,850,000)	(4,160,000)	(12,010,000)
Changes in fair value	(210,838)	–	(210,838)	(10,914)	25,293	14,379
At 31 December	**3,076,047**	**–**	**3,076,047**	**2,478,935**	**–**	**2,478,935**

The weighted average effective interest rate on government and other securities held for trading at 31 December 2014 was 10.79% (2013 – 11.87%).

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

	2014			2013		
	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	10,388,379	100,242	378,374	11,540,335	241,102	363,791
Forward exchange contracts	35,447,925	–	–	54,556,927	–	–
	45,836,304	**100,242**	**378,374**	66,097,262	241,102	363,791

21 LOANS AND ADVANCES TO BANKS

Group and Company	**2014 KShs '000**	2013 KShs '000
Loans and advances to local banks	**4,641,765**	1,942,781
Loans and advances to foreign banks	**161,171**	156,086
	4,802,936	2,098,867

The weighted average effective interest rate on loans and advances to banks at 31 December 2014 was 6.42% (2013 – 9.20%).

22 LOANS AND ADVANCES TO CUSTOMERS

Group and Company	**2014 KShs '000**	2013 KShs '000
(a) Classification		
Overdrafts	**19,888,266**	20,753,509
Loans	**106,038,256**	110,355,046
Bills discounted	**348,752**	857,406
Gross loans and advances	**126,275,274**	131,965,961
Less: Impairment losses on loans and advances	**(3,526,041)**	(2,293,957)
Net loans and advances	**122,749,233**	129,672,004
Repayable on demand	**22,888,318**	27,691,290
Less than 3 months	**24,970,103**	33,236,301
3 months to 1 year	**6,631,120**	5,794,438
1 to 5 years	**42,728,843**	38,403,736
5 to 10 years	**17,366,460**	17,920,228
Over 10 years	**11,690,430**	8,919,968
Gross loans and advances	**126,275,274**	131,965,961

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

Group and Company

(b) Impairment losses on loans and advances

	Specific impairment losses KShs '000	Portfolio impairment provision KShs '000	Total KShs '000
2014:			
At 1 January 2014	1,200,491	1,093,466	2,293,957
Provisions recognised during the year	1,579,000	286,446	1,865,446
Amounts written off/(released) during the year	85,041	(542,015)	(456,974)
Amounts released to interest income	(176,388)	–	(176,388)
At 31 December 2014	**2,688,144**	**837,897**	**3,526,041**
Provisions recognised during the year	1,579,000	286,446	1,865,446
Amounts recovered/released during the year	(276,001)	(542,015)	(818,016)
Net charge/(credit) to profit or loss	**1,302,999**	**(255,569)**	**1,047,430**
2013:			
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**

The weighted average effective interest rate on loans and advances to customers at 31 December 2014 was 12.95% (2013 – 12.97%).

23 INVESTMENT SECURITIES

Group and Company	**2014 KShs '000**	2013 KShs '000
Available-for-sale		
Treasury bonds	**26,823,562**	31,572,926
Treasury bills	**28,316,251**	21,590,667
	55,139,813	53,163,593
Money market bonds	**531,195**	537,708
Equity shares	**7,998**	8,637
Total investment securities	**55,679,006**	53,709,938

23 INVESTMENT SECURITIES (Continued)

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

	2014				2013			
	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	53,163,593	537,708	8,637	53,709,938	42,406,412	559,267	8,245	42,973,924
Additions	55,653,277	–	–	55,653,277	46,142,568	–	–	46,142,568
Disposals and maturities	(55,524,031)	(22,235)	–	(55,546,266)	(37,854,801)	(22,220)	–	(37,877,021)
Changes in fair value	(288,890)	15,722	(639)	(273,807)	137,724	661	392	138,777
Amortisation of discounts and premiums	2,135,864	–	–	2,135,864	2,331,690	–	–	2,331,690
At 31 December	**55,139,813**	**531,195**	**7,998**	**55,679,006**	**53,163,593**	**537,708**	**8,637**	**53,709,938**

The weighted average effective interest rate on treasury bonds at 31 December 2014 was 11.33% (2013 – 11.87%) and on treasury bills was 9.32% (2013 – 10.73%).

There were no treasury bills under repurchase agreements outstanding at 31 December 2014 and 2013.

The weighted average effective interest rate on money market bonds at 31 December 2014 was 8.75% (2013 – 8.95%).

At 31 December 2014, unamortised premiums on investment securities amounted to KShs 80,498,000 (2013 – KShs 157,790,000) and unamortised discounts amounted to KShs 1,700,043,000 (2013 – KShs 689,946,000).

24 OTHER ASSETS

Group and Company

	2014		2013	
	Group KShs '000	**Company KShs '000**	Group KShs '000	Company KShs '000
Un-cleared effects	**91,992**	**93,277**	641,349	641,349
Prepayments	**427,662**	**427,662**	383,595	383,595
Other receivables	**2,003,897**	**2,003,897**	896,315	896,315
	2,523,551	**2,524,836**	1,921,259	1,921,259

25 GROUP COMPANY BALANCES

Group and Company

	2014 KShs '000	2013 KShs '000
Amounts due from group companies	**11,004,805**	8,465,151
Amounts due to group companies	**13,359,389**	15,029,481

Included in amounts due to group companies is an amount of US$ 60 million (KShs 5,434,246,000) (2013 – US$ 40 million (KShs 3,454,105,000)) relating to subordinated debt made up of three amounts of US$ 20 million each advanced on 18 August 2011, 30 December 2013 and 22 December 2014, 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 debts are 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 debts in certain circumstances as set out in the contractual agreement. The interest on the subordinated debts are referenced to the LIBOR. The weighted average effective interest rate at 31 December 2014 on the subordinated debts was 2.76% (2013 – 2.45%).

The weighted average effective interest rate at 31 December 2014 on amounts due from group companies was 0.31% (2013 – 0.31%) and on amounts due to group companies was 1.41% (2013 – 1.24%).

26 INVESTMENT IN SUBSIDIARIES

The following subsidiaries are wholly owned by the Company:

Company	Status	2014 KShs '000	2013 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 BBKL'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 up to 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.

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:	**2014 KShs '000**	2013 KShs '000
Operating income	**1,941,688**	1,599,404
Profit before taxation	**1,342,309**	1,004,201

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 Company.

28 NON-CURRENT ASSET HELD FOR SALE

Group and Company

	2014			2013		
	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	137,031	106	137,137	–	–	–
Transfer from property and equipment (Note 29)	177,121	–	177,121	253,531	–	253,531
Transfer from prepaid operating lease rentals (Note 31)	–	132	132	–	7,333	7,333
Disposals	(43,853)	–	(43,853)	(116,500)	(7,227)	(123,727)
At 31 December	**270,299**	**238**	**270,537**	**137,031**	**106**	**137,137**

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

The properties have been placed on the market with the sale expected within the 2015 financial year.

The asset of KShs 270,537,000 (2013 – KShs 137,137,000) is classified under the unallocated portion of the operating segment report in Note 6.

29 PROPERTY AND EQUIPMENT

Group and Company

2014:	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 2014	150,000	1,080,186	5,023,980	15,422	120,874	**6,390,462**
Transfer to non-current asset held for sale (Note 28)	–	(184,500)	–	–	–	**(184,500)**
Additions	–	–	103,378	8,566	62,790	**174,734**
Transfers	–	17,180	53,148	–	(70,328)	**–**
Disposals	–	–	(67,305)	–	–	**(67,305)**
Revaluation surplus	95,000	93,861	–	–	–	**188,861**
At 31 December 2014	**245,000**	**1,006,727**	**5,113,201**	**23,988**	**113,336**	**6,502,252**
Depreciation:						
At 1 January 2014	3,600	30,889	2,670,988	13,074	–	**2,718,551**
Transfers	–	1,722	(1,722)	–	–	**–**
Transfer to non-current asset held for sale (Note 28)	–	(7,379)	–	–	–	**(7,379)**
Charge for the year	1,775	12,686	479,690	3,300	–	**497,451**
Depreciation written back on revaluation	(4,800)	(34,665)	–	–	–	**(39,465)**
Disposals	–	–	(66,038)	–	–	**(66,038)**
At 31 December 2014	**575**	**3,253**	**3,082,918**	**16,374**	**–**	**3,103,120**
Carrying amount:						
At 31 December 2014	**244,425**	**1,003,474**	**2,030,283**	**7,614**	**113,336**	**3,399,132**

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**

29 PROPERTY AND EQUIPMENT (Continued)

Included in property and equipment at 31 December 2014 are assets with a gross value of KShs 1,678,419,285 (2013 – KShs 1,336,180,829) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been KShs 653,839,986 (2013 – KShs 475,110,758).

There were no idle assets as at 31 December 2014 and 2013.

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 2014. 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 2014.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year ended 31 December 2014 (2013 - Nil).

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

	2014	2013
	KShs '000	KShs '000
Cost	644,407	698,907
Accumulated depreciation	(73,394)	(87,432)
Carrying amount	**571,013**	611,475

30 INTANGIBLE ASSETS

Group and Company

	2014				2013			
	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	256,367	**5,075,516**	3,707,038	1,112,111	226,318	**5,045,467**
Additions	–	–	78,015	**78,015**	–	–	30,049	**30,049**
At 31 December	**3,707,038**	**1,112,111**	**334,382**	**5,153,531**	**3,707,038**	**1,112,111**	**256,367**	**5,075,516**
Amortisation:								
At 1 January	1,265,221	–	217,292	**1,482,513**	845,219	–	200,685	**1,045,904**
Charge for the year	449,944	–	40,941	**490,885**	420,002	–	16,607	**436,609**
At 31 December	**1,715,165**	**–**	**258,233**	**1,973,398**	**1,265,221**	**–**	**217,292**	**1,482,513**
Carrying amount:								
At 31 December	**1,991,893**	**1,112,111**	**76,149**	**3,180,133**	**2,441,817**	**1,112,111**	**39,075**	**3,593,003**

As at 31 December 2014, assets with a gross value of KShs 196,892,659 (2013 – KShs 196,892,659) are fully amortised but still in use. The notional amortisation charge for the year on these assets would have been KShs 65,994,149 (2013 – KShs 65,994,149).

There were no idle assets as at 31 December 2014 and 2013.

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 (2013 - 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 2014 was determined similarly as in 2013. The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results, and budgets and forecasts approved by management upto 2014. Management forecasts projected revenue growth rates greater than long-term GDP growth rates but which are in line with past performance as adjusted to reflect current economic climate and any known business cycles. Cash flow projections were extrapolated forward for another 7 years upto 2021 using steady long-term estimated GDP growth rates.

- The cash flows were discounted using a pre-tax discount rate of 17.50% which reflected current market rates appropriate for this business.

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

31 PREPAID OPERATING LEASE RENTALS

Group and Company

	2014	2013
Cost:	KShs '000	KShs '000
At 1 January	278,289	289,273
Transfer to non-current asset held for sale (Note 28)	(715)	(10,984)
At 31 December	277,574	278,289
Amortisation:		
At 1 January	25,396	26,811
Transfer to non-current asset held for sale (Note 28)	(583)	(3,651)
Charge for the year	2,929	2,236
At 31 December	27,742	25,396
Carrying amount at 31 December	249,832	252,893

32 DEPOSITS FROM BANKS

Group and Company

Balances due from local banks	5,543,747	5,014,840
Balances due from foreign banks	3,562,579	3,575,974
	9,106,326	8,590,814

The weighted average effective interest rate on deposits from banks at 31 December 2014 was 1.99% (2013 – 7.96%).

33 DEPOSITS FROM CUSTOMERS

Group and Company

	2014 KShs '000	2013 KShs '000
From government and parastatals		
Payable on demand	7,991,321	10,752,754
Payable within 3 months or less	–	2,929,062
Payable after 3 months	100	1,785
	7,991,421	13,683,601
From private sector and individuals		
Payable on demand	117,967,707	102,456,539
Payable within 3 months or less	12,468,435	25,402,444
Payable after 3 months	15,639,368	13,177,427
	154,066,931	154,720,011
Current and demand accounts	104,378,174	93,375,340
Savings deposits	13,047,685	12,241,533
Time deposits	34,092,034	47,980,734
Other	2,549,038	1,122,404
	154,066,931	154,720,011

The weighted average effective interest rate on interest bearing deposits from customers at 31 December 2014 was 4.44% (2013 – 4.02%).

34 OTHER LIABILITIES

	2014		2013	
	Group	**Company**	Group	Company
	KShs '000	**KShs '000**	KShs '000	KShs '000
Bills payable	**320,878**	**320,878**	1,621,642	1,621,642
Dividends payable	**409,683**	**409,683**	452,569	452,569
Other trade payables	**3,727,732**	**3,700,590**	2,946,837	2,925,733
	4,458,293	**4,431,151**	5,021,048	4,999,944

35 DEFERRED TAX LIABILITY

The net deferred tax liability at 31 December 2014 and 2013 is attributable to the following:

(a) Group

2014	At 1 January 2014 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2014 KShs '000
Asset/(liability)				
Tax losses in subsidiaries	1,601	(246)	–	1,355
Property and equipment	(56,574)	(90,557)	–	(147,131)
Acquired intangible asset	(732,545)	134,982	–	(597,563)
Portfolio impairment provision	328,040	(76,671)	–	251,369
Revaluation surplus	(175,802)	42,761	(62,245)	(195,286)
Fair value reserve	(66,839)	–	20,438	(46,401)
Accrued interest	218,902	(25,798)	–	193,104
Other provisions	29,883	45,623	–	75,506
Retirement benefit obligations	2,700	870	(2,160)	1,410
	(450,634)	**30,964**	**(43,967)**	**(463,637)**

(b) Company

2014				
Asset/(liability)				
Property and equipment	(56,576)	(90,557)	–	(147,133)
Acquired intangible asset	(732,545)	134,982	–	(597,563)
Portfolio impairment provision	328,040	(76,671)	–	251,369
Revaluation surplus	(175,802)	42,761	(62,245)	(195,286)
Fair value reserve	(66,839)	–	20,438	(46,401)
Accrued interest	218,902	(25,798)	–	193,104
Other provisions	27,933	42,186	–	70,119
Retirement benefit obligations	2,700	870	(2,160)	1,410
	(454,187)	**27,773**	**(43,967)**	**(470,381)**

35 DEFERRED TAX LIABILITY (Continued)

(c) Group

2013	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)**

(d) Company

2013				
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)**

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 2014. The review was consistent with previous valuations performed using the projected unit credit method.

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	2014 KShs '000	2013 KShs '000
Fair value of plan assets	831,203	835,956
Present value of funded obligations	(790,000)	(735,800)
Retirement benefit obligations before asset ceiling	41,203	100,156
Irrecoverable surplus	(41,203)	(100,156)
Additional liability for minimum funding requirements	(4,700)	(9,000)
Retirement benefit obligations as at 31 December	(4,700)	(9,000)
Plan assets consist of the following:		
Government bonds	366,920	407,418
Corporate bonds	156,332	237,258
Other	307,951	191,280
	831,203	835,956
Movement in plan assets		
Fair value of plan assets at 1 January	835,956	771,036
Expected return on plan assets	112,400	95,979
Benefits paid by the plan	(123,480)	(120,167)
Employer contributions	35,000	56,500
Recognised actuarial (losses)/gains	(21,473)	38,608
Administrative expenses paid	(7,200)	(6,000)
Fair value of plan assets at 31 December	831,203	835,956
Movement in the present value of the retirement benefit obligations		
Retirement benefit obligations at 1 January	735,800	759,000
Interest cost	99,300	94,231
Past service cost	30,000	30,000
Benefits paid by the plan	(123,480)	(120,167)
Recognised actuarial losses/(gains)	48,380	(27,264)
Retirement benefit obligations at 31 December	790,000	735,800
The net charge recognised in profit or loss is as follows:		
Interest cost	(99,300)	(94,231)
Expected return on plan assets	112,400	95,979
Past service cost	(30,000)	(30,000)
Movement in irrecoverable surplus	(13,100)	(88,120)
Movement in liability for minimum funding requirements	(700)	16,000
Recognised actuarial gains	–	65,872
Administration expenses	(7,200)	(6,000)
Total charge included in staff costs	(37,900)	(40,500)

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

	2014 % pa	2013 % pa
Discount rate	13	14
Expected return on plan assets	13	14
Future pension increases	–	–

36 RETIREMENT BENEFIT OBLIGATIONS (Continued)

The overall expected long-term rate of return on the assets is 13% (2013 – 14%) 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:

	2014 KShs '000	2013 KShs '000
At 1 January	(9,000)	(25,000)
Employer contributions	35,000	56,500
Charge to profit or loss	(37,900)	(40,500)
Recognised in other comprehensive income	7,200	–
At 31 December	(4,700)	(9,000)

Historical information	2014 KShs '000	2013 KShs '000	2012 KShs '000	2011 KShs '000	2010 KShs '000
Fair value of plan assets	831,203	835,956	771,036	808,158	810,624
Present value of funded obligations	(790,000)	(735,800)	(759,000)	(611,000)	(975,700)
Retirement benefit obligations before asset ceiling	41,203	100,156	12,036	197,158	(165,076)
Irrecoverable surplus	(41,203)	(100,156)	(12,036)	(197,158)	–
Additional liability for minimum funding requirements	(4,700)	(9,000)	(25,000)	(49,000)	–
Retirement benefit obligations	(4,700)	(9,000)	(25,000)	(49,000)	(165,076)

Sensitivity analysis

The effect of certain changes to the actuarial assumptions on the defined benefit obligation is shown below:

	2014		2013	
	Increase KShs '000	Decrease KShs '000	Increase KShs '000	Decrease KShs '000
Discount rate (-1% movement)	41,000	–	29,900	–
Discount rate (+1% movement)	–	37,000	–	34,900
Future mortality (longevity of member aged 60 increasing by 1 year)	28,000	–	28,200	–

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

37 SHARE CAPITAL AND RESERVES

Company

(a) Share capital

Authorised

The authorised share capital of the Company at 31 December 2014 was KShs 1,905 million (2013 – KShs 1,905 million) made up of 325 million (2013 – 325 million) ordinary shares of KShs 5.00 each and 56 million (2013 – 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
2014:			
At 1 January 2014 and 31 December 2014	**325,000**	**56,000**	**1,905,000**
2013:			
At 1 January 2013 and 31 December 2013	325,000	56,000	1,905,000

Issued and fully paid

	Number of ordinary shares ('000)	Number of preference shares ('000)	Authorised share capital KShs'000
2014:			
At 1 January 2014 and 31 December 2014	**309,159**	**56,000**	**1,825,798**
2013:			
At 1 January 2013 and 31 December 2013	309,159	56,000	1,825,798

The shareholders at 31 December 2014 that had large holdings were as follows:

Name	Number of shares ('000)	%
1. Standard Chartered Holdings (Africa) BV	228,432	73.89
2. National Social Security Fund – Board of Trustees – A/C 71098	3,440	1.11
3. Kabarak Limited	3,178	1.03
4. Standard Chartered Africa Limited	1,307	0.42
5. Standard Chartered Nominees Limited – A/C 9230	1,292	0.42
6. Old Mutual Life Assurance Company Limited	1,135	0.37
7. Standard Chartered Nominees Limited – A/C 1256B	921	0.30
8. NIC Custodial Services – A/C 016	759	0.25
9. Standard Chartered Nominees Limited – A/C 9389	693	0.22
10. Standard Chartered Nominees Limited – RESD A/C KE11450	649	0.21
11. Others	67,353	21.78
	309,159	**100.00**

37 SHARE CAPITAL AND RESERVES (Continued)

Company

(a) Share capital (Continued)

Issued and fully paid (Continued)

The distribution of shareholders as at 31 December 2014 and 2013 was as follows:

	2014			2013		
Share range	Number of shareholders	Shares held ('000)	%	Number of shareholders	Shares held ('000)	%
Less than 500	9,487	1,797	0.58	9,507	1,835	0.60
501 to 5,000	20,221	25,429	8.22	20,852	26,208	8.48
5,001 to 10,000	343	2,414	0.78	368	2,594	0.84
10,001 to 100,000	495	15,394	4.98	473	13,951	4.51
100,001 to 1,000,000	105	25,340	8.20	110	25,613	8.28
Above 1,000,000	6	238,785	77.24	7	238,958	77.29
Total	**30,657**	**309,159**	**100.00**	**31,317**	**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.

	2014 KShs '000	2013 KShs '000
At 1 January and 31 December	7,792,427	7,792,427

(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 amounts 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.

(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

	2014 KShs '000	2013 KShs '000
Profit before taxation	14,345,981	13,354,965
Depreciation	497,451	544,604
Amortisation of intangible assets	490,885	436,609
Profit on sale of non-current asset held for sale	(1,535,240)	(141,851)
Loss on sale of property and equipment	306	13,270
Profit on sale of property and equipment	(1,456)	–
Amortisation of prepaid operating lease rentals	2,929	2,236
Retirement benefit obligations	37,900	40,500
Reversal of revaluation deficit from prior years	1,458	–
(Increase)/decrease in operating assets		
Balances with Central Bank of Kenya		
– Cash Reserve Ratio	(232,369)	(987,823)
Government and other securities held for trading	(597,112)	435,621
Derivative financial instruments	140,860	115,486
Loans and advances to banks	84,096	(9,096)
Loans and advances to customers	6,922,771	(16,977,481)
Investment securities	(1,045,933)	(10,416,958)
Amounts due from group companies	(132,000)	3,906,261
Other assets	(602,292)	88,561
Increase/(decrease) in operating liabilities		
Deposits from banks	–	(2,219,002)
Deposits from customers	(653,080)	14,195,165
Derivative financial instruments	14,583	(243,434)
Amounts due to group companies	2,109,761	(595,944)
Defined benefit obligations	(35,000)	(56,500)
Other liabilities	(562,755)	114,286
Cash from operating activities	19,251,744	1,599,475
Income taxes paid	(3,914,076)	(5,110,807)
Net cash from/(used in) operating activities	15,337,668	(3,511,332)

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

	2014	2013
Cash on hand	3,742,061	3,991,672
Unrestricted cash balances with Central Bank of Kenya	3,310,880	1,955,559
Treasury bills	991,260	–
Loans and advances to banks	3,552,936	764,771
Deposits from banks	(9,106,326)	(8,590,814)
Amounts due from group companies	8,282,305	5,874,651
Amounts due to group companies	(4,963,405)	(8,743,258)
	5,809,711	(4,747,419)

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:

	2014 KShs '000	2013 KShs '000
Guarantees and standby letters of credit	**33,656,427**	26,236,137
Letters of credit, acceptances and other documentary credits	**15,015,915**	10,613,114
	48,672,342	36,849,251

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.

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 2014, the directors have not made provisions for tax demand letters amounting to KShs 96 million (2013 - 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 2014, 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 748,176,007,302 (2013 – KShs 632,414,726,436). 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 2014, deposits from SCKPF and SCKSRBS 2006 amounted to KShs 117,502,998 (2013 – KShs 82,936,094).

At 31 December 2014, balances relating to deposits from directors, employees and associates amounted to KShs 477,049,578 (2013 – KShs 780,209,149).

The interest expense paid during the year on deposits from directors, employees and associates amounted to KShs 11,350,623 (2013 – KShs 8,164,334).

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

	2014	2013
Loans and advances to directors, employees and their associates	**KShs '000**	KShs '000
At start of the year	**4,255,221**	3,257,279
Amounts advanced during the year	**3,279,862**	2,763,678
Amounts repaid during the year	**(2,313,090)**	(1,765,736)
At end of the year	**5,221,993**	4,255,221
Loans and advances to directors or companies controlled by directors or their families	**33,787**	46,353
Loans and advances to employees	**5,188,206**	4,208,868
	5,221,993	4,255,221

The interest income earned during the year on loans and advances to directors, employees and associates amounted to KShs 379,231,830 (2013 – KShs 234,241,579).

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

None of the loans and advances above are impaired at 31 December 2014 (2013 – Nil).

	2014	2013
Key management compensation	**KShs '000**	KShs '000
Salaries and other employee benefits	**397,945**	303,363

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

In January 2014, the Group changed its organisation structure as a result of which the number of key management increased to 15 (2013: 12).

44 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

Group and Company

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

	2014		2013	
	Premises KShs '000	Equipment KShs '000	Premises KShs '000	Equipment KShs '000
Within 1 year	387,857	213,422	277,991	196,042
After 1 year but less than 5 years	911,421	199,845	664,400	252,261
After 5 years	81,636	–	88,807	–
	1,380,914	413,267	1,031,198	448,303

The Group leases a number of premises and equipment under operating leases. Premises leases typically run for a period of 6 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 SUBSEQUENT EVENTS

At the end of January 2015, the Board approved the setting up and operationalisation of the bancassurance business to be carried out by Standard Chartered Insurance Agency Limited, a fully owned subsidiary of the Company. Standard Chartered Insurance Agency Limited is licensed by the Insurance Regulatory Authority to transact business as an insurance agent in Kenya.

46 HOLDING COMPANY

The ultimate holding company of Standard Chartered Bank Kenya Limited is Standard Chartered PLC, which is a limited liability company incorporated and domiciled in Great Britain.

Notice of the Annual General Meeting

to the members of Standard Chartered Bank Kenya Limited

Notice is hereby given that the twenty-ninth Annual General Meeting of the Company will be held at the Safari Park Hotel, Thika Road, Nairobi on Thursday, 28 May 2015 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 the Financial Position of the Company for the year ended 31 December 2014 with the Auditors' report thereon.

2. To confirm the payment of one interim dividend of KShs 4.50 paid in December 2014 and to approve the payment of a final dividend of KShs 12.50 for each ordinary share of KShs 5.00 on the issued share capital of the Company in respect of the year ended 31 December 2014.

3. To elect the following Directors:
   (a) Mrs. Anne Mutahi, a director retiring by rotation who being eligible offers herself for re-election in accordance with Article 96 (1) of the Memorandum and Articles of Association;

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

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

5. To note the continuance in office of KPMG Kenya as auditors in accordance with Section 159(2) of the Companies Act, 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

22 April 2015

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 26 May 2015 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 28, May 2015 at the Safari Park Hotel, Thika Road, Nairobi at 11.30 a.m. or any adjournment thereof.

As my witness my/our hand/hands this day of ____2015

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 26 May 2015, 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 28 2015, Safari Park Hotel, Thika Road, Nairobi na wakati wa ahirisho lolote litakalotokea baadaye.

Kama shahidi siku hii: ____2015

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 00100, Nairobi kufika kabla ya Jumanne saa tisa alasiri Mei 26 2015. Mwanahisa/wanahisa watakaowasilisha fomu hii baada ya saa tisa, hataruhusiwa/hawataruhusiwa kushiriki katika uchaguzi wowote.**
2. **Ikiwa mteuzi ni Shirika, fomu hii ya uwakilishi lazima ifungwe kwa lakiri.**


Standard Chartered
Here for innovators
You are driven. Creating runway successes.
Seizing opportunities. One boutique becomes two.
Two a global empire. With the bank you can depend on.
That's good for your international aspirations.
Here for good
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