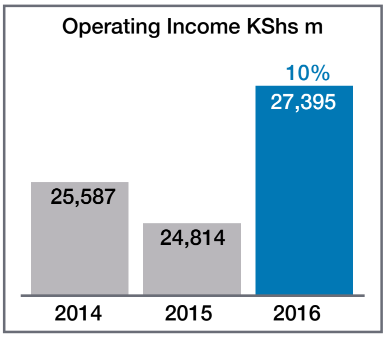
Standard Chartered

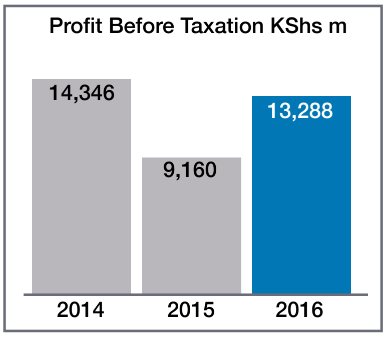
ANNUAL REPORT 2016

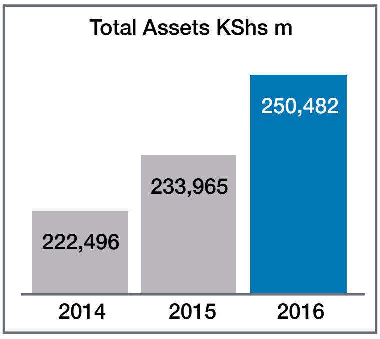
Driving investment, trade and the creation of wealth in Kenya

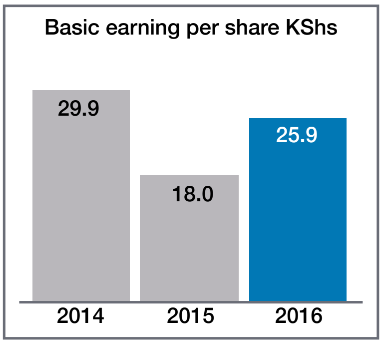
Contents

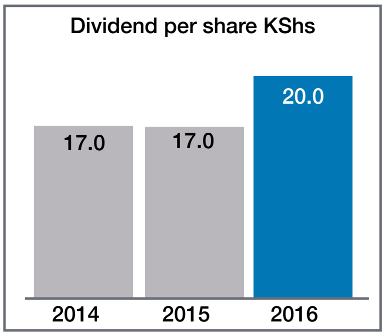
Performance Highlights
Strong foundations

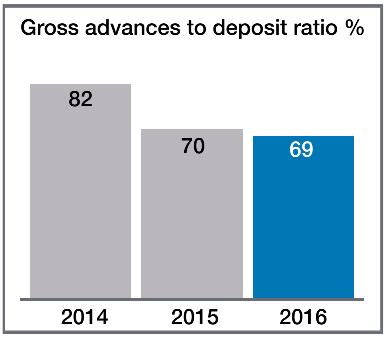


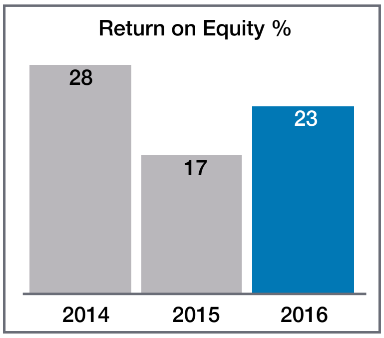


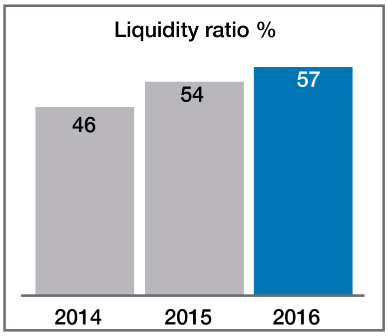


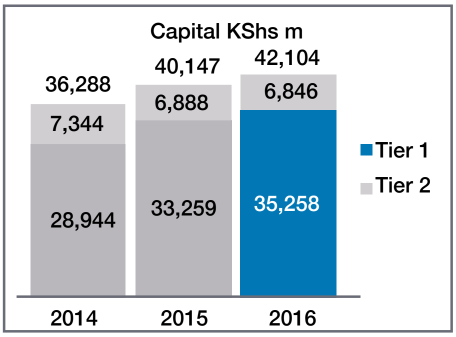




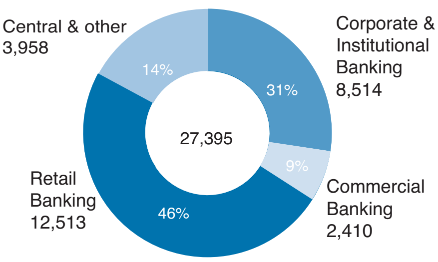




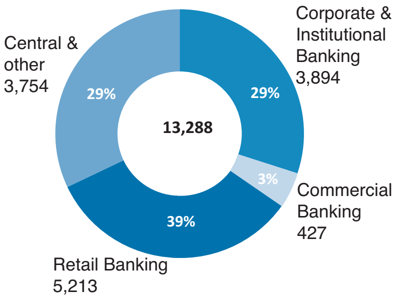




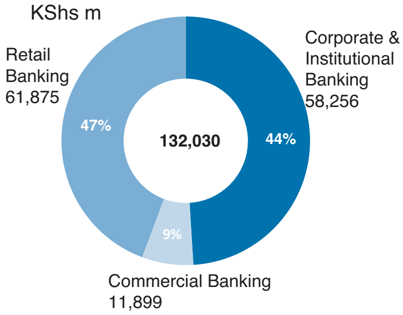
Operating income by client segment
KShs m



Profit before taxation by client segment
KShs m



Total assets by client segment (excluding Central & other Items)
KShs m



Non-financial Highlights

Employees	Branches	ATMs
1,872	**38**	**98**
2015: 1,881 2014: 2,048	2015: 39 2014: 37	2015: 98 2014: 95

Five Year Summary

Income Statement	2016 KShs '000	2015 KShs '000	2014 KShs '000	2013 KShs '000	2012 KShs '000
Operating income	**27,395,352**	24,814,354	25,587,016	23,417,444	20,671,436
Impairment losses on loans and advances	**(1,878,258)**	(4,591,647)	(1,047,430)	(783,050)	(716,650)
Operating expenses	**(12,228,975)**	(11,062,775)	(10,193,605)	(9,279,429)	(8,398,595)
Profit before taxation	**13,288,119**	**9,159,932**	**14,345,981**	**13,354,965**	**11,556,191**
Taxation	**(4,238,812)**	**(2,817,505)**	(3,909,801)	(4,092,044)	(3,486,658)
Profit after taxation	**9,049,307**	**6,342,427**	**10,436,180**	**9,262,921**	**8,069,533**
Information per ordinary share					
Basic earnings per share (EPS) (2012–2015 restated)	**25.85**	**17.97**	**29.89**	**26.48**	**23.00**
Dividend per share on each ordinary share (DPS)	**20.00**	**17.00**	**17.00**	**14.50**	**12.50**
Statement of Financial Position					
Loans and advances to customers (gross)	**128,290,401**	120,393,564	126,275,274	131,965,961	114,534,987
Impairment losses on loans and advances	**(5,579,363)**	(5,268,137)	(3,526,041)	(2,293,957)	(1,840,464)
Government securities	**86,488,749**	73,126,068	58,215,860	55,642,528	46,320,968
Other assets	**41,282,213**	45,713,952	41,530,731	35,076,648	37,337,265
Total assets	**250,482,000**	**233,965,447**	**222,495,824**	**220,391,180**	**195,352,756**
Deposits from customers	**186,598,226**	172,036,056	154,066,931	154,720,011	140,524,846
Other liabilities	**19,279,946**	20,677,606	27,770,719	29,464,768	24,075,096
Total liabilities	**205,878,172**	**192,713,662**	**181,837,650**	**184,184,779**	**164,599,942**
Net assets	**44,603,828**	**41,251,785**	**40,658,174**	**36,206,401**	**30,752,814**
Shareholders' funds	**44,603,828**	**41,251,785**	**40,658,174**	**36,206,401**	**30,752,814**
Ratios					
Cost income ratio	**45%**	45%	40%	40%	41%
Return on capital employed	**23%**	17%	28%	29%	30%
Impairment charge/gross loan and advances	**1%**	4%	1%	1%	1%
Gross loans and advances to deposits ratio	**69%**	70%	82%	85%	82%
Gross non-performing loans and advances/total gross loans and advances	**8%**	10%	9%	3%	2%
Core capital/total deposit liabilities	**19%**	19%	19%	17%	15%
Core capital/total risk weighted assets	**18%**	18%	16%	17%	16%
Total capital/total risk weighted assets	**21%**	21%	20%	21%	18%

Chair to the Board's Statement

"The strategic actions we set out enabled us to make a remarkable turnaround, ranking us one of the best performing countries within Standard Chartered Group globally."

2016 marked the first full-year of the implementation of the Standard Chartered Bank refreshed strategy. In late 2015, we set out on a journey to reposition the business for higher returns and disciplined growth. On the back of a challenging year, we made substantial changes in the business to address the underlying challenges that impacted our performance. Top on our agenda was to address the non-performing loans portfolio whilst growing the balance sheet.

These underlying issues were at the core of the execution of the refreshed strategy which focused primarily on increasing investment, cost rationalisation and empowering our staff. The milestones achieved in executing the strategy include enhancement of our digital capabilities and a renewed client-centric approach to conducting business.

I am happy to report that we have made great progress in executing the strategy. The strategic actions we set out enabled us to make a remarkable turnaround, ranking us one of the best performing countries within the Standard Chartered Group globally.

All the three business segments – Retail Banking, Commercial Banking and Corporate & Institutional Banking recorded a remarkable improvement despite numerous challenges in the global and local environment during the year.

Operating environment

Last year, the world economy grew at a much slower pace of around 3.1 per cent. In Sub-Saharan Africa, the growth was even lower at around 1.4 per cent. During the period, Kenya's economy grew by 5.8 per cent supported by investments in infrastructure, domestic demand, recovery of the tourism sector and growth of exports in the sub-region.

2016 was a broadly stable year for the Kenya shilling as it remained steady to the dollar depreciating by just 0.1 per cent. The stability of the shilling was attributed to

Chair to the Board's Statement

(Continued)

strong support from Central Bank of Kenya (CBK) and diaspora remittances.

On the regulatory front, The Banking Act was amended in September 2016 to introduce controls in interest rates. The new law was passed by Parliament despite contrary opinion from CBK and the Kenya Bankers Association about the pitfalls of introducing price controls. Under the new regime, the maximum interest on loans and advances was capped at four percent above the Central Bank Rate (CBR) and minimum interest rate on interest earning deposits was set at 70 per cent of CBR. The full effect of the legislation is expected to be felt across the industry in 2017.

Performance overview

The Company's performance in 2016 has demonstrated the Management team's progress on the actions we believe will drive sustainable growth in financial returns. We have delivered growth in profitability despite challenging market conditions. Interest income grew by 13 per cent to KShs 25.6 billion with profit before tax up 45 per cent to KShs 13.3 billion. Net customer assets increased to KShs 123 billion, whilst customer deposits at KShs 187 billion grew by 8 per cent. The capital adequacy ratio remained strong at 21.00 per cent against a regulatory minimum of 14.50 per cent.

The Chief Executive Officer, Lamin Manjang and the Management Team are building on the foundations of the Company's strong balance sheet, long-standing client and community relationships, and well established brand. Our employees remain highly engaged and committed to doing good business in the right way for our clients. We remain well positioned to support wealth creation in Kenya.

Dividend

The Board is recommending the payment of a final dividend for the year of KShs 14.00 for every ordinary share of KShs 5.00. This, in addition to the interim dividend paid in August 2016 of KShs 6.00 for every ordinary share of KShs 5.00, brings the total dividend to KShs 20.00 for every ordinary share of KShs 5.00. This compares to a total dividend of KShs 17.00 per ordinary share paid, in 2015.

In addition, the Company issued bonus shares in the ratio of 1 ordinary share for every 9 fully paid up ordinary shares in July 2016.

The Board recognises the importance of dividends to shareholders, and believes in balancing returns with investment to support future growth, whilst at the same time preserving strong capital ratios.

Corporate Governance

Discussions around conduct dominated the sector in 2016 with heightened attention on oversight and control structures in the banking sector. The conduct agenda is also ranking high across the industry with raised expectations both on the regulatory front and from clients. More than ever before boards are required to proactively strengthen controls. We continued to strengthen our risk governance structures in order to enhance operational controls. The Board continues to closely monitor business ethics and conduct through the requisite governance committees. To inculcate the right culture, we shall continue to promote high standards of behaviour and competence across the Company. We fully support the Central Bank of Kenya and the Kenya Bankers Association in enhancing corporate governance.

Our robust code of conduct has enabled us to institutionalise strong Risk and Governance structures while at the same time embedding a solid accountability culture among staff. This, coupled with significant investments in modern information technology platforms, has seen Standard Chartered Bank stand out with regards to financial prudence.

The Kenyan Companies Act, 2015 came into force during the year placing additional obligations on directors. We welcome this legislation as it will ensure that there is prudent management of companies.

Chair to the Board's Statement

(Continued)

To underscore our commitment to good governance, we re-launched the Operational Risk Framework and trained the Board and all staff on the new requirements. There was increased investment in resources, roll-out of updated policies and procedures, and enhancement of Customer Due Diligence (CDD) procedures in 2016. Globally, efforts to combat money laundering have resulted in increased scrutiny of financial institutions and their CDD processes. Financial institutions are tasked with improving CDD standards.

These measures coupled with continued enhancement of the Financial Crime Control (FCC) function of the Company and the continuous training of Directors on corporate governance, board evaluation and risk and financial management, has seen us remain one of the best managed banks in Kenya. We also commenced the roll-out of more robust financial crime systems and this will remain a priority in 2017.

We continue to adopt proactive initiatives to promote high standards of behaviour and competence across the Company.

The Group witnessed several management changes locally and at a Global level, Sir John Peace stepped down from the Standard Chartered Group Board after serving for nine years as Chairman. He has been replaced by José Viñals. Kenya was honoured to host the Standard Chartered Group Board meeting in November 2016 during which Sir John Peace handed over the mantle to the new Chairman.

There were also significant changes in the composition of the Company's Board: Dr. Catherine Adeya-Weya, Mr. Angarai Ganesh, Mr. Ian Bryden, Mr. David Idoru and Mr. Tejinder Singh were appointed, while Mr. Kariuki Ngari and Mr. Ben Dabrah stepped down. I sincerely thank them for their invaluable contribution.

Our performance in 2016 was recognised globally and locally. The Company received several industry awards for outstanding performance in business, conduct and social investment programmes. Globally, we received prestigious awards from Global Finance Awards in recognition of our Mobile and Digital Banking. Locally, we were recognised by the Kenya Bankers Association for our client service, adherence to our robust Code of Conduct and upholding our commitment to sustainable financing.

Community partnership

In line with our brand promise 'Here for good', we seek to ensure that the financing we provide supports sustainable economic and social developments in the communities in which we operate. We achieve this by financing businesses in sectors that drive economic growth and job creation as well as extending finance to entrepreneurs.

We are focused on building a business consistent with our values. We have comprehensive policies that guide our internal and external engagement on issues pertaining to governance, financial crime prevention, people and values, environmental footprint and suppliers.

Community engagement remains a critical pillar in our commitment to being a force for good in our endeavour to promote sustainable socio-economic development. In our interaction with communities across the country we continued to focus on the health and education sectors.

Our flagship community initiative – 'Seeing is Believing' – celebrated its 14th anniversary with resounding success. Since inception in 2003, 'Seeing is Believing' has funded nine projects in Kenya which have reached more than six million people through surgical interventions, screening, capacity building for health workers and facilities upgrade in select health centres. The funding is mainly from proceeds of the Standard Chartered Nairobi Marathon and the Group's 'Seeing is Believing' initiative.

All this success was achieved as a result of tremendous commitment from the Company's staff. The Employee Volunteering programme continued to play an

Chair to the Board's Statement

(Continued)

instrumental role in driving staff participation in the community. The programme which encourages our employees to share their skills to support delivery of our community programmes saw our staff spend a total of 1,425 days supporting projects across the country. Our community engagement centred on employees sharing time, skills, knowledge and experience on causes that enabled the Company make a real and tangible difference in our communities.

The Company also underscored its commitment to building financial capability among vulnerable populations such as youth, women and micro and small businesses through the structured roll-out of the Financial Education curriculum across the country. The security, prosperity and stability of our financial systems, communities and economies hinges on well educated, financially capable young people and entrepreneurs. We reached more than 7,500 youth and entrepreneurs through two programmes – Financial Education for Youth (FE4Y), a set of programmes aimed at building financial capability of the world's youth and Education for Entrepreneurs (E4E) aimed at building financial capability of non-client micro and small businesses with a focus on women owned or led enterprises.

Summary

The banking sector is operating in a dynamic environment impacted by rapid political, regulatory and technological developments. The year 2017 will certainly present a number of challenges and opportunities.

Whereas global economic growth is forecast to improve slightly to 2.7 per cent in 2017, Kenya's economic growth is expected to be around 5.9 per cent driven by:

- Elections due in August 2017 will dominate the outlook for Kenya. This could emerge as an additional factor dampening the growth outlook due to a negative impact on the recovering tourism industry and limited or slowdown in new investments.
- Effects of the Banking (Amendment) Act, 2016, which capped lending rates and introduced a floor on deposit rates that will continue to be felt as credit growth decelerates.

However, construction and infrastructure sectors are expected to continue growing with increased government investment in roads, rail, ports and energy projects.

Standard Chartered Group's focus on Africa and Kenya in particular remains unwavering. Kenya was a major beneficiary of the market upgrade of digital and mobile banking platforms under the USD 3 billion global strategic investments programme. Our commitment to Kenya and Africa was brought to life through the 'Here for Africa' campaign. The visual affirmation and celebration of Standard Chartered's heritage, culture and history in Africa reached out to audiences across 38 African and a further 10 international markets.

We enter 2017 with cautious optimism and our task is well cut out; to maintain the growth trajectory. We shall endeavor to remain focused, disciplined and seize the opportunities that we have. We have the underlying capabilities – systems, a good understanding of our market, a great brand and focused staff – to capitalise on these opportunities.

I would like to express my gratitude to our Clients, Board, Management and Staff for their role in building and upholding the Standard Chartered brand.

Anne Mutahi
Chair to the Board

22 March 2017

Chief Executive Officer's Statement

"We shall continue with the transformation journey to ensure we deliver a more strategically aligned, leaner and efficient organisation"

Introduction

2016 will go down in history as one of the most tumultuous periods of profound change globally and within our country. After a challenging 2015, we set out in 2016 to grow our business by executing a raft of measures. This was guided by the freshly rolled out strategy which focused largely on the following goals:

- Create capacity to invest and grow income;
- Harness technology to enhance our clients' experience by strengthening our digital capabilities;
- Conduct business to the highest levels of ethics and integrity; and
- Manage our risks, returns and capital to create real value for our clients and shareholders.

In the course of executing the refreshed strategy, our business underwent several changes including:

- Commencement of the migration of the Nairobi Shared Services Centre to the Global Business Services in Chennai, India;
- Re-organisation of the Corporate & Institutional Banking and Commercial Banking businesses; and
- Re-alignment of our internal focus to make the business more customer centric. We identified five key pillars that are instrumental in driving our business forward; **People, Risk, Innovation, Digital and Execute (PRIDE).** The new focus has been instrumental in transforming our client service execution.

2016 Performance review

Our performance was solid and reflects the good progress made on the strategic actions we set out a year ago. The underlying profitability before tax of KShs 13.3 billion represents a 45 per cent growth from 2015. Income grew by 10 per cent to KShs 27.4 billion. Our underlying business volumes remain strong, the focus on growing the balance sheet with good quality assets remains key, and our capital position continues to be strong with sufficient headroom above the regulatory requirements.

We will focus on doing good business with our clients, delivering cost efficiency and process improvements,

Chief Executive Officer's Statement (Continued)

and enhancing controls to drive sustainably strong returns into the future.

Performance summary

- Interest income increased by 13 per cent to KShs 25.6 billion driven by growth in lending as well as growth in investment in government securities due to increased liquidity.
- Interest expense at KShs 6.6.billion increased by 33 per cent driven by growth in deposit volumes as well as increase in the average cost of funds more notably in the final quarter of 2016 following the implementation of the Banking (Amendment) Act, 2016.
- Net fee and commission income increased by 9 per cent to reach KShs 4.5 billion. This has benefited from growth in our wealth management offerings as we seek to achieve sustainable diversification of our revenue sources beyond the funded business.
- Trading income was particularly strong reaching KShs 3.8 billion boosted by foreign exchange dealing volumes and benefits from a well positioned book.

Operating expenses of KShs 12.2 billion were up 11 per cent year-on-year largely due to:

- Staff costs increased by 15 per cent compared to 2015. This increase reflects a number of changes undertaken around our staff including investment in learning and development, hire of experienced staff and re-organisation in line with the strategy.
- Premises and equipment costs increased by KShs 0.2 billion to KShs 1.0 billion year-on-year primarily due to increased building management costs across our branch network.
- Other costs increased by 3 per cent year-on-year to KShs 3.2 billion in line with inflation and investments in digital capabilities.

Loan impairment is down from KShs 4.6 billion in 2015 to KShs 1.9 billion reflecting the benefit of past risk management actions and tightened risk tolerances. There has been no significant deterioration in the credit quality of the book, although stresses remain. Non-performing loan accounts have increased slightly from KShs 14.7 billion to KShs 15.0 billion year-on-year reflecting continued stresses in the economic environment.

The cover ratio increased to 69 per cent and is above the industry average.

Balance sheet

Customer loans and advances increased by 7 per cent to KShs 122.7 billion as we continue to focus on disciplined balance sheet management and more selective asset origination. We are also actively managing the customer deposits, which were up 8 per cent to KShs 186.6 billion. We are focusing investment on businesses that generate higher quality liquidity, such as Cash Management and Custody, and through a greater emphasis on Retail Banking deposits. We are a customer deposit funded bank with Current Account and Savings Account (CASA) balances at 77 per cent (2015: 75 per cent).

Overall, the Company is increasingly diversified and remains highly liquid with an advances-to-deposits ratio of 66 per cent (2015: 67 per cent) and a liquidity ratio of 57 per cent (2015: 54 per cent).

Business review

Retail Banking

Income from Retail Banking of KShs 12.5 billion was up 14 per cent year-on-year with impressive growth in our Wealth Management offering. Customer loans and advances grew by 6 per cent to KShs 61.5 billion, while customer deposits increased to KShs 108.5 billion, up 21 per cent.

We stepped up efforts towards revamping our digital capabilities to enhance client experience and improve efficiency. To realise our goal of being the market leader in digital banking in Kenya, we continued to invest and enhance our digital capabilities in 2016. Some of the projects launched in 2016 include, the Standard Chartered Mobile App, a new user interface online banking platform and finger print log-in technology. These channels are critical in our journey towards moving 80 per cent of our transactions to non-branch channels.

Corporate & Institutional Banking

Corporate & Institutional Banking income was KShs 8.5 billion, a 39 per cent increase year-on-year, on the back of strong foreign exchange and client income. Loans and advances grew by 13 per cent to reach

Chief Executive Officer's Statement (Continued)

KShs 49.3 billion. However, customer deposits were down 4 per cent to KShs 63.4 billion.

We made great strides towards building our key product capabilities and improving processes such as speeding up client on-boarding and credit turnaround times. Despite the volatility in the global and local economy, Corporate & Institutional Banking recorded a robust full year performance.

Commercial Banking

Income from Commercial Banking of KShs 2.4 billion was down 36 per cent year-on-year, impacted by decreased loan volumes.

Transformation of Commercial Banking continued in earnest in 2016. As part of the re-organisation, we took bold steps to improve the quality of our book. A lot of work went into tightening underwriting standards and deepening existing relationships.

Following the completion of internal alignment and strengthening of our operational and credit risk efficiencies, the business is poised to record sustained growth in 2017. Our focus will be in exploiting the business ecosystem – build our network proposition by banking the buyers and suppliers of our international corporate clients. We have positioned ourselves to tap into the foreign direct investment flowing into the country and the numerous regional expansion projects being undertaken. We shall leverage on our strong network especially in Asia and across Africa actively tapping into this potential.

Central & other items

Items not directly managed by client segments are included in Central & other items. Income from Central & other items was broadly flat. Within this, treasury income reduced reflecting lower interest rates.

Capital base and ratios

The Company remains well capitalised with its Tier 1 capital ratio of 17.5 per cent being 700 basis points above the regulatory minimum capital requirement. Similarly, the total capital ratio of 20.9 per cent is 640 basis points above the regulatory minimum capital requirement.

People

Our people are the custodians of our vision and mission, and ensure high customer satisfaction and in turn impact the business performance. In 2016, we consolidated gains from our organisational transformation journey which began in 2015, with the objective of creating efficiency and effectiveness in the way we work and approach business opportunities. We are committed to providing our people with opportunities to develop their capability and grow their careers.

We shall continue with the transformation journey to ensure we deliver a more strategically aligned, leaner and efficient organisation through clarifying target operating models, creating greater role clarity, reducing layers, and optimising capacity and capability.

Outlook

Whereas we closed the year on a high note, we recognise that we face pressures from external challenges notably the Banking (Amendment) Act, 2016 whose full effect is expected to be felt across the industry in 2017. Our priority in 2017 remains positioning the Company to take advantage of the opportunities, and managing the risks and challenges that we may encounter. We have prioritised diversification of revenue streams with heightened focus on Wealth Management and Trade, whilst digitising the Retail Banking business for sustained competitive advantage.

Following the capping of interest rates and setting a floor on deposit rates, superior customer experience will be the key differentiator in the banking industry. We have put in place the requisite fundamentals to ensure that we remain efficient and competitive. We shall endeavour to achieve this by controlling costs, managing risk and exploiting opportunities for business growth.

I would like to thank our clients for their support and loyalty to the Company. I would also like to thank the Board, Management and Staff for their resilience and determination to succeed in the face of very challenging market conditions.

Lamin Manjang
Managing Director & Chief Executive Officer

22 March 2017

Sustainability Review

Promoting sustainable economic and social development

About us

Standard Chartered Bank Kenya Limited was established in 1911 with the first branch opened in Mombasa Treasury Square. The Bank was listed on the Nairobi Securities Exchange in 1989. The public shareholding is just over 25% (remainder held by Standard Chartered PLC), and comprises over 30,000 shareholders. We have a total of 38 branches spread across the country, 98 ATMs and more than 1,800 employees.

We offer a variety of local and foreign currency banking solutions to meet our clients, transactional, borrowing and investment needs. We have a diversified portfolio cutting across select sectors that include business services, manufacturing, wholesale and retail trade, transport and communication, real estate, agriculture, energy and water. Our target segments are mainly corporate clients, government and government agencies, commercial clients and retail clients.

Standard Chartered Bank Kenya has achieved a number of firsts in the Market: first bank in Kenya to be awarded the ISO 9002 certification in technology systems, first ATM Automated Banking Centre in Kenya and, for 24-hour convenience, first to introduce unsecured Personal Loan and first to introduce Priority Banking facilities in Kenya for more affluent customers, amongst others.

Our Business model is driven by a refreshed strategy, which is highly focused on the three clients segments (Retail Banking, Commercial Banking and Corporate & Institutional Banking) and supported by five product groups. Standard Chartered continues to perform strongly in its chosen niches.

Awards in 2016

During the year we were honoured with the following awards:
- Best Global Consumer Mobile Banking – Global Finance Awards
- Best Global Consumer Mobile Banking App – Global Finance Awards
- Best Global Information Security Initiatives – Global Finance Awards
- Best Consumer Digital Bank Middle East & Africa – Global Finance Awards
- Best Consumer Digital Bank – Global Finance Awards
- Best Corporate Bank – Banker East Africa Awards
- 1st Runners up Banks Category, Excellence in Financial Reporting (FiRe) Awards
- 1st Runners up Sustainability – Catalyst Awards, Kenya.

Standard Chartered Headquarters at Chiromo, Nairobi

Sustainability and our business

In line with our brand promise 'Here for good', we seek to ensure that the financing we provide supports sustainable economic and social development in the communities where we operate. Sustainability is integrated into how we do business. It guides everything we do, from the services we provide to our clients, to the way we run our Bank and support the local communities in which we live and work.

Our approach focuses on three areas:

- Contributing to sustainable economic growth – supporting our clients through our core business of banking;
- Being a responsible company – managing our business and operations to deliver long-term value for our shareholders and society; and
- Investing in communities – working with our local communities to promote social and economic development.

We focus 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 positive contribution to the communities where we operate.

Sustainability highlights

- 1,425 days were contributed by staff to volunteer in the community;
- KShs 39 million raised for 'Seeing is Believing', taking the total to more than KShs 150 million; six million people reached since 2003;
- 2,625 girls empowered through 'Goal', bringing the cumulative number of girls reached to 5,150 since 2015 when the programme was launched in Kenya; and
- 7,479 youth in 19 schools and 135 small and micro business owners and managers educated on financial education by staff volunteers.

Contributing to sustainable economic growth

We seek to maximise our contribution to sustainable development by:
- Providing financing to businesses in key sectors that enable economic growth and job creation *(such as infrastructure, agribusiness and trade);*

Sustainability Review (Continued)

Contributing to sustainable economic growth

Showcasing our digital technology

- Sharing our expertise to support countries in deepening financial markets *(such as supporting governments as a sovereign ratings adviser)*; and
- Extending access to finance to individuals through our Retail Banking operations and to our microfinance institution clients who provide services to individuals who lack access to banking services.

Our lending is underpinned by our sustainable finance policies and 20 Position Statements which set out the environment and social standards that we expect of ourselves and encourage from our clients.

Retail Banking

Retail Banking is one of the Bank's client segments offering small businesses, affluent and emerging affluent individuals a full spectrum of products and services. We have three client sub-segments within Retail Banking namely: Priority Banking, Business Banking and Personal Banking.

We continue to execute our refreshed strategy hinged on banking the affluent and emerging affluent and accelerating digital investments. These, combined with focused investment in key cities with a growing affluent base, has contributed to the strong performance in our Priority and Business Banking segments. Our clients remain at the centre of our business. We have modeled our strategy and approach around delivering world-class services and products to our chosen client segments.

To support our strategy, we continue to invest and enhance our digital capabilities. Our aim is to be the market leader in digital banking in Kenya and offer a differentiated customer experience through our digital channels.

As part of our digital roll-out, we launched several products in 2016 to enhance client experience:

Standard Chartered Mobile: It is an application which enables clients to enjoy more functions and faster processing times when using mobile phones to conveniently bank from any location. Clients are able to check balances, transfer money and pay bills, all through their smartphones.

Revamped online banking platform: Clients are now enjoying improved navigation and user-friendly interfaces on the Bank's website when using laptops, tablets or mobile phones. The new platform also offers a self-service option for Wealth Management; clients can set up their investment profiles, gaining access to investment products most appropriate for their profiles.

Touch Log-in: The technology uses fingerprints to verify identity, making it more secure than username and password logins. Fingerprint technology is now available on smart-phones and tablets giving clients more convenience and security.

Retail Workbench: A digital, tablet-based, sales-and-service tool that allows sales staff to open accounts for clients in any location. It is seamlessly integrated with the Bank's back-end infrastructure making banking services like loan approvals and credit card issuance fast, simple and completely paperless.

The launches were a major step in our 'Digital by Design' model which is geared towards eliminating paper and improving cost efficiency. The strategy aims at developing digital banking solutions not only to transform client experience but also to provide them with the highest levels of security. We aim to migrate over 80 per cent of our transactions to non-branch channels.

We currently have 38 branches and two agency branches spread out across the country in select locations. Within this branch network, we have seven Priority centres namely: Kenyatta Avenue, Yaya Centre, Muthaiga, Westlands, Chiromo, Upperhill and Treasury Square that exclusively serve our Priority clients. We are working towards providing our branches with a standardised look and feel; to this end, we will continue to refurbish our branches in 2017 to improve customer experience. We have also opened a new ultra-modern branch at Two Rivers Mall. We shall continue to deepen our presence in key cities to grow and maintain our market share as well as provide superior client experience to our valued clients.

We pride ourselves in building deep client relationships through our highly trained and dedicated relationship managers who are committed to advising and supporting our clients on all their banking needs.

Lamin Manjang (left), CEO Standard Chartered Bank Kenya, launches the Retail Workbench tablet

Sustainability Review (Continued)

Contributing to sustainable economic growth (Continued)

To reinforce our strategy as an integrated financial services firm, we offer Wealth Management products and services through our subsidiaries, Standard Chartered Investment Services Limited and Standard Chartered Insurance Agency Limited. Our objective is to build and protect our clients' wealth by providing tailor-made investment and insurance products. We have non-exclusive distribution agreements with Sanlam Kenya Limited, Jubilee Insurance Limited and Prudential Life Assurance Limited for the distribution of Life Insurance products. We also have non-exclusive distribution agreements with AIG Kenya Insurance Limited and Jubilee Insurance Limited for the distribution of General Insurance products. We also offer investment advisory services to our clients by providing a wide array of investment options such as onshore and offshore mutual funds, treasury bills and bonds.

Commercial Banking

The Commercial Banking segment continued to transform its business model to be fully focused on serving clients in a more efficient and effective way. We re-aligned our business to enable us to serve our clients more effectively and achieve cost efficiencies.

Our key products include:

— Cash Management: Our team of cash management specialists provide consultation services and customised solutions for clients based on their objectives, geographies and operation, whilst factoring in tax and regulatory considerations to ensure viability and optimal benefit;

— Trade Finance: Our first-in-class Working Capital solutions enable our clients to manage their cash conversion cycles efficiently;

— Electronic/Mobile Banking: The Straight2Bank (S2B) platform provides a single, one-stop portal for all cash, trade, custody and foreign exchange requirements across multiple markets and currencies. These provide our clients greater productivity and transparency, reducing working capital cycles and integrating the physical and financial supply chains;

— Long and short-term lending: We provide a comprehensive range of short term and long term financing solutions to meet the needs of our clients with focus on growing their business and building long term relationships; and

— Foreign exchange: We have a team of dedicated Treasury Sales and Trading experts who provide tailor-made solutions for clients dealing in foreign currency.

Vera Zhan, a Commercial Banking Relationship Manager (Right), in a discussion with clients

Fred Michuki, Head of Commercial Banking, meets clients from China

Relationships are the most important part of our business. In Commercial Banking, we strive to deepen relationships with our existing clients and to become a trusted partner for growth. In 2016, 80 new relationships were established and are benefitting from Standard Chartered's unique network and product suite.

To help our clients transact locally and across borders with ease, we sought to grow their payment capabilities and access to a complete range of accounts, products, and services using our internet channel - S2B.

To create a strong and dedicated team with unparalleled expertise and coverage, we spent the first half of 2016 developing talent and ensuring we have the best team to help take our clients' businesses forward.

Our dedicated Chinese relationship teams located in Kenya, Tanzania and Uganda support clients from China as they trade within and invest in East Africa and the rest of the region. The focus of the Chinese segment has shifted over time from pure trading to tangible, long term capital investments into Africa. Using Kenya as the East Africa gateway for business, investment and trade under China's One Belt, One Road policy, we expect to build on the significant growth achieved in 2016.

During the year, we continued to strengthen our operational and credit risk efficiencies in order to protect our clients from risk. This was achieved by addressing our process flows, improving turnaround times for transactions and client on-boarding. One such initiative was to develop a more robust, locally suited Lending Portfolio Standards focused on addressing our clients' requirements.

We continue to build our network proposition, partnering with Corporate & Institutional Banking to bank the buyers and suppliers of our international corporate clients. We see this as an area of considerable potential and one in which we have a competitive advantage.

Sustainability Review (Continued)

Contributing to sustainable economic growth (Continued)

Vimal Shah, a Corporate & Institutional Banking Client, joins Bill Winters Standard Chartered Group CEO and Anne Mutahi Chair to the Board during a Cocktail

In 2017, we shall prioritise partnering with our Corporate & Institutional Banking client base to deliver supply chain solutions to distributors and suppliers while continuing to grow e-channels penetration and usage to ensure clients enjoy exceptional transaction execution speeds and efficiency.

Corporate & Institutional Banking

Corporate & Institutional Banking is responsible for Standard Chartered's global clients, supporting their cross-border transactional and investment needs across Africa, Asia and the Middle East. As a global business, it leverages on the Bank's network to deliver a superb client experience across Origination, Sales and Distribution of suitable and appropriate solutions.

To deliver on our business strategy, Corporate & Institutional Banking has two client segments:

— **Financial Institutions** serves as a Trusted Advisor to Banks, Investment firms, Insurance companies, Development Organisations and Public Sector entities (including the Central Bank, Multilaterals, The National Treasury and other government ministries) among others.

— **International Corporates** focuses on provision of world-class solutions to the local subsidiaries of global Multi-National Corporations that operate in Kenya. In addition, the team covers Government Parastatals as well as large local and regional corporates with international aspirations that need sophisticated banking solutions.

To support these two client sub-segments, Corporate & Institutional Banking has three Product Groups that provide specialist knowledge and expertise to all client segments, including Commercial Banking and Retail Banking. These product groups are:

— **Transaction Banking:** provides top-of-class Working Capital and Liquidity Management solutions to corporate clients via Standard Chartered's award-winning Straight2Bank (S2B) electronic platform. Transaction Banking's capabilities include world-class Cash Management, Trade, Securities Services and Correspondent Banking solutions designed to give our clients a competitive edge over their peers.

— **Financial Markets:** offers a full suite of Foreign Exchange, Fixed Income, Commodities and Debt Capital Markets solutions to our corporate and commercial clients. Standard Chartered is the only bank in Kenya to have a Structured Sales desk dedicated to providing sophisticated Financial Markets solutions to Kenyan firms. Our award-winning Global Research team provides unparalleled coverage of the most up-to-date developments in Global Foreign Exchange, Interest Rate and Commodity markets.

— **Corporate Finance:** provides customised and innovative corporate finance solutions to help Corporate and Commercial clients meet their strategic objectives. Through a hybrid onshore and offshore coverage model, Corporate Finance offers bespoke world-class solutions in Financing Solutions and Leveraged Finance, Mergers & Acquisitions Advisory, Project & Export Finance and Structured Finance.

2016 was characterised by volatility in both the global and local economy resulting in an uncertain economic environment. This was driven by the strengthening of the US dollar following the decision by the US Federal Reserve to raise interest rates and a depressed stock market performance in Kenya. This, coupled with the Brexit vote that resulted in the depreciation of the British Pound to 30-year lows against the US Dollar, signalled a fresh round of economic uncertainty for Kenya and the world at large.

Against this backdrop, Corporate & Institutional Banking proactively undertook a series of strategic decisions to defend and grow the Bank's revenue whilst taking cognisance of existing and new risks as well as the new regulatory environment post the Banking (Amendment) Act, 2016. The result of this was a robust full year performance that cements our place as Kenya's pre-eminent corporate banking business.

In keeping with our role as a facilitator of Trade and Investment, Standard Chartered was the only prominent international bank at the sixth Tokyo International Conference on Africa's Development (TICAD) that was held in Nairobi in August 2016. The conference, which was held in Africa for the first time, brought together 35 African heads of state, the Japanese Prime Minister as well as over 80 CEOs of top Japanese businesses to Nairobi to discuss ways of enhancing Africa - Japan economic cooperation.

Tejinder Singh (second from right), Head of Global Banking, poses with Clients during Diwali celebrations

Sustainability Review (Continued)
Being a responsible Company

In 2016, we supported the National Treasury in its plans to raise medium-term foreign currency borrowings from offshore sources. This repeat mandate strongly illustrates our status as a trusted partner for the Government of Kenya. We also successfully structured one of Kenya's largest ever refinancing facilities on behalf of Kenya Power and Lighting Company.

Being a responsible company
Our commitment to sustainability is not only about the business activity we finance but also about how we run our business. We are focused on building a business consistent with our values. We have comprehensive policies that guide our internal and external engagement on issues pertaining to governance, financial crime prevention, people and values, environmental footprint and suppliers.

Responsible selling and marketing
We place a premium on supporting the needs of our clients and delivering a high quality client experience. This is achieved by treating clients fairly and working closely with them to deliver appropriate and suitable products. We have robust global policies and procedures in place to make sure that complaints are identified and resolved quickly.

Governance
Standard Chartered is committed to practising high standards of corporate governance. This is the foundation on which a company's long-term success and ultimate sustainable shareholder value are built. Principles of sound governance are embedded in our strategy to ensure that the Bank is effectively managed and controlled, as required by key stakeholders. This shapes the Bank's culture and values which in turn determines how we conduct business. To ensure that all staff appreciate and embrace good governance, all employees are required to re-commit to the Code of Conduct every year. This contract guides the way all employees engage with one another, customers, suppliers and other stakeholders.

Tackling Financial Crime
Financial crime hinders economic progress and harms individuals and communities.

We strive to have the most effective financial crime compliance programmes in order to protect our clients, employees and the places where we do business.

Bill Winters, SCB Group CEO, addresses staff during a visit to Kenya

Members of staff listening to a talk on Governance

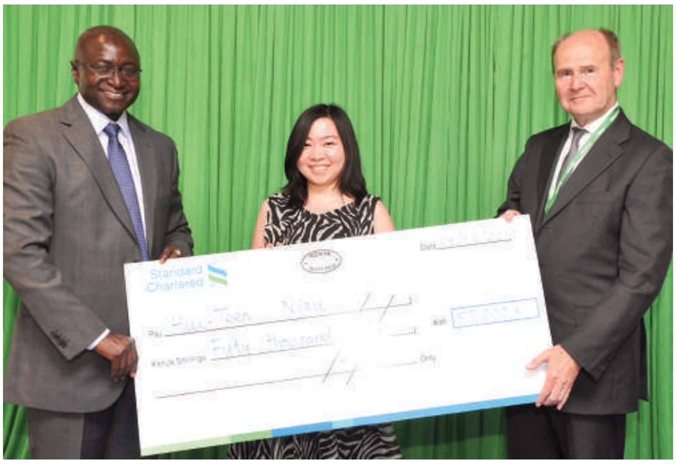
Financial institutions are in a very unique and powerful position in the fight against financial crime. Financial institutions are still the most preferred avenue for money laundering as they provide a one stop shop for the criminals. Placement, layering and integration can take place in the same institution through exploitation of the products, network and technology available within the financial institutions.

In 2016, we took an aggressive approach of show casing that financial crime is more than just the money involved. We launched 'The Whole Story Campaign' to shine a spotlight on the people affected by financial crime, to make our employees aware of their personal impact on fighting financial crime. Using multiple touch points, the campaign creatives were bold with strong visuals to get people's attention. The aim was to make our people take notice, even make them a little bit uncomfortable, because 'The Whole Story' is about the world of financial crime, and the role that we need to play to fight financial crime. The visuals made, including videos from top leadership, were meant to make a lasting impression on our staff and make them own the fight against financial crime. We also launched Financial Crime certification for financial crime specialists within the Bank by rolling out 10 modules in 2016.

In addition to creating internal awareness, we also ran a correspondent banking academy for all our correspondent banks sending the message of the financial institutions' role in the fight against financial crime and provided a benchmark on minimum standards for correspondent banks in financial crime controls.

Investment in enhancing financial crime controls grew to another level. Under the Financial Crime Mitigation Programme, a comprehensive multi-year initiative designed to deliver significant and lasting enhancements to our financial crime compliance capabilities, the 'Journey to Satisfactory' project was launched. One of our financial crime strategic objectives is to improve our Financial Crime Controls to Satisfactory, including management of our inherent risk resulting in a medium residual risk rating for money laundering, sanctions and bribery and corruption risks. This is instrumental in meeting our aspiration of leading the way in combating financial crime.

Sustainability Review (Continued)
Being a responsible Company (Continued)



Sir John Peace (former SCB Group Chairman) and Lamin Manjang, CEO, present an Award to a member of staff

There was increased investment in resources, roll-out of updated policies and procedures and enhancement of customer due diligence procedures in 2016. We also commenced roll-out of more robust financial crime systems and this will remain a priority in 2017.

People and values

The Human Resource (HR) function contributes to business growth through enabling the Bank to attract, develop and retain an engaged team that delivers on our brand promise, 'Here for good'. We bring to life, the Bank's Strategic Pillars of 'PRIDE' (People, Risk, Innovate, Digitise, and Execute) through developing a motivated and high-performing team of individuals.

Our focus is informed by a strong emphasis on employee productivity, through building their capability and providing them with attractive career paths for growth. We work closely with the business teams to ensure the People Agenda is aligned to the business strategy. This is achieved through incorporating an HR Business Partnering model into our HR structure.

The organisational transformation journey continued in 2016 as we enhanced efficiency and effectiveness in the business. The transformation entailed a review of the operating model and structure in the Shared Service Centre (SSC), Transaction Banking and Property Department. As a result, we closed the year with a staff compliment of 1,872. Women comprise the majority of our staff at 52 per cent (970). Staff attrition stood at 8.6 per cent in 2016.

Investing in learning and development

We take a proactive approach in managing employee careers by enabling them articulate their career ambitions, and providing the enablers for them to succeed. We encourage our people to own and take responsibility for their career development in the Bank and commit to create an environment where they can succeed. These enablers include classroom learning, experience-based learning, leadership development and career coaching.

Our Learning Academy continues to facilitate induction, work-based learning and coaching and management development programmes with an emphasis on management and leadership skills. Last year, a total of 2,125 employees from across the East Africa region undertook courses in various disciplines at the Academy.

The Bank also sponsored five talented women to a leadership development programme, the Female Future Leaders, aimed at fast-tracking women leadership. The programme is spearheaded by Federation of Kenya Employers (FKE), and combines a rich mix of class-room, coaching, mentoring and experiential learning. To date, 18 senior managers have participated in the programme.

We have put in place dynamic policies for managing our people's careers. These include the Performance Improvement Plan (PIP) and P^3 (Performance, Pay and Potential) which form the basis for appraisal and/or reward systems. Although rewards/ benefits are driven by individual performance, organisation performance and market positioning, benefits for both temporary and permanent employees are enshrined in the Standard Chartered Group Reward Policy.

Employee engagement

The correlation between employee engagement and performance cannot be overemphasised. Our people are the custodians of our vision and mission, and ensure high customer satisfaction and in turn revenue growth. In 2016, we partnered with staff to deliver a number of exciting employee engagement programmes:

- *Financial Literacy:* We dedicated the month of February to Financial Literacy. The initiative aimed at providing financial skills to our staff as a way of improving employee engagement. In partnership with the Bank's Executive Committee, we trained over 900 staff in prudent financial management.
- *Wellness Month:* In the second quarter of the year, we hosted a Wellness Month where doctors set up mobile clinics in the office and carried out screening for various occupational illnesses and provided health and medical advice to various staff.
- *HR Roadshow:* This was a platform where the Leadership and HR visited various Business Units and Branches across the Bank in the third quarter of the year, engaged with staff, shared ideas, addressed pressing issues and discussed staff matters that could improve the wellbeing of our people.

A member of staff conducts Financial Literacy training

Sustainability Review (Continued)

Being a responsible Company (Continued)

Employee engagement (Continued)

— *Career Development Month:* The Career Development Month was launched in November 2016 with the aim of building capability of our staff and enable them map their own careers in the Bank. The launch provided an opportunity to train staff on career coaching, quality performance conversations, interviewing skills and many more.

We track employee engagement using 'My Voice' survey. The assessment provides an engagement index based on a series of indices. In 2016, the engagement index stood at 73 per cent up from 69 per cent in the previous survey.

Employees feel more engaged when they are accorded avenues for interaction and channeling feedback. The Bank has several employee feedback channels:

— 'My Voice' survey - 1,623 employees provided feedback using this channel representing a 90 per cent response rate;
— Speak up/ grievance channels – There were 24 grievance cases raised in 2016;
— Direct emails to HR.

Diversity and inclusion

At Standard Chartered, we view diversity and inclusion (D&I) as a critical lever for business success in the long term. We are committed to creating an inclusive environment that is free from bias and where everyone can realise their full potential, and in so doing, make a positive contribution to our organisation. Comprising 130 different nationalities, Standard Chartered's global workforce and footprint extends across almost 70 markets, primarily in Asia, Africa and the Middle East.

Our D&I Agenda in Kenya focuses on two main pillars; Gender and Disability.

We are committed to developing and giving opportunities to female staff to thrive in their careers. Our gender agenda aims to ensure women are given the same opportunities to excel and progress, that the gender balance is better represented, particularly at senior levels, and that we encourage initiatives such as flexible working so as to better support our female and male colleagues. We are also determined to involve men as key drivers of greater workplace equality. By deliberate effort to foster women's growth and development, the Bank aspires to be recognised as an employer of choice for high impact women.

Female members of staff during a SKIRTS forum

Standard Chartered Bank Kenya women leaders attending a SKIRTS meeting

In Kenya, we launched the women forum dubbed SKIRTS (Sisterhood, Knowledge, Integrity, Respect, Tenacity & Substance) which brings together all female staff. The objective of SKIRTS is to create a platform where peer employees help each other to excel, provide a mechanism to foster leadership skills in women as well as focus on professional development initiatives for women in the Bank.

SKIRTS leverages on mentorship and sharing from senior leaders both external and internal through plenary sessions on topical issues affecting women's careers and personal growth. In 2016, we marked International Women's Day with a plenary session of male and female leadership team. We also hosted a joint plenary session with Standard Chartered PLC and Standard Chartered Kenya Boards.

SKIRTS further demonstrates the Bank's commitment to gender diversity through support and participation in 'Goal' programme, the Bank's education programme, which combines sports with life-skills training to empower and equip adolescent girls with the confidence, knowledge and skills they need to be integral economic leaders in their families and communities.

We have made great strides with marked success through increased women leaders in the Executive Committee (40 per cent) and in senior management. In 2016, we launched Women in Leadership Mentorship Programme where over 100 mid level managers will be mentored by the Bank's leadership Team for six months.

The second pillar is Disability. Our aim is to be fully inclusive of employees and clients with disabilities, to have scalable, forward-looking systems and practices for current and future needs, and to be the employer of choice for the world's best banking professionals with disabilities.

This means not only removing barriers and biases to attract the very best talent, but also better supporting existing colleagues and those who acquire disabilities during their employment with the Bank. Our aim when recruiting is to understand what people with disabilities can do, rather than being influenced by perceptions of what they cannot do.

Sustainability Review (Continued)

Being a responsible Company (Continued)

Celebrating diversity in sports

We have a standardised, global approach to managing workplace adjustments with a Workplace Adjustment Guideline and Request Form and an Inclusive Design Standard. This global approach is helping make our working environment more accessible to those with disabilities by helping ensure all Bank premises have minimum design standards for accessibility and inclusion. This applies to designs for new premises and renovating or remodelling of existing premises.

We will soon be launching video banking, which allows clients to interact with the Bank over a number of digital channels, including web chat, audio and video. This will enable clients with mobility limitations to securely interact with banking consultants face-to-face via video while enjoying the flexibility and convenience of banking without having to physically visit a branch. We also launched our Global Disability Network to reduce stigma, in particular that related to mental health and provide support to employees with disabilities.

In addition to the above, our community investment initiative, 'Seeing is Believing', works specifically on the theme of visual disability. Three members of staff are visually impaired and they serve as 'Seeing is Believing' ambassadors.

Health, Safety and Wellness

The Bank continues to focus on creating a culture of reporting accidents, incidents and near misses so as to effectively manage health and safety risks within the Bank. There was a tremendous increase in reported incidents last year, growing by 490 per cent compared to 2015. This is an indication of increased awareness on safety amongst our employees. This is also as a result of rigorous and continuous assessment of our buildings to ensure that hazards are effectively managed and risks are appropriately mitigated.

A total of 227 accidents, incidents and near misses were reported in the year 2016 with 47 per cent of the reported incidents relating to building integrity issues, while health, hygiene, access and egress accounted for 15 per cent each of the total incidents reported. Minor injuries accounted for 60 per cent of all reported injuries while occupational ailments accounted for 32 per cent of all reported injuries.

In 2016, the Bank changed its approach in the running of Occupational Safety and Health Committees. This led to effectiveness and increased value to the Bank beyond complying with the local regulations.

Other actions taken to ensure compliance with Occupational Safety and Health Act 2007 included:

- Renewal of our workplace registration certificates and registration of new branches;
- Conducting health and safety audits through registered safety advisors;
- Fire audits in line with the Legal Notice No. 59 on fire risk reduction rules;
- Risk assessments throughout our branches and offices so as to ensure that health and safety hazards were identified and eliminated and risks mitigated; and
- Training over 120 employees on fire safety and basic first aid skills and designing a mechanism of sharing emergency and security information with visitors at our head office building.

Environment

As part of our overall environmental policy, we seek to minimise the environmental impact of our operations and have targets in place to reduce the rate of our energy and water usage across our portfolio.

We continue to monitor our Global Environment Management Systems (GEMS) buildings. We have five such buildings namely Chiromo Head Office, Kenyatta Avenue Branch, Moi Avenue Branch, Treasury Square Branch and Eldoret Branch.

Members of staff enjoy a break during a Team Building exercise

Sustainability Review (Continued)
Investing in Communities

In 2016, the Bank's Energy Use Intensity was at 303kwh/m²/yr which was behind our 2019 glide path target by 4 per cent. Our Water Use Intensity (WUI) was at 3.14 kl/m²/yr which was behind our 2019 glide path target by 27 per cent. The high water consumption was due to a leakage within the head office building that has been resolved and we expect our WUI to stabilise in 2017.

The Bank has embarked on an ambitious project of turning all the Head Office lighting to Light Emitting Diode (LED), with the Head Office being the highest energy consumer at over 50 per cent of all the Bank's energy. All the necessary groundwork was laid in 2016 and implementation commenced in 2017. The LED project is expected to lead to annual average savings of KShs 4.5 million and reduce our energy consumption by about 15 per cent. We are also implementing a solar project in 2017 that should see our building at Chiromo operate "greener". Improvements to the sewerage and water supply systems at the Chiromo Head Office in 2017 should overall see us move closer to our targets.

In addition to this, we completed modern installations at our Two Rivers Mall branch and refurbishment of Nakuru branch which are all installed with LED lighting.

Suppliers

We are committed to conducting 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.

Investing in communities

Investing in communities is one of our three sustainability priorities. As set out in our Strategic Intent, we seek to be a force for good promoting sustainable economic and social development in the communities where we operate. Community engagement is a key way in which we take forward this commitment. Investing in communities includes two components: employee volunteering and community programmes. Our community programmes focus on two themes: health and education, with youth as a target demographic. We have four global community programmes which are: 'Seeing is Believing'; 'Goal'; Financial Education which comprised of Financial Education for Youth (FE4Y) and Education for

Committed to conservation

Conserving the environment

Entrepreneurs (E4E); and Standard Chartered Rugby Academy.

We encourage our employees to share their skills to support the successful delivery of our programmes, and to contribute to their communities. Every employee is entitled to three days of paid volunteering leave annually. In 2016, through the Employee Volunteering programme, our staff spent a total of 1,425 days supporting various community initiatives across the country. We believe that when our employees share time, skills, knowledge and experience on a cause that is close to their hearts, they help the Bank make a real and tangible difference in our local communities. This is the reason we place a premium on skills-based volunteering. Skills-based volunteering enables us to leverage our skill sets to help our communities especially in financial education, mentorship and coaching.

'Seeing is Believing'

'Seeing is Believing' (SiB) is Standard Chartered's global initiative to tackle avoidable blindness and visual impairment. Launched in 2003, SiB is a collaboration between the Bank and International Association for Preventable Blindness. We support SiB in Kenya through proceeds from Standard Chartered Nairobi Marathon registration, donations from staff and funding from the Group 'Seeing is Believing' initiative.

Since 2003, SiB has achieved tremendous success through funding of nine projects in Kenya:

- Reached more than six million people;
- Performed 166,000 surgical interventions;
- Screened 1.1 million people;
- Trained 1,500 health workers;
- Upgraded 10 health facilities.

In 2016 we implemented three SiB programs: 'Seeing is Believing' Child Eye Health Care in East Africa, 'Seeing is Believing' Phase V, and scale up of Portable Eye Examination Kit (PEEK) through SiB Innovation Fund.

Sustainability Review (Continued)

Investing in Communities (Continued)

Screening during a Seeing is Believing Clinic

'Seeing is Believing' Child Eye Health Care in East Africa

'Seeing is Believing' Child Eye Health Care East Africa programme was launched in 2013 in Kenya, Uganda and Tanzania with the overall goal to build health systems and promote eye health for children in East Africa. The Bank invested USD 6.25 million in the four year-programme implemented by a consortium of health partners. The programme focused on five areas of intervention:

1. Infrastructure development and provision of equipment;
2. Human Resource development for health workers;
3. Service delivery including screening and surgery of children between 0-15 years of age;
4. Health Education and promotion; and
5. Advocacy and Research.

The programme was successfully completed and handed back to the Ministry of Health in December 2016 having exceeded the set targets and achieved significant milestones.

The programme screened over one million children of ages 0-15 years. Of these, over 200,000 were treated for various eye ailments and over 5,000 underwent cataract and other surgeries. More than 13,000 refracted and prescribed spectacles and low vision devices were issued.

'Seeing is Believing' Phase V

The Rift Valley Province Prevention of Blindness Programme covers six counties of the former Rift Valley Province. The programme is implemented through the eye units of county referral hospitals of Narok, Trans Nzoia, Nandi, West Pokot, Elgeyo Marakwet and Uasin Gishu. In addition to these, The Moi Teaching and Referral Hospital (MTRH) is part of the project.

The programme aims to contribute towards the eradication of avoidable blindness in the former Rift Valley Province of Kenya by strengthening and integrating primary eye care into the general public health care system. It is achieving this by increasing the capacity of primary, secondary and tertiary facilities to provide quality and sustainable eye care services in the area. Health workers from public hospitals in the project catchment area continue to receive specialised training to uplift their capabilities.

Besides these interventions, a sizeable part of the project has been dedicated to infrastructure development. In 2016, we unveiled the ultra-modern Huruma Eye Unit in Uasin Gishu county. The project also supported repairs and maintenance of ophthalmic equipment for Kitale and Kapenguria.
In 2016, 103,336 people were screened against a target of 131,748 while a total of 5,166 surgeries were performed against an annual target of 5,872.

Portable Eye Examination Kit (PEEK)

This is a school health based project launched in Trans Nzoia County in 2016 for screening children using a Portable Eye Examination Kit (PEEK). It is a mobile-based system that uses smartphone technology to carry out various eye tests including visual acuity, colour vision as well as lens and retinal imaging. PEEK was developed by the London School of Hygiene and Tropical Medicine while the upscale of the project in Northern Kenya was funded by Standard Chartered Bank. PEEK is targeting to screen 200,000 pupils in 350 schools in Trans Nzoia County in three years.Teachers from selected schools have been trained and supplied smartphones with the appropriate application to assess the visual acuity of children in their schools. Children identified with visual impairment are referred to Kitale County Hospital Eye Unit for further assessment. A Cloud-based data system has been developed to record and analyse data as it is being collected in the schools.

Standard Chartered Nairobi Marathon

The 14th edition of the Standard Chartered Nairobi Marathon was held on 30 October 2016 at the Nyayo National Stadium. In a departure from past practice, all registrations were done online.

José Viñals, Group Board Chairman, uses PEEK technology to screen children in Kibera during a Seeing is Believing clinic

Sustainability Review (Continued)

Investing in Communities (Continued)

The online registration was launched four months before the event date in our endeavor to comply with international standards and give participants a better experience.
The highly successful event attracted more than 18,000 participants drawn from 350 corporates and 76 nationalities.

All registered participants who opened and funded a Marathon Savers account were entered into a final draw to select eight lucky winners. The winners enjoyed a fully paid trip to Singapore in December where they took part in the Singapore Marathon.

The Bank invested about KShs 90 million towards sponsorship of the event whilst another KShs 60 million worth of sponsorship was raised through partners.

Funds raised from registration and donations amounted to KShs 39 million. All the funds have been channelled to the SiB initiative, the Bank's flagship community initiative that focuses on addressing avoidable blindness among children below 15 years. Since the marathon was launched in 2003, more than KShs 150 million has been raised.

In line with our brand promise 'Here for good', we have renewed the sponsorship contract with Athletics Kenya as we continue to give budding Kenyans a platform on which to kick start their careers whilst also promoting sports tourism.

Financial Education

Research identifies lack of financial education as a key barrier to financial inclusion especially amongst vulnerable populations such as youth, women and micro and small businesses. Without financial capability, individuals cannot make informed decisions about their limited financial resources. The key driver of financial capability is financial education; financial education provides individuals with the necessary skills, attitudes and behaviours to take control of their finances and to protect themselves from predatory banking practices.

Similarly, the success and sustainability of micro and small businesses is dependent on their ability to manage effectively their business finances. Improved financial education provides entrepreneurs with the skills they need to grow their businesses and contribute to local economic development.

Elite runners take the lead during the Standard Chartered Nairobi Marathon

Lady winners of the 2016 Standard Chartered Nairobi Marathon 42 km race

Financial Education is a critical obligation for Standard Chartered. Our aim is to build financial capability among vulnerable populations such as youth, women and micro and small businesses that have limited knowledge and access to financial services. We seek to foster greater financial understanding and opportunity in the communities where we operate and to demonstrate our brand promise, 'Here for good'. We recognise that the security, prosperity and stability of our financial systems, communities and economies depends on well educated, financially capable young people and entrepreneurs.

Under our Financial Education initiative, we have two programmes that are fully implemented by our employees: Financial Education for Youth (FE4Y) and Education for Entrepreneurs (E4E). FE4Y is a set of programmes aimed at building the financial capability of the world's youth while E4E is aimed at building the financial capability of non-client micro and small businesses with a focus on women owned or led enterprises.

In 2016, through the two programmes, we reached 7,479 youth in 19 schools and 135 small and micro business owners and managers.

Standard Chartered Impala Saracens Rugby Academy

The Standard Chartered Bank / Impala Saracens partnership was established to support the Impala Saracens Rugby Age Grade Programme for youth under the age of 21 and targeted youth from low income households. The programme also serves as a feeder to the Impala Saracens club and is aimed at recruiting, developing and retaining coaches, match officials and game administrators. The programme is considered to be integral to the long term success and sustainability of Impala Saracens. The main aim is to use rugby to positively influence youth in the community around Impala Club. The programme, through rugby, provides a pathway for the community youth from strained socio-economic circumstances to support the

Sustainability Review (Continued)

Investing in Communities (Continued)

Members of the Impala Junior Academy at a practice session

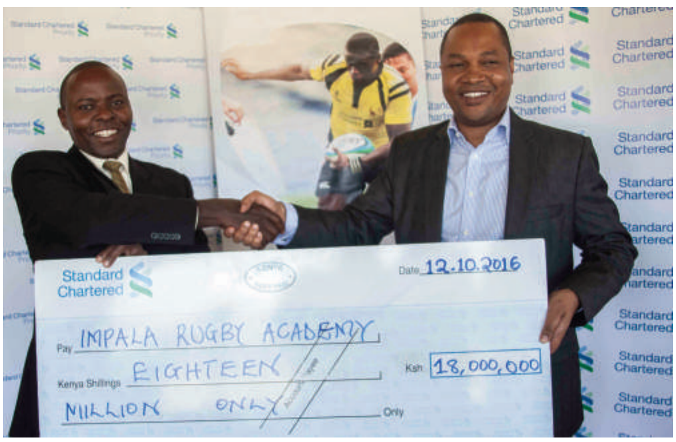
development of key life skills. In 2016, we reached over 950 beneficiaries in 53 schools within Nairobi and trained 31 coaches.

Besides funding, the Academy benefits from other Standard Chartered community engagement programmes. Last year, through our Employee Volunteering programme, we hosted mentorship sessions where we conducted training on Financial Education, Positive Living and Anti-Drug Abuse during the April Holiday Camp graced by Sir John Peace, former Chairman Standard Chartered Bank Group. The camp attracted over 115 youth. We also conducted a Career Fair Workshop in October 2016 with Standard Chartered Human Resource Staff and other Managers which attracted about 25 youth.

'Goal' programme

'Goal' is the Bank's community investment initiative which uses sports and life skills education to transform the lives of young women. The programme empowers adolescent girls for personal, social and economic development by providing knowledge and offering a safe space to play.

Standard Chartered Bank partners with Vijana Amani Pamoja (VAP) to implement the programme in Nairobi county. VAP is a charitable organisation based in Nairobi that integrates social and economic values through soccer by creating a pro-active health environment.



Peter Gitau, Chairman Standard Chartered Sports Committee (right), presents a sponsorship cheque to Godwin Karuga of Impala Club

VAP worked with more than 30 coaches in 2016 to implement the 'Goal' programme and managed to reach 2,625 girls. The girls were drawn from six primary schools, two secondary schools and the VAP Vocational training. The curriculum focused on four core modules of 'Goal': Be Yourself, Be Healthy, Be Empowered and Be Money Savvy.

To enhance employability, the programme conducted vocational training for 28 girls in Baking and Pastry, Hair and Beauty as well as work readiness e.g. C.V writing and computer literacy. The programme held its inaugural Mrembo Economic Empowerment Trade fair (MEET) attracting over 70 people.

'Goal' programme also conducted 15 soccer chapters of Wasichana Wacheze (let girls play) where girls who have participated in Traditional 'Goal' or 'Goal' events form soccer teams

John Barnes, Liverpool FC legend conducts a training session for girls under the 'Goal' programme

called 'Goal Soccer chapters' and participate in Wasichana Wacheze League and tournaments. Over 350 girls from the disadvantaged areas of Mukuru, Kiambiu, Majengo and Huruma successfully participated in the second edition of Wasichana Wacheze League.

In addition, we conducted a Miss Mrembo tournament, an event aimed at bringing young girls in all 'Goal Soccer chapters' together with an aim of playing football, getting empowered through skills education on matters concerning their sexuality and reproductive health and to get a chance to display their modelling skills and unveil their inner beauty through a beauty pageant session. This builds their confidence and self-esteem as well as helping them to appreciate their physical appearance and beauty. The tournament attracted around 300 girls from 12 soccer chapters from the 'Goal' schools.

Board of Directors

Anne Mutahi
Chair to the Board

Anne was appointed to the Standard Chartered Bank Kenya Board in February 2009 and became Chairperson 2013. She has a wealth of experience in the financial services sector having held senior positions at Middle East Bank, ABN AMRO Bank, Citibank, and Jitegemee Trust Limited; a wholesale microfinance institution, where she served as the CEO. She has also served as Chairperson of Association of Micro Finance Institutions (AMFI), Governor and Board Member of Kenya Private Sector Association (KEPSA) and board member of the Kenya Institute of Public Policy Research and Analysis (KIPPRA). Age: 56.

Lamin Manjang
Managing Director & Chief Executive Officer

Lamin was appointed Managing Director & Chief Executive Officer in March 2014. He has over 16 years experience in banking having held various positions in Standard Chartered Bank across Africa and the Middle East. Prior to his appointment as CEO Kenya, Lamin was the CEO of Standard Chartered Bank Oman. He has also served as CEO in Uganda and Sierra Leone. Age: 53.

Kaushik Shah
Non-Executive Director

Kaushik was 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.

He is the Group Governance Officer and Director, Eastern Africa for Safal Group. Kaushik is also a non-executive director at Kenya Association of Manufacturers, Bahari Forwarders Limited and Bahari Insurance Brokers Limited. Age: 64.

Dr. Catherine Adeya-Weya
Non-Executive Director

Catherine was appointed to the Board on 1 January 2016. She is an Information Scientist with over 20 years experience in the area of ICTs for development. These include the social, political and economic impacts of Information and Communication Technologies (ICTs), particularly in Africa, but in the developing world in general. She has extensive knowledge and is widely published in the ICT sector. She has worked on numerous projects including at the United Nations University/Institute for New Technologies in the Netherlands; and the prestigious Konza City project. Dr. Adeya-Weya was until March 2015 the Acting Chief Executive Officer of the Konza Technopolis Development Authority. Age: 48.

Ian Bryden
Non-Executive Director

Ian is the Regional Chief Risk Officer for Africa and Middle East. He has worked in similar positions in South Asia, Hong Kong and Japan. He has vast experience in areas of Credit, Wholesale Banking, structured export finance and investment banking. He has worked at Bear Stearns and Chase Bank. Age: 61.

Nancy Oginde
Board Secretary

Nancy is an Advocate of the High Court of Kenya and a Certified Company Secretary. She has wide experience in Legal and Compliance and was head of legal and compliance Kenya and East Africa. She is currently the Head of Legal East Africa and Company Secretary Kenya. Age: 56.

Board of Directors (Continued)

Patrick Obath
Non-Executive Director

Patrick was 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 served as 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: 62.

Les Baillie
Non-Executive Director

Les was 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. Prior to joining Safaricom he held various financial director positions within the Vodafone Group in the UK, having joined Vodafone in 1986. Age: 62.

Tejinder Singh
Executive Director

Tejinder heads Global Banking with responsibility for all Corporate & Institutional business for Kenya. With over 20 years of experience, Tejinder has previously headed Corporate and Institutional business for Standard Chartered Bank - West Africa and also held several other responsibilities within Standard Chartered including as Head of Public Sector & Financial Institutions in Malaysia & Head of Correspondent business in India, Sri Lanka and Nepal. Age: 45.

Chemutai Murgor
Executive Director, Finance

Chemutai joined the Board on 1 March 2007 after being appointed to the position of Finance Director. She has been with the Bank for 16 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. Age: 47.

Angarai Ganesh
Non-Executive Director

Ganesh is the Regional Head of Commercial Banking Africa & Middle East. Prior to this role, he was head of STF Africa, Americas & Europe as well as the Head of Corporate Finance for Europe. Ganesh joined the Bank in India in 1996 and has held various roles in India, MENA and Africa. Age: 46.

David Idoru
Executive Director

David was appointed Head of Retail Banking for East Africa in 2015. Previously he was the Group Program Director, SCB Way based in Singapore. He also served as the General Manager, Integrated Distribution, East Africa (Kenya, Uganda & Tanzania) during which he was responsible for Branch Banking, mobile, online banking & contact centers, based in Nairobi-Kenya. He has also worked in Uganda and the United Kingdom. Age: 45.

Board of Directors (Continued)

Executive Committee

Lamin Manjang
Chief Executive Officer

Lamin has over 18 years banking experience with Standard Chartered Bank across Africa and the Middle East. Prior to his appointment as CEO Kenya and East Africa, he was the CEO of Standard Chartered Bank Oman. He has also been the CEO in Uganda and Sierra Leone.

Kennedy Mubita
Head of Transaction Banking

Kennedy was appointed MD and Head of Transaction Banking for Kenya and East Africa in November 2015. Prior to moving to Kenya he worked for Standard Chartered in the same capacity for Ghana and West Africa. He has a wealth of experience in the banking sector and has worked in various countries including Zambia, Tanzania, Cameroon and the CEMAC Zone.

George Akello
Chief Risk Officer

George has been with the Bank for 19 years. He started his career in public accounting practice before joining the Bank. He has held senior positions in Group Audit, Wholesale & Retail Banking Credit and has had wide experience and exposure working in Africa and Asia.

Nancy Oginde
Head of Legal & Company Secretary

Nancy is an Advocate of the High Court of Kenya and a Certified Company Secretary. She has wide experience in Legal and Compliance and was head of legal and compliance Kenya and East Africa. She is currently the Head of Legal East Africa and Company Secretary Kenya.

David Luusa
Head of Financial Markets

David joined Standard Chartered in 2002 and has had a career spanning various roles in Corporate Banking and Financial Markets across Europe and Africa. He has been responsible for leading the Financial Markets team in Kenya and East Africa since May 2015.

Chemutai Murgor
Chief Financial Officer

Chemutai joined the Bank 16 years ago. 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 & Touché in Kenya and the United Kingdom.

Fred Michuki
Head of Commercial Banking

Fred has over 20 years of banking experience with both Citibank and Standard Chartered. Prior to his appointment as Managing Director for Commercial Banking for Kenya and East Africa in October 2015, Fred held several regional roles in Corporate Banking, Corporate Finance and Financial Markets.

Rebecca Kaggwa
Head of Compliance

Rebecca has extensive experience in Standard Chartered, having joined the Bank as Head of Internal Control in 1994. She has held various positions within the Bank including Head Africa Finance Shared Services Centres, Executive Director Finance, Head of Business Technology (renamed Technology & Operations), and Company Secretary, Standard Chartered Bank, Uganda.

Executive Committee (Continued)

David Idoru
Head of Retail Banking

David was appointed to the current role in 2015. Previously, he was the Group Program Director, SCB Way based in Singapore. He also served as the General Manager, Integrated Distribution, East Africa during which he was responsible for Branch Banking, mobile, online banking & contact centers, based in Nairobi-Kenya. He has also worked in Uganda and the United Kingdom.

Florence Nyokabi
Head of Human Resources

Florence is a seasoned HR practitioner with a wealth of over 20 years HR experience, gained in the Financial, Professional Services and Broadcasting sectors. Prior to joining the Bank in 2014, she worked at KPMG Kenya, NIC Bank and Kenya Television Network (KTN).

David Mwindi
Head of Audit

David joined the Bank in 2011 having previously worked for Barclays Bank, KPMG Kenya, PwC and Strathmore University. He has 15 years experience in the finance sector. He is a Certified Public Accountant of Kenya and a Certified Internal Auditor. He is also a member of the Professional Standards Committee of the Institute of Certified Accountants of Kenya (ICPAK).

Tejinder Singh
Head of Global Banking

Tejinder heads Global Banking with responsibility for all Corporate & Institutional business for Kenya. With over 20 years of experience, Tejinder has previously headed Corporate & Institutional business for Standard Chartered Bank - West Africa and also held several other responsibilities within Standard Chartered including Head of Public Sector & Financial Institutions in Malaysia and Head of Correspondent business in India, Sri Lanka and Nepal.

Peter Gitau
Chief Information Officer

Peter was appointed to the role in 2013. He joined the Bank in 2002 in Group Internal Audit (GIA) having previously worked for PwC. Within Standard Chartered he has held a number of leadership positions in GIA and was the Regional Head of Group Audit Africa before he relocated to Singapore in December 2006. In Singapore Peter held a number of roles including Global Head Controls, Head Risk and Standardisation and Head Basel, Risk & Integrations.

The Board and Statutory Information

Directors

A. Mutahi	Chair to the Board
L. Manjang*	Chief Executive Officer
K. Shah**	
C. Murgor	
K. Ngari	(Resigned 13 June 2016)
L. Baillie**	
P. Obath	
B. Dabrah***	(Resigned 13 June 2016)
C. Adeya-Weya	(Appointed 1 January 2016)
I. Bryden**	(Appointed 12 July 2016)
A. Ganesh****	(Appointed 12 July 2016)
T. Singh****	(Appointed 1 January 2016)
D. Idoru*****	(Appointed 26 May 2016)

* Gambian **British ***Ghanaian ****Indian *****Ugandan

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

Image Registrars Limited (IMAGE)
5th Floor Barclays Plaza
Loita Street
P.O. Box 9287
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
C. Adeya-Weya	
P. Obath	
G. Akello*	Country Chief Risk Officer
L. Manjang	
N. Oginde	Secretary
C. Murgor*	

*By invitation

Board Credit Committee
Members

K. Shah	Chairman
C. Adeya-Weya	
P. Obath	
L. Manjang*	
G. Akello*	Country Chief Risk Officer
N. Oginde	Secretary
C. Murgor*	

*By invitation

Board Nomination, Evaluation and Remuneration Committee Members

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

*By invitation

Asset and Liability Committee (ALCO)
Members

L. Manjang	Chairman
C. Murgor	
G. Akello	

Executive Committee Members

L. Manjang	Chairman
D. Idoru	
T. Singh	
C. Murgor	
D. Luusa	
F. Nyokabi	
P. Gitau	
D. Mwindi	
N. Oginde	
G. Akello	
R. Kaggwa	
F. Michuki	
K. Mutiba	

Report of the Directors

For the year ended 31 December 2016

The directors are pleased to submit their report together with the audited financial statements for the year ended 31 December 2016 in accordance with Section 22 of the Banking Act and the Kenyan Companies Act, 2015 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 46 to 114.

3. **Bonus share issue**
On 1 July 2016, a bonus issue of one ordinary share for every nine fully paid up ordinary shares held, was made by capitalising KShs 171,755,290 from retained earnings and a total of 34,351,058 ordinary shares of KShs 5.00 each were issued.

4. **Dividends**
The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of KShs 14.00 for every ordinary share of KShs 5.00. One interim dividend of KShs 6.00 was declared on 17 August 2016 and paid on 31 August 2016.

This will bring the total dividend for the year to KShs 20.00 (2015 – KShs 17.00) 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 84,230,137 on the non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares. An interim dividend of KShs 83,769,863 was declared on 17 August 2016 and paid on 31 August 2016. This will bring the total dividend for the year to KShs 168,000,000 (2015 – 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 25 April 2017 and will be paid on or after 26 May 2017. The Register will remain closed on 25 April 2017 for the preparation of dividend warrants.

5. **Directors**
The directors who served during the year up to and including the date of this report are set out on page 30.

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

— Mrs. Anne Mutahi and Mr. Les Baillie 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.

6. **Auditors**
The Company's auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 721 of the Kenyan Companies Act, 2015 and subject to Section 24(1) of the Banking Act.

Each director believes that there is no relevant information of which the Company's auditor is unaware. Each has taken all steps necessary as a director to be aware of any relevant audit information and to establish that KPMG is made aware of any pertinent information.

7. **Approval of financial statements**
The financial statements were approved by the Board of Directors on 22 March 2017.

BY ORDER OF THE BOARD

N. Oginde
Company Secretary

22 March 2017

Statement on Corporate Governance

For the year ended 31 December 2016

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

The Company has an integrated approach to governance which ensures that the Company 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 through induction of new staff and form part of the annual performance management. The Code of Conduct review and recommitment by staff is an annual requirement to ensure that the key principles underpin the conduct of all employees in their dealings with one another, customers, suppliers and other stakeholders. The last such refresh was in September 2016.

The values are embedded as guidelines for the expected behaviour of all employees and also form part of the contractual obligations for all the main suppliers in the conduct of all businesses in as far as it relates to the Company but also as expected of all ethical businesses.

Highlights for 2016

— Changes in directors and senior management to strengthen the business;
— Reviewed and re-launched the Operational Risk Framework and training for the Board and all staff on the new requirements;
— Continued enhancement of the Financial Crime Control (FCC) function of the Company;
— Creation of the Emerging Leaders Pool and focus on the High Performers (HIPOs) as identified in the business;
— Director training on corporate governance, board evaluation, and risk and financial management;
— Maintained balance in pursuing growth opportunities in tandem with appropriate governance systems, controls, processes and information flows; and
— First runners up in the Banks category in the 2016 Excellence in Financial Reporting (FiRe) Award which is jointly promoted by the Institute of Certified Public Accountants in Kenya, the Capital Markets Authority and the Nairobi Securities Exchange.

The Board

The Board is responsible for providing leadership and oversight by setting the strategic direction of the Company and monitoring the management for effectiveness. 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
C. Adeya-Weya	Information Technology
I. Bryden	Banking
A. Ganesh	Banking
L. Manjang*	Banking and Financial Management
C. Murgor*	Banking and Financial Management
T. Singh*	Banking
D. Idoru*	Banking and Financial Management

*Executive Directors

There exists 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 among them being the review and tracking 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, lending, people management and compensation, material outsourcing and any other significant commitments.

The Standard Chartered Bank Kenya Board

The Board has eleven members; the Chair, six non-executive directors, four of whom are independent directors, and four executive directors. The Company Secretary is a member of the Institute of Certified Public Secretaries (ICPSK).

The Board has a good mix of skills and experience to drive the business forward whilst maintaining a tight control on risk management and good corporate governance. The Board has the primary responsibility for ensuring adherence to the code of corporate governance. The Board has a board charter publicly available to investors. The Board members are required to disclose any potential area of conflict that may compromise or undermine their position or service as directors.

Statement on Corporate Governance (Continued)
For the year ended 31 December 2016

Mr. Kariuki Ngari, a Non-Executive Director, resigned from the Board on 13 June 2016 to pursue another role in the Standard Chartered Bank Group. Mr Ben Dabrah, a Non-Executive Director, resigned from the Board on 13 June 2016 to pursue other roles outside the Group.

Induction and ongoing development
The Company has a very comprehensive and tailored induction process for new directors covering its business operations and in particular the risk and compliance functions, as well as the legal, regulatory and other personal obligations of a director of a listed company. The continuous development programme is needs-based and is designed for individual directors or for the Board. Following from the annual evaluation exercise, the directors identify areas that require further consideration by the Board and these are addressed through training and board presentations. The Board Committees also receive specialist presentations on key issues where required. The Board and Committees received training in 2016 on corporate governance, board evaluation, market risk, regulatory changes, information technology, macroeconomic changes in the business environment and the general banking environment among others.

The directors are kept appraised on all regulations and laws that are enacted which may affect the operations of the Company.

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

Whistle Blowing Policy
All employees are encouraged to report alleged irregularities of a general, operational or financial nature in the Company to the directors or designated official through the "Speak Up" portal.

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

Except for direction and guidance on general policy, the Board has delegated the conduct of the day-to-day business to the Chief Executive Officer and the 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 with an option for renewal.

The Board is made aware of the other commitments of the individual non-executive directors and is satisfied that largely, 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 directors which is updated regularly and also a plan to maintain a balance of critical skills on the Board of Directors.

The Board in 2016
The Board was responsible for establishing a sound system of internal control for the Company and oversaw the corporate governance framework.

The Board was responsible for adoption of strategic plans, policies, monitoring the operational performance, and processes that ensure integrity of the Company's risk management and internal controls.

The Board was further responsible for establishing clear roles and responsibilities in discharging its fiduciary and leadership functions and ensured that management actively cultivated a culture of ethical conduct and set the values to which the Company will adhere.

The Board was responsible for ensuring that the strategies adopted promoted the sustainability of the Company and established policies and procedures for the effective operations of the Company.

The Board was responsible for ensuring that management adhered to all applicable laws, regulations, governance codes, guidelines and established systems to effectively monitor and control their compliance across the Company.

The new directors that joined the Company in the year were inducted by the Company Secretary.

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 November 2016 to review, discuss and agree the Company's strategy. There was sufficient time to examine the emerging risks and opportunities in detail.

Statement on Corporate Governance (Continued)

For the year ended 31 December 2016

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 2016 in a process led by the Board Chair 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 exercise, 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 exercise 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 a productive and open discussion. There is diversity in the Board which ensures that the level of debate is both detailed and of a high technical standard.

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

		Scheduled	Ad Hoc
		7	**2**
A. Mutahi (Chair)		7/7	2/2
L. Manjang		7/7	2/2
K. Shah		7/7	2/2
L. Baillie		7/7	2/2
P. Obath		5/7	2/2
C. Adeya-Weya	(Appointed 1 January 2016)	7/7	2/2
K. Ngari	(Resigned 13 June 2016)	3/4	1/1
B. Dabrah	(Resigned 13 June 2016)	0/4	0/1
I. Bryden	(Appointed 12 July 2016)	3/4	1/1
A. Ganesh	(Appointed 12 July 2016)	2/4	0/1
C. Murgor		7/7	2/2
T. Singh	(Appointed 1 January 2016)	7/7	2/2
D. Idoru	(Appointed 26 May 2016)	6/6	1/1

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 and the Board Nomination, Evaluation and Remuneration Committee. The respective Chairpersons present their reports to the Board at each scheduled meeting. In addition, there are two management committees that support the Board's decision making structures, increase efficiency and allow detailed deliberations in the specific areas. These management committees are the Asset and Liability Committee (ALCO), and the Executive Committee (EC).

Statement on Corporate Governance (Continued)

For the year ended 31 December 2016

Standard Chartered Bank Kenya Limited

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

	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
P. Obath	Member	Member	Member	
C. Adeya-Weya		Member	Member	
L. Manjang		Member	Member	Member
C. Murgor	Member	Member	Member	

Chair — Member

Details of these committees and membership are shown 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 2016

— continued to robustly monitor the controls in place for management of capital and liquidity positions, especially in line with the regulatory requirements;

— closely monitored audit findings and the actions thereon from the external and internal auditors;

— review and approval of the financial statements of the Company for each quarter; and

— ensure action and follow up on all compliance monitoring reports.

Statement on Corporate Governance (Continued)

For the year ended 31 December 2016

Role and function
The Committee has a Charter that specifies the qualifications, responsibilities and procedures of the Committee including conduct of special investigations.

Financial reporting
The Committee reviews the integrity of the financial statements of the Company and its subsidiaries and recommends the statements for approval to the Board. The Committee considers management's recommendations in respect of impairment on loans and advances as well as other disclosure requirements.

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

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

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

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 and Assurance 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;
— Central Bank of Kenya mandated Information & Communication Technology audit;
— Central Bank of Kenya mandated Insider Lending audit;
— 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 2016	4
L. Baillie (Chairman)	4/4
K. Shah	4/4
P. Obath	4/4

Board Risk Committee

Members	
K. Shah	Chairman
P. Obath	
C. Adeya-Weya	
G. Akello*	Chief Risk Officer
L. Manjang	
N. Oginde	Secretary
C. Murgor*	

* By invitation

Highlights for 2016
— 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 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.

Statement on Corporate Governance (Continued)
For the year ended 31 December 2016

Capital and liquidity
The Committee maintained a clear focus on capital and liquidity in 2016. The Director in charge of Finance presents a report at every scheduled meeting and the members have an opportunity to consider the Company's capital and liquidity positions and the regulatory environment and expectations.

Attendance

Number of meetings scheduled in 2016	4
K. Shah (Chairman)	4/4
P. Obath	4/4
C. Adeya-Weya	4/4

Board Credit Committee

Members	
K. Shah	Chairman
P. Obath	
C. Adeya-Weya	
L. Manjang*	
G. Akello*	Chief Risk Officer
N. Oginde	Secretary
C. Murgor*	

* By invitation

Highlights for 2016
— 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 2016	4
K. Shah (Chairman)	4/4
P. Obath	4/4
C. Adeya-Weya	4/4

Board Nomination, Evaluation and Remuneration Committee

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

*By invitation

Highlights for 2016
— 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 of the Board.

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

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.

Attendance

Number of meetings scheduled in 2016	5
A. Mutahi (Chairperson)	5/5
L. Baillie	5/5
L. Manjang	5/5

Asset and Liability Committee (ALCO)

Members
L. Manjang (Chairman)
C. Murgor
G. Akello

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

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

Statement on Corporate Governance (Continued)

For the year ended 31 December 2016

Executive Committee Members

L. Manjang	Chairman
D. Idoru	
T. Singh	
F. Michuki	
C. Murgor	
D. Luusa	
F. Nyokabi	
P. Gitau	
D. Mwindi	
N. Oginde	
G. Akello	
R. Kaggwa	
K. Mubita	

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' shareholding

One director holds 10,125 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 directors are required to comply with it.

Internal controls

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

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

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

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

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

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

Code of conduct

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

Statement on Corporate Governance (Continued)

For the year ended 31 December 2016

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.

There was enhanced focus on conduct in 2016 with training for all staff and directors in line with the Company's Anti-Bribery and Corruption policy. There was also a review of all suppliers and inclusion of an anti-bribery clause in the vendor contracts.

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 are used as an opportunity to communicate with all shareholders. The Company always gives shareholders the 21 days notice of the AGM as provided for in the Kenyan Companies Act, 2015 and shareholders are encouraged to submit questions and also appoint proxies to represent them where they are unable to attend. Ad hoc shareholder requests for information are handled on an on-going basis and also on the floor of the AGM. The Board uses electronic means to communicate with shareholders and shareholders are encouraged to visit ***www.sc.com/ke*** 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 also holds an interactive informal meeting once a year with the shareholders.

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

Directors' Remuneration Report

The Company is pleased to present the Directors' remuneration report for the year ended 31 December 2016. This report is in compliance with the Company's reward policy, banking regulations, the CMA Code of Corporate Governance Guidelines on Directors' remuneration and the Kenyan Companies Act, 2015. A key provision of the Company's principles is that reward will directly support the business strategy with clear and measurable linkage to business performance.

Directors' remuneration

In determining remuneration for non-executive directors, we carry out regular surveys on the market rates for non-executive directors. The levels of remuneration and compensation are set to attract independent non-executive directors (iNEDs) who together with the Board as a whole have a broad range of skills and experience to determine the Company's strategy and oversee its implementation. An annual evaluation of directors' performance is carried out to measure performance of individual directors and the Board as a whole. The non-executive directors are paid an annual fee and sitting allowance for meetings attended. The non-executive directors are also reimbursed for expenses, such as travel and subsistence, incurred in the performance of their duties.

During the financial year, the Company's Board of Directors consisted of:

— Five iNEDs: Mrs. Anne Mutahi, Mr. Kaushik Shah, Mr. Patrick Obath, Mr. Les Baillie and Dr. Catherine Adeya-Weya.

— Four Executive Directors: Mr. Lamin Manjang, Ms. Chemutai Murgor, Mr. David Idoru and Mr. Tejinder Singh.

— Two Non-executive directors: Mr. Ian Bryden and Mr. Angarai Ganesh.

The remuneration of the executive directors is as per negotiated employment contracts.

The aggregate amount of remuneration and fees paid to directors for the financial year ended 31 December 2016 was KShs 162,493,000. This is disclosed in Note 14 of the financial statements.

Remuneration approach for all employees

Employees typically receive salary, pension and other benefits and are eligible to be considered for variable remuneration (determined based on both the Company and individual performance). Our remuneration approach is consistent with effective risk management and the delivery of our strategy, underpinned by the principles of:

— A competitive remuneration opportunity that enables us to attract, motivate and retain employees;

— A clearly defined performance management framework that ensures employees have clear objectives and receive ongoing feedback;

— Remuneration outcomes that relate to the performance of the individual and the Company. We aim to ensure everyone is aligned to deliver long-term sustainable growth in the interests of shareholders;

— Variable remuneration that recognises the achievement, conduct, behaviours and values of each individual, ensuring reward is aligned to the Company's performance. We take into account both what is achieved and how it is achieved;

— An appropriate mix of fixed and variable remuneration, with the level of fixed remuneration based on an individual's role;

— Remuneration that is fair and transparent. An equal pay review is undertaken as part of the pay review process; and

— A core level of benefits that protects all of our employees and reflects the Company's commitment to employee wellbeing.

BY ORDER OF THE BOARD

N.N. Oginde
Company Secretary

22 March 2017

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 46 to 114 which comprise the Consolidated and Company statements of financial position as at 31 December 2016, the Consolidated statement of profit or loss and other comprehensive income, the 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, 2015 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, 2015, 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, 2015. 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 22 March 2017 and were signed on its behalf by:

Director: A. Mutahi

Director: L. Manjang

Director: C. Murgor

Secretary: N. Oginde

22 March 2017

Report on the audit of the consolidated financial statements

To the Members of Standard Chartered Bank Kenya Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Standard Chartered Bank Kenya Limited set out on pages 46 to 114 which comprise the Consolidated and Company statements of financial position as at 31 December 2016, the Consolidated statement of profit or loss and other comprehensive income, the 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.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the Consolidated and Company financial position of Standard Chartered Bank Kenya Limited as at 31 December 2016, and of the Consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers

See accounting policy Note 3 (f) (vi) – Significant accounting policies and disclosure Note 22 – Loans and advances to customers.

The key audit matter	How the matter was addressed
The group's loans and advances are carried at amortised cost in the consolidated financial statements and are assessed for impairment at the reporting date. Impairment of loans and advances to customers is considered a key audit matter because the Directors make complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. For corporate loans and advances, the material portion of impairment is individually calculated. For retail loans and advances, the material portion of the impairment is calculated on a modelled basis for portfolios of loans and advances.	Our audit procedures in this area included, among others: — Testing the key controls over the credit grading and monitoring process, to assess if the credit grades allocated to counterparties were appropriate and loans were appropriately identified, on a timely basis, as impaired. — Performing credit assessment on various categories of loans to ascertain the reasonableness of the forecast of recoverable cash flows, realisation of collateral, and other sources of repayment for defaulted loans. We compared key assumptions to progress against business plans and our own understanding of the relevant industries and business environments. — Performing control assessments on the key management controls over the input of underlying data into the impairment model. — Involving our modelling specialists at the group level to assess the reasonableness of the methodology used by management in determining the collective impairment including challenging the assumptions based on externally available industry economic and financial data. — Assessing the overall reasonableness of the portfolio impairment balance with respect to the qualitative and quantitative changes in the underlying portfolio. — Assessing whether the consolidated financial statement disclosures appropriately reflect the Group and Bank's exposure to credit risk.

Report on the audit of the consolidated financial statements (Continued)

To the Members of Standard Chartered Bank Kenya Limited

Assessment of the impairment of goodwill

See accounting policy Note 3 (k) (ii) – Significant accounting policies and disclosure Note 31 – Intangible assets.

The key audit matter	How the matter was addressed
The goodwill recognised in the consolidated financial statements represents the excess of the costs of acquisition of the custody business over the fair value of the identifiable assets and contingent liabilities in the acquired business. The goodwill is assessed by the directors at each reporting date for impairment. Impairment of goodwill is considered a key audit matter because significant level of judgment is made by management in considering the assessment of impairment. The main assumptions made by management is on the cash flow projections from the cash generating unit against which the goodwill is assigned, discount rates applied and forecast growth rates.	Our audit procedures in this area included, among others: — Assessing management's determination of the Cash Generating Unit (CGU) based on our understanding of the nature of the Group's business. We also analysed the internal reporting of the Group to assess how results are monitored and reported. — Comparing the cash flow forecasts to the Board approved forecasts. We also evaluated the forecasting process undertaken by the Group by assessing the precision of prior year forecast cash flows by comparing actual outcomes. — Involving our own valuation specialists to assist us in challenging the Group's valuation methodologies, discount rates and growth rates. This included comparing the Group's input to external data such as economic growth projections and interest rates. We also crosschecked the valuation results against multiples inherent in the value of other similar entities.

Valuation of financial instruments

See accounting policy Note 3 (f) – Significant accounting policies and Note 5 (b) – Use of estimates and judgments

The key audit matter	How the matter was addressed
The value of financial instruments is determined using valuation techniques which often require exercising of judgment and use of assumptions and estimates. Due to the high level of judgment involved in estimating the fair value of the instruments, we considered this to be a key audit matter.	Our audit procedures in this area included, among others: — Performing control assessments on the identification and measurement of valuation risk. — Carrying out independent valuations for a sample of securities and comparing with the valuation determined by the Company and Group. — Involving our valuation specialists to assist us in assessing the appropriateness of the valuation methodology used. — Checking the accuracy of inputs into the model against the source data.

Provisions and contingent liabilities in respect of claims and litigations

See accounting policy Note 3 (n) & (t) – Siginificant accounting policies and disclosure Note 41 – Other contingent liabilities.

The key audit matter	How the matter was addressed
The Company and Group is subject to claims, which could have an impact on the Company and Group's results if the potential exposures were to materialise. In the normal course of business, potential exposures may arise from general legal proceedings, product liability, guarantees, regulator investigations/reviews. Whether there is a liability is inherently uncertain, the amounts involved are potentially significant and the application of accounting standards to determine the amount, if any, to be provided as a liability, is inherently subjective. The Directors apply judgment when considering whether, and how much, to provide for the potential exposure of each litigation.	Our audit procedures in this area included, among others: — Performing control assessment of the processes and controls over claims and litigations oversight by the Directors. We held discussions with the Group's in-house legal counsel, including after the year end, to discuss the nature of all significant on-going claims and legal cases, and to validate the latest status and accounting and disclosure implications. — Obtaining formal legal confirmations from the Company and Group's external counsel for significant litigation matters to ensure completeness of provisioning and disclosure and also analysing correspondence with regulators. — Assessing whether the Company and Group's disclosures detailing significant legal proceedings adequately disclose the potential liabilities of the Group.

Report on the audit of the consolidated financial statements (Continued)

To the Members of Standard Chartered Bank Kenya Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the *Annual Group Report and Financial Statements* but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities on the consolidated financial statements

As stated on page 41, the Directors are responsible for the preparation of Group and Company financial statements that give a true and fair view in accordance with IFRSs, and in the manner required by the Kenyan Companies Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of Group and Company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group and Company financial statements, the Directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 Group and Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

— Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial

Report on the audit of the consolidated financial statements (Continued)

To the Members of Standard Chartered Bank Kenya Limited

statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the Group or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015, we report to you based on our audit, that, in our opinion:

(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 auditor's report is FCPA Eric Aholi - P/1471.

KPMG Kenya

22 March 2017

Consolidated Income Statement

For the year ended 31 December 2016

	Note	2016 KShs '000	2015 KShs '000
Interest income	8	**25,570,542**	22,608,602
Interest expense	9	**(6,647,746)**	(5,007,140)
Net interest income		**18,922,796**	17,601,462
Fee and commission income	10	**5,034,152**	4,535,263
Fee and commission expense	10	**(499,868)**	(385,851)
Net fee and commission income		**4,534,284**	4,149,412
Net trading income	11	**3,829,230**	2,598,054
Other operating income	12	**109,042**	465,426
OPERATING INCOME		**27,395,352**	24,814,354
Staff costs	13	**(7,179,560)**	(6,218,282)
Premises and equipment costs	13	**(974,178)**	(790,171)
General administrative expenses		**(3,168,925)**	(3,084,908)
Depreciation and amortisation	13	**(906,312)**	(969,414)
OPERATING EXPENSES		**(12,228,975)**	(11,062,775)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		**15,166,377**	13,751,579
Net impairment losses on loans and advances	22 (b)	**(1,878,258)**	(4,591,647)
PROFIT BEFORE TAXATION	14	**13,288,119**	9,159,932
INCOME TAX EXPENSE	15	**(4,238,812)**	(2,817,505)
NET PROFIT FOR THE YEAR		**9,049,307**	6,342,427
BASIC AND DILUTED EARNINGS PER SHARE – (KShs) (2015 restated)	16	**25.85**	17.97

The notes set out on pages 55 to 114 form an integral part of these financial statements.

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 KShs '000	2015 KShs '000
NET PROFIT FOR THE YEAR		**9,049,307**	6,342,427
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Actuarial losses on retirement benefit obligations	37	**(76,901)**	(7,960)
Deferred tax on actuarial gains on retirement benefit obligations	33 (a)	**23,070**	2,388
		(53,831)	(5,572)
Items that may subsequently be reclassified to profit or loss			
Change in fair value of available-for-sale investments	23	**638,233**	(401,575)
Deferred tax on change in fair value of available-for-sale investments	33 (a)	**(191,470)**	120,473
		446,763	(281,102)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**392,932**	(286,674)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**9,442,239**	6,055,753

The notes set out on pages 55 to 114 form an integral part of these financial statements.

Consolidated Statement of Financial Position
At 31 December 2016

ASSETS	Note	2016 KShs '000	2015 KShs '000
Cash and balances with Central Bank of Kenya	18	**15,513,554**	14,240,581
Government and other securities held for trading	19	**4,780,246**	5,709,525
Derivative financial instruments	20	**554,026**	688,538
Loans and advances to banks	21	**1,566,035**	3,190,915
Loans and advances to customers	22 (a)	**122,711,038**	115,125,427
Investment securities	23	**82,218,712**	67,911,422
Tax recoverable	24	**7,168**	178,494
Other assets	25	**3,228,954**	2,645,363
Amounts due from group companies	26	**14,151,412**	17,857,239
Non-current assets held for sale	29	**47,360**	140,644
Property and equipment	30	**2,938,391**	3,124,400
Intangible assets	31	**2,457,419**	2,905,991
Prepaid operating lease rentals	32	**243,980**	246,908
Deferred tax asset	33 (a,c)	**63,705**	–
TOTAL ASSETS		**250,482,000**	233,965,447
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	34	**3,046,415**	4,293,413
Deposits from customers	35	**186,598,226**	172,036,056
Derivative financial instruments	20	**252,921**	458,669
Tax payable	24	**1,128,697**	37,049
Other liabilities	36	**4,592,017**	5,491,512
Amounts due to group companies	26	**10,174,520**	10,355,723
Deferred tax liability	33 (a,c)	**–**	29,036
Retirement benefit obligations	37	**85,376**	12,204
TOTAL LIABILITIES		**205,878,172**	192,713,662
Shareholders' equity (Page 50-51)			
Share capital	38	**1,997,553**	1,825,798
Share premium	38	**7,792,427**	7,792,427
Capital contribution reserve	38	**1,870,305**	1,866,484
Revaluation reserve	38	**457,041**	515,790
Fair value reserve	38	**273,932**	(172,831)
Statutory credit risk reserve	38	**568,868**	618,797
Retained earnings		**26,750,324**	24,856,136
Proposed dividends	17	**4,893,378**	3,949,184
TOTAL SHAREHOLDERS' EQUITY		**44,603,828**	41,251,785
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**250,482,000**	233,965,447

The financial statements set out on pages 46 to 114 were approved by the Board of Directors on 22 March 2017 and were signed on its behalf by:

Director A. Mutahi Director C. Murgor

Director L. Manjang

The notes set out on pages 55 to 114 form an integral part of these financial statements.

Company Statement of Financial Position

As at 31 December 2016

ASSETS	Note	2016 KShs '000	2015 KShs '000
Cash and balances with Central Bank of Kenya	18	**15,513,554**	14,240,581
Government and other securities held for trading	19	**4,780,246**	5,709,525
Derivative financial instruments	20	**554,026**	688,538
Loans and advances to banks	21	**1,566,035**	3,190,915
Loans and advances to customers	22 (a)	**122,711,038**	115,125,427
Investment securities	23	**82,075,385**	67,911,422
Tax recoverable	24	**–**	173,246
Other assets	25	**3,170,588**	2,640,939
Amounts due from group companies	26	**14,011,495**	17,890,777
Investment in subsidiaries	27	**141,243**	141,243
Non-current assets held for sale	29	**47,360**	140,644
Property and equipment	30	**2,938,391**	3,124,400
Intangible assets	31	**2,457,419**	2,905,991
Prepaid operating lease rentals	32	**243,980**	246,908
Deferred tax asset	33 (b,d)	**63,348**	–
TOTAL ASSETS		**250,274,108**	234,130,556
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	34	**3,046,415**	4,293,413
Deposits from customers	35	**186,598,226**	172,036,056
Derivative financial instruments	20	**252,921**	458,669
Tax payable	24	**1,046,259**	–
Other liabilities	36	**4,580,576**	5,479,445
Amounts due to group companies	26	**10,174,520**	10,355,723
Amounts due to subsidiaries	26	**585,036**	543,240
Deferred tax liability	33 (b,d)	**–**	37,323
Retirement benefit obligations	37	**85,376**	12,204
TOTAL LIABILITIES		**206,369,329**	193,216,073
Shareholders' equity (Page 52-53)			
Share capital	38	**1,997,553**	1,825,798
Share premium	38	**7,792,427**	7,792,427
Capital contribution reserve	38	**1,870,305**	1,866,484
Revaluation reserve	38	**457,041**	515,790
Fair value reserve	38	**274,764**	(172,831)
Statutory credit risk reserve	38	**568,868**	618,797
Retained earnings		**26,050,443**	24,518,834
Proposed dividends	17	**4,893,378**	3,949,184
TOTAL SHAREHOLDERS' EQUITY		**43,904,779**	40,914,483
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**250,274,108**	234,130,556

The financial statements set out on pages 46 to 114 were approved by the Board of Directors on 22 March 2017 and were signed on its behalf by:

Director A. Mutahi   Director C. Murgor

Director L. Manjang

The notes set out on pages 55 to 114 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

2016:	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 2016		1,825,798	7,792,427	1,866,484	515,790	(172,831)	618,797	24,856,136	3,949,184	41,251,785
Net profit for the year		–	–	–	–	–	–	9,049,307	–	9,049,307
Other comprehensive inome										
Re-measurement of retirement benefit obligations	37	–	–	–	–	–	–	(76,901)	–	(76,901)
Deferred tax on re-measurement of retirement benefit obligations	33	–	–	–	–	–	–	23,070	–	23,070
Change in fair value of available-for-sale investments		–	–	–	–	638,233	–	–	–	638,233
Deferred tax on change in fair value of available-for-sale investments		–	–	–	–	(191,470)	–	–	–	(191,470)
Realised revaluation reserves on sale of property		–	–	–	(76,932)	–	–	76,932	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	23,079	–	–	(23,079)	–	–
Excess depreciation transfer		–	–	–	(6,995)	–	–	6,995	–	–
Deferred tax on excess depreciation transfer		–	–	–	2,099	–	–	(2,099)	–	–
Transfer from statutory credit risk reserve		–	–	–	–	–	(49,929)	49,929	–	–
Total other comprehensive income		**–**	**–**	**–**	**(58,749)**	**446,763**	**(49,929)**	**54,847**	**–**	**392,932**
Total comprehensive income for the year		**–**	**–**	**–**	**(58,749)**	**446,763**	**(49,929)**	**9,104,154**	**–**	**9,442,239**
Transactions with owners, recorded directly in equity										
Bonus share issue		171,755	–	–	–	–	–	(171,755)	–	–
Share-based payments:										
– 2015 paid		–	–	(42,811)	–	–	–	–	–	(42,811)
– 2016 accrual		–	–	46,632	–	–	–	–	–	46,632
Dividends paid:										
– Ordinary shares – Final 2015		–	–	–	–	–	–	–	(3,864,494)	(3,864,494)
– Preference shares – Final 2015		–	–	–	–	–	–	–	(84,690)	(84,690)
– Ordinary shares – Interim 2016		–	–	–	–	–	–	(2,061,063)	–	(2,061,063)
– Preference shares – Interim 2016		–	–	–	–	–	–	(83,770)	–	(83,770)
Proposed dividends:										
– Ordinary shares	17	–	–	–	–	–	–	(4,809,148)	4,809,148	–
– Preference shares	17	–	–	–	–	–	–	(84,230)	84,230	–
Total contributions by and distributions to owners		**171,755**	**–**	**3,821**	**–**	**–**	**–**	**(7,209,966)**	**944,194**	**(6,090,196)**
At 31 December 2016		**1,997,553**	**7,792,427**	**1,870,305**	**457,041**	**273,932**	**568,868**	**26,750,324**	**4,893,378**	**44,603,828**

The notes set out on pages 55 to 114 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

2015:	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 2015		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
Net profit for the year		–	–	–	–	–	–	6,342,427	–	6,342,427
Other comprehensive inome										
Re-measurement of retirement benefit obligations	37	–	–	–	–	–	–	(7,960)	–	(7,960)
Deferred tax on re-measurement of retirement benefit obligations	33	–	–	–	–	–	–	2,388	–	2,388
Change in fair value of available-for-sale investments		–	–	–	–	(401,575)	–	–	–	(401,575)
Deferred tax on change in fair value of available-for-sale investments		–	–	–	–	120,473	–	–	–	120,473
Realised revaluation reserves on sale of property		–	–	–	(90,177)	–	–	90,177	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	27,053	–	–	(27,053)	–	–
Excess depreciation transfer		–	–	–	(6,847)	–	–	6,847	–	–
Deferred tax on excess depreciation transfer		–	–	–	2,054	–	–	(2,054)	–	–
Transfer from statutory credit risk reserve		–	–	–	–	–	(3,060,626)	3,060,626	–	–
Total other comprehensive income		**–**	**–**	**–**	**(67,917)**	**(281,102)**	**(3,060,626)**	**3,122,971**	**–**	**(286,674)**
Total comprehensive income for the year		**–**	**–**	**–**	**(67,917)**	**(281,102)**	**(3,060,626)**	**9,465,398**	**–**	**6,055,753**
Transactions with owners, recorded directly in equity										
Share-based payments										
– 2014 paid		–	–	(81,242)	–	–	–	–	–	(81,242)
– 2015 accrual		–	–	42,811	–	–	–	–	–	42,811
Dividends paid:										
– Ordinary shares – Final 2014		–	–	–	–	–	–	–	(3,864,494)	(3,864,494)
– Preference shares – Final 2014		–	–	–	–	–	–	–	(84,690)	(84,690)
Dividends declared:										
– Ordinary shares – Interim 2015		–	–	–	–	–	–	(1,391,217)	–	(1,391,217)
– Preference shares – Interim 2015		–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed dividends:										
– Ordinary shares	17	–	–	–	–	–	–	(3,864,494)	3,864,494	–
– Preference shares	17	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners		**–**	**–**	**(38,431)**	**–**	**–**	**–**	**(5,423,711)**	**–**	**(5,462,142)**
At 31 December 2015		**1,825,798**	**7,792,427**	**1,866,484**	**515,790**	**(172,831)**	**618,797**	**24,856,136**	**3,949,184**	**41,251,785**

The notes set out on pages 55 to 114 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2016

2016:	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 2016		1,825,798	7,792,427	1,866,484	515,790	(172,831)	618,797	24,518,834	3,949,184	40,914,483
Net profit for the year		–	–	–	–	–	–	8,686,728	–	8,686,728
Other comprehensive inome										
Re-measurement of retirement benefit obligations	37	–	–	–	–	–	–	(76,901)	–	(76,901)
Deferred tax on re-measurement of retirement benefit obligations	33	–	–	–	–	–	–	23,070	–	23,070
Change in fair value of available-for-sale investments		–	–	–	–	639,422	–	–	–	639,422
Deferred tax on change in fair value of available-for-sale investments		–	–	–	–	(191,827)	–	–	–	(191,827)
Realised revaluation reserves on sale of property		–	–	–	(76,932)	–	–	76,932	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	23,079	–	–	(23,079)	–	–
Excess depreciation transfer		–	–	–	(6,995)	–	–	6,995	–	–
Deferred tax on excess depreciation transfer		–	–	–	2,099	–	–	(2,099)	–	–
Transfer from statutory credit risk reserve		–	–	–	–	–	(49,929)	49,929	–	–
Total other comprehensive income		**–**	**–**	**–**	**(58,749)**	**447,595**	**(49,929)**	**54,847**	**–**	**393,764**
Total comprehensive income for the year		**–**	**–**	**–**	**(58,749)**	**447,595**	**(49,929)**	**8,741,575**	**–**	**9,080,492**
Transactions with owners, recorded directly in equity										
Bonus share issue		171,755	–	–	–	–	–	(171,755)	–	–
Share based payments:										
– 2015 paid		–	–	(42,811)	–	–	–	–	–	(42,811)
– 2016 accrual		–	–	46,632	–	–	–	–	–	46,632
Dividends paid:										
– Ordinary shares – Final 2015		–	–	–	–	–	–	–	(3,864,494)	(3,864,494)
– Preference shares – Final 2015		–	–	–	–	–	–	–	(84,690)	(84,690)
– Ordinary shares – Interim 2016		–	–	–	–	–	–	(2,061,063)	–	(2,061,063)
– Preference shares – Interim 2016		–	–	–	–	–	–	(83,770)	–	(83,770)
Proposed dividends:										
– Ordinary shares	17	–	–	–	–	–	–	(4,809,148)	4,809,148	–
– Preference shares	17	–	–	–	–	–	–	(84,230)	84,230	–
Total contributions by and distributions to owners		**171,755**	**–**	**3,821**	**–**	**–**	**–**	**(7,209,966)**	**944,194**	**(6,090,196)**
At 31 December 2016		**1,997,553**	**7,792,427**	**1,870,305**	**457,041**	**274,764**	**568,868**	**26,050,443**	**4,893,378**	**43,904,779**

The notes set out on pages 55 to 114 form an integral part of these financial statements.

Capital Statutory

Company Statement of Changes in Equity
For the year ended 31 December 2016

2015:	Note	Share capital KShs '000	Share premium KShs '000	contribution reserve KShs '000	Revaluation reserve KShs '000	Fair value reserve KShs '000	credit risk reserve KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
At 1 January 2015		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
Net profit for the year		–	–	–	–	–	–	6,213,446	–	6,213,446
Other comprehensive inome										
Re-measurement of retirement benefit obligations	37	–	–	–	–	–	–	(7,960)	–	(7,960)
Deferred tax on re-measurement of retirement benefit obligations	33	–	–	–	–	–	–	2,388	–	2,388
Change in fair value of available-for-sale investments		–	–	–	–	(401,575)	–	–	–	(401,575)
Deferred tax on change in fair value of available-for-sale investments		–	–	–	–	120,473	–	–	–	120,473
Realised revaluation reserves on sale of property		–	–	–	(90,177)	–	–	90,177	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	27,053	–	–	(27,053)	–	–
Excess depreciation transfer		–	–	–	(6,847)	–	–	6,847	–	–
Deferred tax on excess depreciation transfer		–	–	–	2,054	–	–	(2,054)	–	–
Transfer from statutory credit risk reserve		–	–	–	–	–	(3,060,626)	3,060,626	–	–
Total other comprehensive income		**–**	**–**	**–**	**(67,917)**	**(281,102)**	**(3,060,626)**	**3,122,971**	**–**	**(286,674)**
Total comprehensive income for the year		**–**	**–**	**–**	**(67,917)**	**(281,102)**	**(3,060,626)**	**9,336,417**	**–**	**5,926,772**
Transactions with owners, recorded directly in equity										
Share-based payments										
– 2014 paid		–	–	(81,242)	–	–	–	–	–	(81,242)
– 2015 accrual		–	–	42,811	–	–	–	–	–	42,811
Dividends paid:										
– Ordinary shares – Final 2014		–	–	–	–	–	–	–	(3,864,494)	(3,864,494)
– Preference shares – Final 2014		–	–	–	–	–	–	–	(84,690)	(84,690)
Dividends declared:										
– Ordinary shares – Interim 2015		–	–	–	–	–	–	(1,391,217)	–	(1,391,217)
– Preference shares – Interim 2015		–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed dividends:										
– Ordinary shares	17	–	–	–	–	–	–	(3,864,494)	3,864,494	–
– Preference shares	17	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners		**–**	**–**	**(38,431)**	**–**	**–**	**–**	**(5,423,711)**	**–**	**(5,462,142)**
At 31 December 2015		**1,825,798**	**7,792,427**	**1,866,484**	**515,790**	**(172,831)**	**618,797**	**24,518,834**	**3,949,184**	**40,914,483**

The notes set out on pages 55 to 114 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 KShs '000	2015 KShs '000
Net cash (used in)/from operating activities	39 (a)	**(5,201,267)**	27,718,885
Cash flows from investing activities			
Purchase of property and equipment	30	**(261,997)**	(180,381)
Proceeds from sale of non-current asset held for sale		**181,323**	344,465
Proceeds from sale of property and equipment		**–**	241
Proceeds from sale of motor vehicle		**4,333**	3,300
Purchase of intangible assets	31	**(13,075)**	(211,364)
Net cash used in investing activities		**(89,416)**	(43,739)
Cash flows from financing activities			
Share-based payments:			
– 2015/2014 settled		**(42,811)**	(81,242)
– 2016/2015 allocated during the year		**46,632**	42,811
Dividends paid on ordinary shares:			
– Final 2015/2014	17	**(3,864,494)**	(3,864,494)
– Interim 2015	17	**(1,391,217)**	–
– Interim 2016	17	**(2,061,063)**	–
Dividends paid on preference shares:			
– Final 2015/2014	17	**(84,690)**	(84,690)
– Interim 2015	17	**(83,310)**	–
– Interim 2016	17	**(83,770)**	–
Net cash used in financing activities		**(7,564,723)**	(3,987,615)
(Decrease)/increase in cash and cash equivalents		**(12,855,406)**	23,687,531
Cash and cash equivalents at 1 January		**29,497,242**	5,809,711
Cash and cash equivalents at 31 December	39 (b)	**16,641,836**	29,497,242

The notes set out on pages 55 to 114 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. REPORTING ENTITY

Standard Chartered Bank Kenya Limited is incorporated as a limited company in Kenya under the Kenyan Companies Act, 2015, 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 2016 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Company").

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the Kenyan Companies Act, 2015.

For Kenyan Companies Act, 2015 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.

(b) Basis of measurement

The consolidated financial statements set out on pages 46 to 114 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 the International Financial Reporting Interpretations Committee (IFRIC) 14 restrictions; and
— land and buildings are measured at revalued amounts.

(c) 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.

(d) Use of estimates and judgments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements have been applied consistently across the Group entities and to all periods presented in these financial statements.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. These subsidiaries are shown in Note 27.

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

(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 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 Group 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 Group 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; or
— available-for-sale.

Financial liabilities are classified as either held at:
— fair value through profit or loss; or
— 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 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(i) Classification (Continiued)

Available-for-sale

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

Financial liabilities held at amortised cost

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

(ii) Initial recognition

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

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

(iii) Subsequent measurement

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

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 income statement.

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 income statement 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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iv) Fair value of financial instruments (Continued)

are readily and regularly available and represent actual and regularly occurring market transactions on arm's length basis.

(v) Amortised cost measurement

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

(vi) Identification and measurement of impairment of financial assets

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

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

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

Assets carried at amortised cost

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(vii) Reclassifications

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

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances:

— to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or

— to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Derivative financial instruments (Continued)

The Group uses the following derivative instruments:

Currency forwards

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or to buy or sell foreign currency or a financial instrument at a future date at a specified price, established in an organised financial market.

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

Currency and interest rate swaps

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

Foreign currency and interest rate options

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

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

(i) Non-current assets held for sale

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

(j) Property and equipment

(i) Recognition, measurement and subsequent costs

Freehold land and buildings and buildings on leasehold land subsequently measured using the revaluation model are initially recognised at cost and then are subsequently measured at the fair value on the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses.

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

Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Property and equipment (Continued)

(i) Recognition, measurement and subsequent costs (Continued)

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	5 years
Motor vehicles	4 years

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

Freehold land is not depreciated although it is subject to impairment testing.

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

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

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

Revaluation surpluses are not distributable.

Excess depreciation is the difference between the depreciation charge for the year based on the revalued amount and the original cost of the related property. On an annual basis, the amount relating to the excess depreciation net of deferred tax is transferred from revaluation reserves to retained earnings to recognise the use of the property and equipment.

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

(iii) Non-depreciable items

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

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

(k) Intangible assets

(i) Acquired intangible asset

At the date of acquisition of a business, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired (as set out in Note 28). 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Intangible assets (Continued)

(ii) Goodwill (Continued)

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 31 sets out the major cash generating unit to which goodwill has been allocated.

(iii) Capitalised software

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

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

Subsequent expenditure on software is capitalised only if the definition of an intangible asset and the recognition criteria are met. All other expenditure is expensed as incurred.

The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding three years. Amortisation methods, useful lives and residual values are reviewed and adjusted if appropriate, at each reporting date.

(l) Operating leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Prepaid operating lease rentals in respect of leasehold land is recognised as an asset and amortised over the lease period.

(m) Impairment for non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

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

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

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

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

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

(n) Provisions

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

(o) Employee benefits

(i) Pension obligations

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Employee benefits (Continued)

(i) Pension obligations (Continued)

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 in other comprehensive income as the pensioners and deferred pensioners participating in the scheme no longer work for the Company.

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

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

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

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

(ii) Share-based payments

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

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

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(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 classified as equity are recognised in equity in the period in which they are declared.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 in equity in the period in which they are declared.

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 Notes 26 and 44.

(x) Operating segments

The Group's segmental reporting is in accordance with IFRS 8 Operating Segments and is reported consistently with the internal performance framework and as presented to the Group's Executive Committee (being the chief operating decision maker). The three client segments are Corporate & Institutional Banking, Commercial Banking and Retail Banking. Activities not directly related to a client segment are included in Central & other items. This mainly includes Asset and Liability Management, treasury activities and Corporate Centre costs. An analysis of the Group's performance by client segment is set out in Note 6.

(y) Comparative information

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

(z) New standards, amendments and interpretations

(i) *Accounting standards and interpretations adopted for reporting periods beginning 1 January 2016.*

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 did not have an impact on the Group's financial statements.

(ii) *New and amended standards and interpretations in issue but not yet effective*

A number of new standards and amendments to standards and interpretations are effective for periods beginning after 31 December 2016 and earlier application is permitted; however the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) New standards, amendments and interpretations (Continued)

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
IAS 7 *Statement of Cash Flows*	*Disclosure initiative (Amendments to IAS 7)* The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition. The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.	The adoption of these changes will not affect the amounts and disclosures of the Group's financial statements.
IAS 12 *Income Taxes*	*Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)* The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects: — Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. — The carrying amount of an asset does not limit the estimation of probable future taxable profits. — Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. — An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. The amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The IASB has not added additional transition relief for first-time adopters.	The adoption of these changes will not affect the amounts and disclosures of the Group's financial statements.
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and a new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	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.
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance including IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is yet to assess IFRS 15's full impact but it is not expected to be significant.
IFRS 16 *Leases*	IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases applying IAS 17. The standard substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently but is required to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and early adoption is permitted.	The Group is yet to assess IFRS 16's full impact on the financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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 risks 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 Executive Risk Committee (ERC), which are responsible for developing and monitoring Group risk management policies in their specified areas. All committees report regularly to the Board of Directors on their activities.

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

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

Stress testing

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

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

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

(a) Credit risk

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

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

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

Corporate & Institutional Banking and Commercial Banking Segments

Within the Corporate & Institutional Banking and Commercial Banking 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Retail Banking Segment

Credit risk in the Retail Banking 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.

Problem credit management and provisioning

(i) Corporate & Institutional Banking and Commercial Banking segments

In Corporate & Institutional Banking and Commercial Banking segments, accounts or portfolios are placed on Credit Issues Committee 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 Chief Executive Officer, 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 Banking and Commercial Banking 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 Banking Segment

In the Retail Banking 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 Banking segment, 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 Banking segment reflects the fact that the product portfolios (excluding Business Clients customers) consist of a large number of comparatively small exposures. As a result, much of the impairment assessment is initially done at an account level for each product and a Portfolio Impairment Provision ("PIP") is raised on a portfolio basis.

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

The process used for recognising the impairment provisions is dependent on the product. For mortgages, individual impairment provisions ("IIP") are generally raised at 150 days past due based on the difference between the outstanding amount of the loan and the present value of the estimated future cash flows which includes the realisation of collateral. For other secured loans (where the collateral value is typically realised in less than 12 months), loan impairment is calculated using the forced sale value of the collateral without further discounting. For unsecured products, individual provisions are recognised for the entire outstanding amount at 150 days past due. For all products, there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

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

The procedures for managing problem credits for the Business Clients sub segment of Retail Banking segment are similar to those adopted for Corporate & Institutional Banking and Commercial Banking segments described above.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2016

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	2016 KShs '000	2015 KShs '000
Individually impaired:		
Grade 13: Impaired	2,286,090	2,217,996
Grade 14: Impaired	7,880,717	9,463,668
	10,166,807	11,681,664
Allowance for impairment	(4,631,430)	(4,312,851)
	5,535,377	7,368,813
Loans past due but not impaired:		
Past due up to 30 days	9,978,689	3,967,487
Past due 31 – 60 days	886,170	690,110
Past due 61 – 90 days	390,941	425,688
	11,255,800	5,083,285
Loans neither past due nor impaired:		
Grade 1	192,526	154,720
Grade 2	–	–
Grade 3	21	104,611
Grade 4	2,652,488	861,327
Grade 5	1,349,994	1,607,998
Grade 6	617,476	1,402,529
Grade 7	14,628,969	6,632,278
Grade 8	8,052,262	11,292,389
Grade 9	5,556,873	12,195,886
Grade 10	10,608,568	12,028,988
Grade 11	60,736,475	55,524,734
Grade 12 – watch	2,472,142	1,823,155
	106,867,794	103,628,615
Portfolio impairment provision	(947,933)	(955,286)
	105,919,861	102,673,329
Net loans and advances	122,711,038	115,125,427

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Fair value of collateral held

Group and Company	2016 KShs '000	2015 KShs '000
Against impaired loans	**5,647,724**	5,742,838
Against past due but not impaired loans	**5,833,599**	5,083,285

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 2016 and 2015.

(v) Loans and advances concentration by sector

Group and Company	2016 KShs '000	2015 KShs '000
Business services	**1,478,825**	2,191,576
Manufacturing	**17,552,523**	23,923,462
Wholesale and retail trade	**18,908,285**	17,502,637
Transport and communication	**16,278,065**	6,354,147
Real estate	**895,175**	3,650,144
Agriculture	**4,400,922**	4,629,365
Energy and water	**12,107,004**	9,305,422
Others	**56,669,602**	52,836,811
	128,290,401	120,393,564

Credit concentration risk in Corporate & Institutional Banking and Commercial Banking segments 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 Banking 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 and ultimately by the Board in accordance with their delegated authority level.

(vi) Loans and advances concentration by business

Group and Company	2016 KShs '000	2015 KShs '000
Corporate & Institutional Banking	**49,807,069**	44,786,885
Commercial Banking	**15,944,251**	16,640,799
Retail Banking	**62,539,081**	58,965,880
	128,290,401	120,393,564

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(vii) Other financial assets

	2016		2015	
Neither past due nor impaired:	**Group KShs '000**	**Company KShs '000**	Group KShs '000	Company KShs '000
Cash and balances with Central Bank of Kenya	**15,513,554**	**15,513,554**	14,240,581	14,240,581
Government and other securities held for trading	**4,780,246**	**4,780,246**	5,709,525	5,709,525
Derivative financial instruments	**554,026**	**554,026**	688,538	688,538
Loans and advances to banks	**1,566,035**	**1,566,035**	3,190,915	3,190,915
Investment securities	**82,218,712**	**82,075,385**	67,911,422	67,911,422
Other assets – uncleared effects	**616,253**	**580,934**	136,288	136,288
Amounts due from group companies	**14,151,412**	**14,011,495**	17,857,239	17,890,777

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.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(b) Liquidity risk (continued)

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 Group Treasury. 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 depositors.

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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	2016 %	2015 %
At 31 December	57	54
Average for the year	62	52
Highest for the year	66	56
Lowest for the year	55	43

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 deposit ratio demonstrates that customer deposits are in excess of customer loans due to 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

	2016 KShs '000	2015 KShs '000
Loans and advances to customers	122,711,038	115,125,427
Deposits from customers	186,598,226	172,036,056
	%	%
Advances to deposits ratio	66	67

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

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

Group

2016: LIABILITIES	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Deposits from banks	3,046,415	–	–	–	–	3,046,415
Deposits from customers	152,012,161	7,399,383	23,159,784	6,929,663	–	189,500,991
Derivative financial instruments	252,921	–	–	–	–	252,921
Other liabilities - bills payable	770,120	–	–	–	–	770,120
Amounts due to group companies	2,999,520	–	–	1,078,834	8,148,960	12,227,314
At 31 December 2016	**159,081,137**	**7,399,383**	**23,159,784**	**8,008,497**	**8,148,960**	**205,797,761**
2015: LIABILITIES						
Deposits from banks	4,293,413	–	–	–	–	4,293,413
Deposits from customers	144,343,528	6,253,058	20,601,189	3,152,872	4,256	174,354,903
Derivative financial instruments	458,669	–	–	–	–	458,669
Other liabilities - bill payable	771,676	–	–	–	–	771,676
Amounts due to group companies	1,157,723	–	2,045,826	1,028,984	7,191,520	11,424,053
At 31 December 2015	**151,025,009**	**6,253,058**	**22,647,015**	**4,181,856**	**7,195,776**	**191,302,714**

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquid risk (Continued)

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 Executive Risk Committee (ERC), 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 2016.

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.

MTCR approves the limits within delegated authorities and monitors exposures against these limits and reports to ERC and 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

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 97.5 per cent 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.

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

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

Company

2016:				
Daily value at risk:	**At 31 December**	**Average**	**High**	**Low**
Foreign exchange risk	19,230	11,813	29,563	3,915
Interest rate risk	97,204	164,386	221,984	89,285
Rates trading	11,799	24,045	60,022	6,421
	128,233	**200,244**	**311,569**	**99,621**
2015:				
Daily value at risk:				
Foreign exchange risk	29,334	12,812	29,334	4,310
Interest rate risk	174,409	80,887	186,613	34,445
Rates trading	60,122	22,259	98,124	6,310
	263,865	**115,958**	**314,071**	**45,065**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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 re-pricing or maturity dates.

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

Group

2016:

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	–	–	–	–	–	–	15,513,554	**15,513,554**
Government and other securities held for trading	6.16	–	1,900,000	2,050,000	432,900	493,100	(95,754)	**4,780,246**
Derivative financial instruments	–	554,026	–	–	–	–	–	**554,026**
Loans and advances to banks	4.87	994,250	–	250,000	–	–	321,785	**1,566,035**
Loans and advances to customers	9.94	21,099,258	74,841,892	1,856,494	12,325,579	8,000,370	4,587,445	**122,711,038**
Investment securities	10.95	9,750,000	13,344,800	57,663,850	2,644,517	–	(1,184,455)	**82,218,712**
Other assets - uncleared effects	–	–	–	–	–	–	616,253	**616,253**
Amounts due from group companies	0.70	11,641,245	–	–	–	–	2,510,167	**14,151,412**
At 31 December 2016	**–**	**44,038,779**	**90,086,692**	**61,820,344**	**15,402,996**	**8,493,470**	**22,268,995**	**242,111,276**
LIABILITIES								
Deposits from banks	4.37	3,046,415	–	–	–	–	–	**3,046,415**
Deposits from customers	2.95	38,834,870	4,623,711	29,949,810	5,227,397	–	107,962,438	**186,598,226**
Derivative financial instruments	–	252,921	–	–	–	–	–	**252,921**
Other liabilities – bills payable	–	–	–	–	–	–	770,120	**770,120**
Amounts due to group companies	3.62	–	–	–	1,025,000	6,150,000	2,999,520	**10,174,520**
At 31 December 2016	**–**	**42,134,206**	**4,623,711**	**29,949,810**	**6,252,397**	**6,150,000**	**111,732,078**	**200,842,202**
Interest rate sensitivity gap	**–**	**1,904,573**	**85,462,981**	**31,870,534**	**9,150,599**	**2,343,470**	**(89,463,083)**	**41,269,074**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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
2015:

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	–	–	–	–	–	–	14,240,581	**14,240,581**
Government and other securities held for trading	12.95	–	–	107,850	3,946,700	1,891,050	(236,075)	**5,709,525**
Derivative financial instruments	–	688,538	–	–	–	–	–	**688,538**
Loans and advances to banks	6.19	2,229,265	–	–	750,264	–	211,386	**3,190,915**
Loans and advances to customers	13.15	10,059,167	7,607,516	6,638,428	40,451,429	43,000,072	7,368,815	**115,125,427**
Investment securities	12.44	4,720,000	22,500,000	23,977,330	18,710,350	–	(1,996,258)	**67,911,422**
Other assets - uncleared effects	–	–	–	–	–	–	136,288	**136,288**
Amounts due from group companies	0.35	13,116,420	–	–	–	–	4,740,819	**17,857,239**
At 31 December 2015	**–**	**30,813,390**	**30,107,516**	**30,723,608**	**63,858,743**	**44,891,122**	**24,465,556**	**224,859,935**
LIABILITIES								
Deposits from banks	4.39	4,045,027	–	–	–	–	248,386	**4,293,413**
Deposits from customers	6.40	56,743,999	6,167,285	19,011,377	2,553,736	3,047	87,556,612	**172,036,056**
Derivative financial instruments	–	458,669	–	–	–	–	–	**458,669**
Other liabilities – bills payable	–	–	–	–	–	–	771,676	**771,676**
Amounts due to group companies	1.51	–	–	2,044,000	1,022,000	6,132,000	1,157,723	**10,355,723**
At 31 December 2015	**–**	**61,247,695**	**6,167,285**	**21,055,377**	**3,575,736**	**6,135,047**	**89,734,397**	**187,915,537**
Interest rate sensitivity gap	**–**	**(30,434,305)**	**23,940,231**	**9,668,231**	**60,283,007**	**38,756,075**	**(65,268,841)**	**36,944,398**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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 2016:	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	1,668,487	65,169	146,451	210,535	**2,090,642**
Loans and advances to customers	33,342,845	1,439,927	42,425	829,389	**35,654,586**
Other assets	1,440,798	151,579	70,213	42,556	**1,705,146**
Amounts due from group companies	9,847,290	568,158	2,286,657	145,705	**12,847,810**
At 31 December 2016	**46,299,420**	**2,224,833**	**2,545,746**	**1,228,185**	**52,298,184**
LIABILITIES					
Deposits from banks	1,084,760	5,950	43	–	**1,090,753**
Deposits from customers	44,978,794	2,197,445	2,532,862	113,075	**49,822,176**
Other liabilities	435,070	34,420	12,847	41,868	**524,205**
Amounts due to group companies	7,896,415	–	–	992	**7,897,407**
At 31 December 2016	**54,395,039**	**2,237,815**	**2,545,752**	**155,935**	**59,334,541**
Net statement of position exposure	**(8,095,619)**	**(12,982)**	**(6)**	**1,072,250**	**(7,036,357)**

2015:	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	2,217,206	130,563	54,347	210,926	**2,613,042**
Loans and advances to customers	37,212,956	798,023	–	294,388	**38,305,367**
Other assets	5,282,672	385,335	58,634	5,038	**5,731,679**
Amounts due from group companies	13,566,891	1,455,178	1,608,136	212,102	**16,842,307**
At 31 December 2015	**58,279,725**	**2,769,099**	**1,721,117**	**722,454**	**63,492,395**
LIABILITIES					
Deposits from banks	1,067,618	6,310	51	–	**1,073,979**
Deposits from customers	48,739,489	2,531,199	1,630,221	161,710	**53,062,619**
Other liabilities	4,075,350	54,639	48,044	1,107,048	**5,285,081**
Amounts due to group companies	9,285,593	–	–	97,210	**9,382,803**
At 31 December 2015	**63,168,050**	**2,592,148**	**1,678,316**	**1,365,968**	**68,804,482**
Net statement of financial position exposure	**(4,888,325)**	**176,951**	**42,801**	**(643,514)**	**(5,312,087)**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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 10.50% of total risk weighted assets, plus risk weighted off-balance sheet items;
- a core capital of not less than 8.00% of its total deposit liabilities; and
- a total capital of not less than 14.50% 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.

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 credit risk reserve.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

The Company's regulatory capital position at 31 December 2016 was as follows:

Company	2016 KShs '000	2015 KShs '000
Core capital (Tier 1)		
Share capital	1,997,553	1,825,798
Share premium	7,792,427	7,792,427
Retained earnings	26,050,443	24,518,834
Capital contribution reserve	1,823,673	1,823,673
	37,664,096	35,960,732
Less deductions from capital:		
Goodwill on acquired intangible (Note 31)	(1,112,111)	(1,112,111)
Acquired intangible (Note 31)	(1,230,652)	(1,589,796)
Deferred tax asset	(63,348)	–
	35,257,985	33,258,825
Supplementary capital (Tier 2)		
Revaluation reserves (25%)	114,260	128,948
Statutory credit risk reserve	568,868	618,797
Subordinated debt (Note 26)	6,162,723	6,140,721
	6,845,851	6,888,466
Total capital	42,103,836	40,147,291
Risk weighted assets		
Credit risk	133,093,591	127,222,770
Market risk	19,051,031	16,928,911
Operational risk	49,176,025	45,595,748
Total risk weighted assets	201,320,647	189,747,429
Deposits from customers	186,598,226	172,036,056
Capital ratios		
Core capital/total deposit liabilities (CBK minimum 8.00%)	18.90%	19.33%
Core capital/total risk weighted assets (CBK minimum 10.50%)	17.51%	17.53%
Total capital/total risk weighted assets (CBK minimum 14.50%)	20.91%	21.16%

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. 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 Banking 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

(a) Loan loss provisioning (Continued)

(i) Retail Banking segment (Continued)

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 Banking and Commercial Banking 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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 management in determining the useful life for property and equipment.

Acquired intangible asset

Critical estimates are made by 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 the customer relationships acquired by discounting the future cash flows expected to be generated over the useful life determined to be 11 years.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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 31 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's segmental reporting is in accordance with *IFRS 8 Operating Segments* and is reported in a manner consistent with the internal performance framework and as presented to the Group's management team. The three client segments are Corporate & Institutional Banking, Commercial Banking and Retail Banking. Activities not directly related to a client segment are included in Central & other items. This mainly includes Asset and Liability Management, treasury activities and Corporate Centre costs. Corporate Centre costs represent stewardship and central management services roles and activities that are not directly attributable to business operations.

The Group allocates central costs (excluding Corporate Centre costs) relating to client segments using appropriate business drivers and these are reported within operating expenses. The Group evaluates segmental performance on the basis of profit or loss before taxation.

The segment results were as follows:

Group Consolidated income statement for the year ended 31 December 2016	**Corporate & Institutional Banking KShs '000**	**Commercial Banking KShs '000**	**Retail Banking KShs '000**	**Central & other items KShs '000**	**Total KShs '000**
Net interest income	3,885,933	1,855,233	9,294,153	3,887,477	**18,922,796**
Non funded income	4,628,355	554,336	3,219,216	70,649	**8,472,556**
Operating income	**8,514,288**	**2,409,569**	**12,513,369**	**3,958,126**	**27,395,352**
Operating expenses	(4,354,135)	(1,560,031)	(6,110,785)	(204,024)	**(12,228,975)**
Net impairment losses on loans and advances	(266,229)	(422,491)	(1,189,538)	–	**(1,878,258)**
Profit before taxation	**3,893,924**	**427,047**	**5,213,046**	**3,754,102**	**13,288,119**
Consolidated income statement for the year ended 31 December 2015					
Net interest income	3,081,374	2,684,617	7,859,701	3,975,770	**17,601,462**
Non funded income	3,032,273	1,054,565	3,070,065	55,989	**7,212,892**
Operating income	**6,113,647**	**3,739,182**	**10,929,766**	**4,031,759**	**24,814,354**
Operating expenses	(4,405,952)	(1,150,601)	(5,294,606)	(211,616)	**(11,062,775)**
Net impairment losses on loans and advances	(213,529)	(3,372,041)	(1,006,077)	–	**(4,591,647)**
Profit/(loss) before taxation	**1,494,166**	**(783,460)**	**4,629,083)**	**3,820,143**	**9,159,932**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

6 OPERATING SEGMENTS (Continued)

Group

Statement of financial position as at 31 December 2016	Corporate & Institutional Banking KShs '000	Commercial Banking KShs '000	Retail Banking KShs '000	Central & other items KShs '000	Total KShs '000
Total assets employed	**58,256,449**	**11,899,441**	**61,875,043**	**118,451,067**	**250,482,000**
Of which: Loans to customers	49,299,816	11,898,992	61,512,230	–	**122,711,038**
Total liabilities employed	**66,901,721**	**14,738,284**	**108,935,924**	**15,302,243**	**205,878,172**
Of which: Customer deposits	63,427,463	14,630,153	108,540,610	–	**186,598,226**
Other segment items:					
Depreciation and amortisation	382,447	139,718	371,512	12,635	**906,312**
Capital expenditure	–	–	197,118	43,341	**240,459**

Statement of financial position as at 31 December 2015	Corporate & Institutional Banking KShs '000	Commercial Banking KShs '000	Retail Banking KShs '000	Central & other items KShs '000	Total KShs '000
Total assets employed	**53,975,161**	**13,720,834**	**58,469,794**	**107,799,658**	**233,965,447**
Of which: Loans to customers	43,424,835	13,693,755	58,006,837	–	**115,125,427**
Total liabilities employed	**68,254,768**	**16,736,047**	**90,174,529**	**17,548,318**	**192,713,662**
Of which: Customer deposits	65,937,272	16,671,459	89,427,325	–	**172,036,056**
Other segment items:					
Depreciation and amortisation	474,691	20,273	281,902	192,548	**969,414**
Capital expenditure	–	–	77,477	125,977	**203,454**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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 2016:

	Note	Fair value through through profit or loss KShs '000	Loans and receivables KShs '000	Availbale-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	–	15,513,554	–	–	**15,513,554**
Government and other securities held for trading	19	4,780,246	–	–	–	**4,780,246**
Derivative financial instruments	20	554,026	–	–	–	**554,026**
Loans and advances to banks	21	–	1,566,035	–	–	**1,566,035**
Loans and advances to customers	22(a)	–	122,711,038	–	–	**122,711,038**
Investment securities	23	–	–	82,218,712	–	**82,218,712**
Other assets - uncleared effects	25	–	616,253	–	–	**616,253**
Amounts due from group companies	26	–	14,151,412	–	–	**14,151,412**
Total assets		**5,334,272**	**154,558,292**	**82,218,712**	**–**	**242,111,276**
Liabilities						
Deposits from banks	34	–	–	–	3,046,415	**3,046,415**
Deposits from customers	35	–	–	–	186,598,226	**186,598,226**
Derivative financial instruments	20	252,921	–	–	–	**252,921**
Other liabilities - bills payable	36	–	–	–	770,120	**770,120**
Amounts due to group companies	26	–	–	–	10,174,520	**10,174,520**
Total liabilities		**252,921**	**–**	**–**	**200,589,281**	**200,842,202**

31 December 2015:

	Note	Fair value through through profit or loss KShs '000	Loans and receivables KShs '000	Availbale-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	–	14,240,581	–	–	**14,240,581**
Government and other securities held for trading	19	5,709,525	–	–	–	**5,709,525**
Derivative financial instruments	20	688,538	–	–	–	**688,538**
Loans and advances to banks	21	–	3,190,915	–	–	**3,190,915**
Loans and advances to customers	22(a)	–	115,125,427	–	–	**115,125,427**
Investment securities	23	–	–	67,911,422	–	**67,911,422**
Other assets - uncleared effects	25	–	136,288	–	–	**136,288**
Amounts due from group companies	26	–	17,857,239	–	–	**17,857,239**
Total assets		**6,398,063**	**150,550,450**	**67,911,422**	–	**224,859,935**
Liabilities						
Deposits from banks	34	–	–	–	4,293,413	**4,293,413**
Deposits from customers	35	–	–	–	172,036,056	**172,036,056**
Derivative financial instruments	20	458,669	–	–	–	**458,669**
Other liabilities - bills payable	36	–	–	–	771,676	**771,676**
Amounts due to group companies	26	–	–	–	10,355,723	**10,355,723**
Total liabilities		**458,669**	**–**	**–**	**187,456,868**	**187,915,537**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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 2016 and 2015:

Group 31 December 2016:	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Assets					
Government and other securities held for trading	19	–	4,780,246	–	**4,780,246**
Derivative financial instruments	20	–	554,026	–	**554,026**
Investment securities	23	–	82,218,712	–	**82,218,712**
Total assets		–	**87,552,984**	**–**	**87,552,984**
Derivative financial instruments	20	–	252,921	–	**252,921**
Total liabilities		–	**252,921**	**–**	**252,921**

31 December 2015:	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Assets					
Government and other securities held for trading	19	–	5,709,525	–	**5,709,525**
Derivative financial instruments	20	–	688,538	–	**688,538**
Investment securities	23	–	67,911,422	–	**67,911,422**
Total assets		–	**74,309,485**	**–**	**74,309,485**
Derivative financial instruments	20	–	458,669	–	**458,669**
Total liabilities		–	**458,669**	**–**	**458,669**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

7. FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy (Continued)

(i) Financial instruments measured at fair value (continued)

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.

(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**
The 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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

7. FINANCIAL ASSETS AND LIABILITIES

(b) Valuation hierarchy (Continued)

(ii) Financial instruments measured at amortised cost (continued)

The table below summarises the carrying amounts and incorporate the Group's estimate of fair value of those financial assets and liabilities not presend on the Group's balance sheet at fair value at 31 December 2016 and 2015:

Group
31 December 2016:

	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	–	15,513,554	–	15,513,554	**15,513,554**
Loans and advances to banks	21	–	1,566,035	–	1,566,035	**1,566,035**
Loans and advances to customers	22(a)	–	–	122,711,038	122,711,038	**122,711,038**
Other assets - uncleared effects	25	–	–	616,253	616,253	**616,253**
Amounts due from group companies	7(a)	–	–	14,151,412	14,151,412	**14,151,412**
Total assets		**–**	**17,079,589**	**137,478,703**	**154,558,292**	**154,558,292**
Deposits from banks	34	–	3,046,415	–	3,046,415	**3,046,415**
Deposits from customers	35	–	39,214,904	147,383,322	186,598,226	**186,598,226**
Other liabilities – bills payable	36	–	–	770,120	770,120	**770,120**
Amounts due to group companies	7(a)	–	6,150,000	4,024,520	10,174,520	**10,174,520**
Total liabilities		**–**	**48,411,319**	**152,177,962**	**200,589,281**	**200,589,281**

31 December 2015:

	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	–	14,240,581	–	14,240,581	**14,240,581**
Loans and advances to banks	21	–	3,190,915	–	3,190,915	**3,190,915**
Loans and advances to customers	22(a)	–	–	115,125,427	115,125,427	**115,125,427**
Other assets - uncleared effects	25	–	–	136,288	136,288	**136,288**
Amounts due from group companies	7(a)	–	–	17,857,239	17,857,239	**17,857,239**
Total assets		**–**	**17,431,496**	**133,118,954**	**150,550,450**	**150,550,450**
Deposits from banks	34	–	4,293,413	–	4,293,413	**4,293,413**
Deposits from customers	35	–	39,496,968	132,539,088	172,036,056	**172,036,056**
Other liabilities – bills payable	36	–	–	771,676	771,676	**771,676**
Amounts due to group companies	7(a)	–	6,132,000	4,223,723	10,355,723	**10,355,723**
Total liabilities		**–**	**49,922,381**	**137,534,487**	**187,456,868**	**187,456,868**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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 3(h) and 3(f) respectively.

Cash and balances with Central Bank of Kenya

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

		2016 KShs '000	2015 KShs '000
8	**INTEREST INCOME**		
	Loans and advances to customers	**14,374,626**	14,747,282
	Loans and advances to banks	**819,826**	941,706
	Investment securities – Available-for-sale	**9,905,681**	6,752,191
	Accrued on impaired assets (Discount unwind)	**470,409**	167,423
		25,570,542	22,608,602
9	**INTEREST EXPENSE**		
	Deposits from customers	**5,952,318**	4,228,559
	Deposits from banks	**695,428**	778,581
		6,647,746	5,007,140
10	**NET FEE AND COMMISSION INCOME**		
	Fee and commission income		
	Commissions	**3,542,446**	3,235,012
	Service fees	**1,491,706**	1,300,251
		5,034,152	4,535,263
	Fee and commission expense		
	Inter-bank transaction fees and other fees	**499,868**	385,851
11	**NET TRADING INCOME**		
	Gains less losses on foreign currency transactions	**2,839,996**	2,331,776
	Interest income on held-for-trading securities	**204,603**	268,483
	Other trading profits/(losses)	**784,631**	(2,205)
		3,829,230	2,598,054
12	**OTHER OPERATING INCOME**		
	Gains less losses on disposal of available-for-sale securities:		
	– Government treasury bonds and bills	**60,501**	27,836
	Rental income	**3,768**	11,870
	Profit on sale of non-current asset held for sale	**88,039**	240,443
	(Loss)/profit on sale of property and equipment	**(2,225)**	241
	Profit on sale of motor vehicle	**289**	3,300
	Other	**(41,330)**	181,736
		109,042	465,426

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2016

	2016 KShs '000	2015 KShs '000
13 OPERATING EXPENSES		
Staff costs		
Salaries and wages	**5,144,158**	4,466,250
Contributions to defined contribution plan	**572,180**	515,809
Increase in retirement benefit obligations (Note 37)	**34,271**	34,544
Redundancy charge	**556,634**	332,465
Employee share-based payments expenses	**46,159**	42,146
Other staff costs	**826,158**	827,068
	7,179,560	6,218,282

	2016 No.	2015 No.
The number of employees at the year end was:		
Management	**1,280**	1,248
Unionisable	**358**	391
Other	**234**	242
	1,872	1,881

	2016 KShs '000	2015 KShs '000
Premises and equipment costs		
Rental of premises	**412,946**	383,720
Rental of computers and equipment	**121,348**	129,887
Electricity	**115,520**	126,618
Other premises and equipment costs	**324,364**	149,946
	974,178	790,171
Depreciation and amortisation		
Buildings on leasehold land	**15,745**	15,565
Fixtures, fittings and equipment	**421,341**	458,623
Motor vehicles	**4,651**	6,792
Depreciation on property and equipment (Note 30)	**441,737**	480,980
Amortisation of intangible assets (Note 31)	**461,647**	485,506
Amortisation of prepaid operating lease rentals (Note 32)	**2,928**	2,928
	906,312	969,414
14 PROFIT BEFORE TAXATION		
Profit before taxation is arrived at after charging:		
Depreciation on property and equipment (Note 30)	**441,737**	480,980
Amortisation of intangible assets (Note 31)	**461,647**	485,506
Amortisation of prepaid operating lease rentals (Note 32)	**2,928**	2,928
Directors' emoluments - Fees	**14,519**	11,051
- Other	**147,974**	121,516
Loss on sale of property and equipment	**2,225**	–
Auditors' remuneration	**15,290**	14,786
And after crediting:		
Profit on sale of non-current asset held for sale	**88,039**	240,443
Profit on sale of property and equipment	**–**	241
Profit on sale of motor vehicle	**289**	3,300

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

15 INCOME TAX EXPENSE

	2016 KShs '000	2015 KShs '000
Current year's tax at 30% (Note 24)	**4,438,008**	3,132,805
Compensating tax	**–**	416
Prior year under/(over) provision (Note 24)	**61,945**	(3,976)
	4,499,953	3,129,245
Deferred tax credit - Note 33 (a, c)	**(261,141)**	(311,740)
Incoming tax expense	**4,238,812**	2,817,505

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

	2016 KShs '000	2015 KShs '000
Accounting profit before taxation	**13,288,119**	9,159,932
Computed tax using the applicable corporation tax rate at 30%	**3,986,436**	2,747,980
Tax exempt income	**(30,723)**	(75,707)
Non-deductible expenses	**221,154**	148,792
Prior year under/(over) provision	**61,945**	(3,976)
Compensating tax	**–**	416
Income tax expense	**4,238,812**	2,817,505

16 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2016 and 2015 is based on the profit attributable to ordinary shareholders of KShs 8,881,307,000 (2015 – KShs 6,174,427,000) and a weighted average number of ordinary shares outstanding during the year of 343,510,572 (2015 restated - 343,510,572).

Profit attributable to ordinary shareholders:	2016 KShs '000	2015 KShs '000
Net profit for the year	**9,049,307**	6,342,427
Dividends on non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares	**(168,000)**	(168,000)
	8,881,307	6,174,427
Basic earnings per share (KShs) (2015 restated)	**25.85**	17.97

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 2016 and 2015.

17 DIVIDEND PER SHARE

	2016 KShs '000	2015 KShs '000
Group and Company		
Dividends – Ordinary shares	**4,809,148**	3,864,494
Dividends – Preference shares	**84,230**	84,690
	4,893,378	3,949,184

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 25 May 2017, a final dividend in respect of the year ended 31 December 2016 of KShs 14.00 (2015 – KShs 12.50) for every ordinary share of KShs 5.00 is to be proposed. One interim dividend of KShs 6.00 (2015 – KShs 4.50) for every ordinary share of KShs 5.00 was declared on 17 August 2016 and paid on 31 August 2016. This will bring the total dividend for the year to KShs 20.00 (2015 – KShs 17.00).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

17 DIVIDEND PER SHARE (Continued)

At the Annual General Meeting to be held on 25 May 2017, a final dividend in respect of the year ended 31 December 2016 of KShs 84,230,137 (2015 – KShs 84,690,411) for the preference shares is to be proposed. An interim dividend of KShs 83,769,863 (2015 – KShs 83,309,589) was declared on 17 August 2016 and paid on 31 August 2016. This will bring the total dividend for the year to KShs 168,000,000 (2015 – 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	2016 KShs '000	2015 KShs '000
Cash on hand	**3,473,071**	3,791,248
Balances with Central Bank of Kenya:		
-Restricted balances (Cash Reserve Ratio)	**11,274,022**	9,434,663
-Unrestricted balances	**766,461**	1,014,670
	15,513,554	14,240,581

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 2016, the Cash Reserve Ratio requirement was 5.25% (2015 – 5.25%) of all deposits. These funds are available for use by the Company 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:

	2016			2015		
	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	5,709,525	–	5,709,525	3,076,047	–	3,076,047
Additions	4,883,900	11,650,000	16,533,900	12,146,850	–	12,146,850
Disposals and maturities	(9,903,500)	(7,700,000)	(17,603,500)	(9,459,200)	–	(9,459,200)
Changes in fair value	232,674	(92,353)	140,321	(54,172)	–	(54,172)
At 31 December	**922,599**	**3,857,647**	**4,780,246**	5,709,525	–	5,709,525

The weighted average effective interest rate on government and other securities held for trading at 31 December 2016 was 10.77% (2015 - 12.95%).

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	**2016**			2015		
	Notional principal amounts KShs '000	Assets KShs '000	Liabilities KShs '000	Notional principal amounts KShs '000	Assets KShs '000	Liabilities KShs '000
Interest rate and cross currency derivative contracts	6,259,496	554,026	252,921	6,910,716	688,538	458,669
Forward exchange contracts	46,770,055	–	–	40,881,844	–	–
	53,029,551	**554,026**	**252,921**	47,792,560	688,538	458,669

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

21 LOANS AND ADVANCES TO BANKS

Group and Company	2016 KShs '000	2015 KShs '000
Loans and advances to local banks	**1,255,156**	2,979,530
Loans and advances to foreign banks	**310,879**	211,385
	1,566,035	3,190,915

The weighted average effective interest rate on loans and advances to banks at 31 December 2016 was 4.87% (2015 - 6.18%).

22 LOANS AND ADVANCES TO CUSTOMERS

Group and Company	2016 KShs '000	2015 KShs '000
(a) Classification		
Overdrafts	**18,198,661**	11,431,625
Loans	**109,759,762**	108,320,757
Bills discounted	**331,978**	641,182
Gross loans and advances	**128,290,401**	120,393,564
Less: Impairment losses on loans and advances	**(5,579,363)**	(5,268,137)
Net loans and advances	**122,711,038**	115,125,427
Repayable on demand	**25,240,482**	16,787,071
Less than 3 months	**17,606,395**	13,770,737
3 months to 1 year	**4,150,083**	6,606,902
1 to 5 years	**44,383,424**	40,279,861
5 to 10 years	**18,531,188**	26,853,408
Over 10 years	**18,378,829**	16,095,585
Gross loans and advances	**128,290,401**	120,393,564

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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
2016:			
At 1 January 2016	4,312,851	955,286	5,268,137
Provisions recognised during the year	2,249,468	63,826	2,313,294
Amounts written off during the year	(1,096,623)	–	(1,096,623)
Recoveries	(363,857)	(71,179)	(435,036)
Amounts released to interest income	(470,409)	–	(470,409)
At 31 December 2016	**4,631,430**	**947,933**	**5,579,363**
Provisions recognised during the year	2,249,468	63,826	2,313,294
Amounts recovered during the year	(363,857)	(71,179)	(435,036)
Net charge to profit or loss	**1,885,611**	**(7,353)**	**1,878,258**
2015:			
At 1 January 2015	823,215	837,897	1,661,112
Provisions recognised during the year	4,875,135	188,863	5,063,998
Amounts written off during the year	(817,199)	–	(817,199)
Recoveries	(400,877)	(71,474)	(472,351)
Amounts released to interest income	(167,423)	–	(167,423)
At 31 December 2015	**4,312,851**	**955,286**	**5,268,137**
Provisions recognised during the year	4,875,135	188,863	5,063,998
Amounts recovered during the year	(400,877)	(71,474)	(472,351)
Net charge to profit or loss	**4,474,258**	**117,389**	**4,591,647**

The weighted average effective interest rate on loans and advances to customers at 31December 2016 was 9.94% (2015 –13.15%).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

23 INVESTMENT SECURITIES

	2016 Group KShs '000	2016 Company KShs '000	2015 Group KShs '000	2015 Company KShs '000
Available-for-sale				
Treasury bonds	**32,432,477**	**32,289,150**	28,757,866	28,757,866
Treasury bills	**49,276,026**	**49,276,026**	38,658,677	38,658,677
	81,708,503	**81,565,176**	67,416,543	67,416,543
Money market bonds	**502,362**	**502,362**	486,797	486,797
Equity shares	**7,847**	**7,847**	8,082	8,082
Total investment securities	**82,218,712**	**82,075,385**	67,911,422	67,911,422

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

Group

	2016 Treasury bonds and bills KShs '000	2016 Money market bonds KShs '000	2016 Equity shares KShs '000	2016 Total KShs '000	2015 Treasury bonds and bills KShs '000	2015 Money market bonds KShs '000	2015 Equity shares KShs '000	2015 Total KShs '000
At 1 January	67,416,543	486,797	8,082	67,911,422	55,139,813	531,195	7,998	55,679,006
Additions	94,633,790	–	–	94,633,790	53,261,751	–	–	53,261,751
Disposals and maturities	(87,052,154)	(22,230)	–	(87,074,384)	(44,301,052)	(22,220)	–	(44,323,272)
Changes in fair value	599,776	38,457	–	638,233	(379,248)	(22,327)	–	(401,575)
Movement in accrued interest	333,782	(662)	–	333,120	11,833	149	–	11,982
Translation differences	–	–	(235)	(235)	–	–	84	84
Amortisation of discounts and premiums	5,776,766	–	–	5,776,766	3,683,446	–	–	3,683,446
At 31 December	**81,708,503**	**502,362**	**7,847**	**82,218,712**	67,416,543	486,797	8,082	67,911,422

Company

	2016 Treasury bonds and bills KShs '000	2016 Money market bonds KShs '000	2016 Equity shares KShs '000	2016 Total KShs '000	2015 Treasury bonds and bills KShs '000	2015 Money market bonds KShs '000	2015 Equity shares KShs '000	2015 Total KShs '000
At 1 January	67,416,543	486,797	8,082	67,911,422	55,139,813	531,195	7,998	55,679,006
Additions	94,502,589	–	–	94,502,589	53,261,751	–	–	53,261,751
Disposals and maturities	(87,052,154)	(22,230)	–	(87,074,384)	(44,301,052)	(22,220)	–	(44,323,272)
Changes in fair value	600,964	38,457	–	639,421	(379,248)	(22,327)	–	(401,575)
Movement in accrued interest	326,106	(662)	–	325,444	11,833	149	–	11,982
Translation differences	–	–	(235)	(235)	–	–	84	84
Amortisation of discounts and premiums	5,771,128	–	–	5,771,128	3,683,446	–	–	3,683,446
At 31 December	**81,565,176**	**502,362**	**7,847**	**82,075,385**	67,416,543	486,797	8,082	67,911,422

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

23 INVESTMENT SECURITIES (Continued)

The weighted average effective interest rate on treasury bonds at 31 December 2016 was 12.75% (2015 – 12.00%) and on treasury bills was 11.44% (2015 – 12.81%).

There were no treasury bills under repurchase agreements outstanding at 31 December 2016 and 2015.

The weighted average effective interest rate on money market bonds at 31 December 2016 was 8.47% (2015 – 8.58%).

At 31 December 2016, unamortised premiums on investment securities amounted to KShs 73,561,000 (2015 – KShs 115,914,000) and unamortised discounts amounted to KShs 2,501,821,000 (2015 – KShs 2,396,414,000).

24 TAX (PAYABLE)/RECOVERABLE

	2016		2015	
	Group KShs '000	**Company KShs '000**	Group KShs '000	Company KShs '000
At 1 January	**141,445**	**173,246**	77,058	75,699
Current year tax expense (Note 15)	**(4,438,008)**	**(4,285,828)**	(3,133,221)	(3,074,554)
Prior year (under)/over provision (Note 15)	**(61,945)**	**(61,299)**	3,976	3,827
Income taxes paid (Note 39)	**3,236,979**	**3,127,622**	3,193,632	3,168,274
At 31 December	**(1,121,529)**	**(1,046,259)**	141,445	173,246

The current tax liabilities and assets are shown below:

	2016		2015	
	Group KShs '000	**Company KShs '000**	Group KShs '000	Company KShs '000
Tax recoverable	**7,168**	**–**	178,494	173,246
Tax payable	**(1,128,697)**	**(1,046,259)**	(37,049)	–
	(1,121,529)	**(1,046,259)**	141,445	173,246

25 OTHER ASSETS

Un-cleared effects	**616,253**	**580,934**	136,288	136,288
Prepayments	**232,121**	**232,121**	555,412	555,412
Other receivables	**2,380,580**	**2,357,533**	1,953,663	1,949,239
	3,228,954	**3,170,588**	2,645,363	2,640,939

26 GROUP COMPANY BALANCES

Amounts due from group companies	**14,151,412**	**14,011,495**	17,857,239	17,890,777
Amounts due to group companies	**10,174,520**	**10,174,520**	10,355,723	10,355,723
Amounts due to subsidiaries	**–**	**585,036**	–	543,240

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

26 GROUP COMPANY BALANCES (Continued)

Included in amounts due to group companies is an amount of US$ 60 million (KShs 6,162,723,000) (2015 – US$ 60 million (KShs 6,140,721,000)) relating to subordinated debt made up of three amounts of US$ 20 million each advanced on 30 December 2013, 22 December 2014 and 19 August 2016, 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 Company 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 2016 on the subordinated debts was 3.90% (2015 – 3.00%).

The weighted average effective interest rate at 31 December 2016 on amounts due from group companies was 0.70% (2015 – 0.35%) and on amounts due to group companies was 3.62% (2015 – 1.51%).

Amounts due to subsidiaries relate to cash held in current and term deposit accounts on behalf of the Company's subsidiaries. The weighted average effective interest rate on the term deposits was 10.57% (2015 – 9.50%).

27 INVESTMENT IN SUBSIDIARIES

The following subsidiaries are wholly owned by the Company:

Company	Status	2016 KShs '000	2015 KShs '000
Standard Chartered Investment Services Limited	Active	**20,000**	20,000
Standard Chartered Insurance Agency Limited	Active	**1,000**	1,000
Standard Chartered Financial Services Limited	Non-trading	**120,241**	120,241
Standard Chartered Kenya Nominees Limited	Non-trading	**2**	2
		141,243	141,243

Standard Chartered Financial Services Limited owns 100% of Standard Chartered Management Services Limited which has been liquidated.

The investment in the above undertakings is measured at cost less accumulated impairment losses. All the subsidiaries are incorporated in Kenya.

28 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

28 BUSINESS COMBINATION (Continued)

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 Gross Domestic Product (GDP) growth rates but which are in line with past performance as adjusted to reflect current economic climate and any known business cycles. Cash flow projections were extrapolated forward up to 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.

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 (Note 31)	**1,112,111**

Contribution from the acquisition:	**2016 KShs '000**	2015 KShs '000
Operating income	**1,855,852**	2,163,958
Profit before taxation	**1,352,496**	1,590,083

The goodwill is attributable mainly to the customer relationships acquired, value of the acquired work force 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

29 NON-CURRENT ASSET HELD FOR SALE

Group and Company

	2016			2015		
	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	140,538	106	140,644	270,299	238	270,537
Transfer to property and equipment (Note 30)	–	–	–	(25,867)	–	(25,867)
Transfer to prepaid operating lease rentals (Note 32)	–	–	–	–	(4)	(4)
Disposals	(93,178)	(106)	(93,284)	(103,894)	(128)	(104,022)
At 31 December	**47,360**	**–**	**47,360**	**140,538**	**106**	**140,644**

The outstanding balance of the non-current asset held for sale relates to one property which is being sold.

The property has been placed on the market with the sale expected within the 2017 financial year.

The asset of KShs 47,360,000 (2015 – KShs 140,644,000) is classified under the Central & other items portion of the operating segment report in Note 6.

30 PROPERTY AND EQUIPMENT

Group and Company

2016:	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 2016	245,000	1,032,594	5,279,576	28,828	90,263	**6,676,261**
Additions	–	–	112,890	–	149,107	**261,997**
Transfers	–	–	127,569	–	(127,569)	**–**
Disposals	–	–	(32,472)	(8,566)	–	**(41,038)**
At 31 December 2016	**245,000**	**1,032,594**	**5,487,563**	**20,262**	**111,801**	**6,897,220**
Depreciation:						
At 1 January 2016	2,875	16,518	3,516,272	16,196	–	**3,551,861**
Charge for the year	2,300	13,445	421,341	4,651	–	**441,737**
Disposals	–	–	(30,247)	(4,522)	–	**(34,769)**
At 31 December 2016	**5,175**	**29,963**	**3,907,366**	**16,325**	**–**	**3,958,829**
Carrying amount:						
At 31 December 2016	**239,825**	**1,002,631**	**1,580,197**	**3,937**	**111,801**	**2,938,391**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

30 PROPERTY AND EQUIPMENT (Continued)

Group and Company

2015:	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 2015	245,000	1,006,727	5,113,201	23,988	113,336	6,502,252
Transfer from/(to) non-current asset held for sale (Note 29)	–	25,867	–	–	–	25,867
Additions	–	–	144,211	11,810	24,360	180,381
Transfers	–	–	47,433	–	(47,433)	–
Disposals	–	–	(25,269)	(6,970)	–	(32,239)
At 31 December 2015	**245,000**	**1,032,594**	**5,279,576**	**28,828**	**90,263**	**6,676,261**
Depreciation:						
At 1 January 2015	575	3,253	3,082,918	16,374	–	3,103,120
Charge for the year	2,300	13,265	458,623	6,792	–	480,980
Disposals	–	–	(25,269)	(6,970)	–	(32,239)
At 31 December 2015	**2,875**	**16,518**	**3,516,272**	**16,196**	**–**	**3,551,861**
Carrying amount:						
At 31 December 2015	**242,125**	**1,016,076**	**1,763,304**	**12,632**	**90,263**	**3,124,400**

Included in property and equipment at 31 December 2016 are assets with a gross value of KShs 2,336,315,188 (2015 – KShs 1,788,043,776) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been KShs 1,092,861,201 (2015 – KShs 736,543,624).

There were no idle assets as at 31 December 2016 and 2015.

Capital work in progress relates to the branch optimisation 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 2016 (2015 - Nil).

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

	2016 KShs '000	2015 KShs '000
Cost	**648,032**	648,032
Accumulated depreciation	**(100,588)**	(86,991)
Carrying amount	**547,444**	561,041

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

31 INTANGIBLE ASSETS

Group and Company

	2016				2015			
	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	545,746	**5,364,895**	3,707,038	1,112,111	334,382	**5,153,531**
Additions	–	–	13,075	**13,075**	–	–	211,364	**211,364**
At 31 December	**3,707,038**	**1,112,111**	**558,821**	**5,377,970**	**3,707,038**	**1,112,111**	**545,746**	**5,364,895**
Amortisation								
At 1 January	2,117,242	–	341,662	**2,458,904**	1,715,165	–	258,233	**1,973,398**
Charge for the year	359,144	–	102,503	**461,647**	402,077	–	83,429	**485,506**
At 31 December	**2,476,386**	**–**	**444,165**	**2,920,551**	**2,117,242**	**–**	**341,662**	**2,458,904**
Carrying amount:								
At 31 December	**1,230,652**	**1,112,111**	**114,656**	**2,457,419**	**1,589,796**	**1,112,111**	**204,084**	**2,905,991**

As at 31 December 2016, assets with a gross value of KShs 303,918,101 (2015 – KShs 238,889,921) are fully amortised but still in use. The notional amortisation charge for the year on these assets would have been KShs 101,964,067 (2015 – KShs 80,288,007).

There were no idle assets as at 31 December 2016 and 2015.

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 (2015 - Nil).

The recoverable amounts were calculated based on their value in use. Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2016 was determined similarly as in 2015. 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 up to 2014. Management forecasts projected revenue growth rates greater than long-term Gross Domestic Product (GDP) growth rates but which are in line with past performance as adjusted to reflect current economic climate and any known business cycles. Cash flow projections were extrapolated forward up to 2021 using steady long-term estimated GDP growth rates.

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

32 PREPAID OPERATING LEASE RENTALS

Group and Company

Cost	**2016 KShs '000**	2015 KShs '000
At 1 January	**277,578**	277,574
Transfer from non-current asset held for sale (Note 29)	**–**	4
At 31 December	**277,578**	277,578
Amortisation		
At 1 January	**30,670**	27,742
Charge for the year	**2,928**	2,928
At 31 December	**33,598**	30,670
Net carrying amount at 31 December	**243,980**	246,908

33 DEFERRED TAX ASSET/(LIABILITY)

The net deferred tax asset/(liability) at 31 December 2016 and 2015 are attributable to the following:

(a) Group

2016

	At 1 January 2016 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2016 KShs '000
Asset/(liability)				
Tax losses in subsidiaries	7,244	(7,244)	–	–
Property and equipment	(147,257)	73,170	–	(74,087)
Acquired intangible asset	(476,940)	107,744	–	(369,196)
Portfolio impairment provision	286,586	(2,206)	–	284,380
Revaluation surplus	(166,179)	25,176	–	(141,003)
Fair value reserve	74,072	–	(191,470)	(117,398)
Accrued interest	262,321	(24,289)	–	238,032
Other provisions	127,456	89,908	–	217,364
Retirement benefit obligations	3,661	(1,118)	23,070	25,613
	(29,036)	**261,141**	**(168,400)**	**63,705**

(b) Company

2016

	At 1 January 2016 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2016 KShs '000
Asset/(liability)				
Property and equipment	(147,257)	73,170	–	(74,087)
Acquired intangible asset	(476,940)	107,744	–	(369,196)
Portfolio impairment provision	286,586	(2,206)	–	284,380
Revaluation surplus	(166,179)	25,176	–	(141,003)
Fair value reserve	74,072	–	(191,827)	(117,755)
Accrued interest	262,321	(24,289)	–	238,032
Other provisions	126,413	90,951	–	217,364
Retirement benefit obligations	3,661	(1,118)	23,070	25,613
	(37,323)	**269,428**	**(168,757)**	**63,348**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

33 DEFERRED TAX ASSET/(LIABILITY) (Continued)

(c) Group

2015

	At 1 January 2015 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2015 KShs '000
Asset/(liability)				
Tax losses in subsidiaries	1,355	5,889	–	7,244
Property and equipment	(147,131)	(126)	–	(147,257)
Acquired intangible asset	(597,563)	120,623	–	(476,940)
Portfolio impairment provision	251,369	35,217	–	286,586
Revaluation surplus	(195,286)	29,107	–	(166,179)
Fair value reserve	(46,401)	–	120,473	74,072
Accrued interest	193,104	69,217	–	262,321
Other provisions	75,506	51,950	–	127,456
Retirement benefit obligations	1,410	(137)	2,388	3,661
	(463,637)	**311,740**	**122,861**	**(29,036)**

(d) Company

2015

	At 1 January 2015 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2015 KShs '000
Asset/(liability)				
Property and equipment	(147,133)	(124)	–	(147,257)
Acquired intangible asset	(597,563)	120,623	–	(476,940)
Portfolio impairment provision	251,369	35,217	–	286,586
Revaluation surplus	(195,286)	29,107	–	(166,179)
Fair value reserve	(46,401)	–	120,473	74,072
Accrued interest	193,104	69,217	–	262,321
Other provisions	70,119	56,294	–	126,413
Retirement benefit obligations	1,410	(137)	2,388	3,661
	(470,381)	**310,197**	**122,861**	**(37,323)**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

34 DEPOSITS FROM BANKS

Group and Company

	2016 KShs '000	2015 KShs '000
Balances from local banks	1,618,256	2,885,506
Balances from foreign banks	1,428,159	1,407,907
	3,046,415	4,293,413

The weighted average effective interest rate on deposits from banks at 31 December 2016 was 4.37% (2015 – 4.39%).

35 DEPOSITS FROM CUSTOMERS

Group and Company

	2016 KShs '000	2015 KShs '000
Payable on demand	146,797,308	135,641,039
Payable within 3 months or less	4,623,711	14,872,669
Payable after 3 months	35,177,207	21,522,348
	186,598,226	172,036,056
Current and demand accounts	121,390,200	117,043,537
Savings deposits	22,966,838	12,679,588
Time deposits	39,214,904	39,496,968
Other	3,026,284	2,815,963
	186,598,226	172,036,056

The weighted average effective interest rate on interest bearing deposits from customers at 31 December 2016 was 6.50% (2015 – 6.40%).

36 OTHER LIABILITIES

	2016		2015	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Bills payable	770,120	770,120	771,676	771,676
Dividends payable	3,033	3,033	1,858,179	1,858,179
Other trade payables	3,818,864	3,807,423	2,861,657	2,849,590
	4,592,017	4,580,576	5,491,512	5,479,445

37 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 2015 by an independent qualified actuary.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

37 RETIREMENT BENEFIT OBLIGATIONS (Continued)

Group and Company

However, the Company's actuary did a review for the year ended 31 December 2016. The review was consistent with previous valuations performed using the projected unit credit method.

The amount included in the statement of financial position arising from the Group's obligation in respect of the defined benefit scheme is as follows:

Group and Company	2016 KShs '000	2015 KShs '000
Fair value of plan assets	669,824	729,544
Present value of funded obligations	(755,200)	(741,748)
Retirement benefit obligations at 31 December	**(85,376)**	(12,204)
Plan assets consists of the following:		
Government bonds and bills	384,865	363,943
Corporate bonds	90,629	119,137
Other	194,330	246,464
	669,824	729,544
Movement in plan assets		
Fair value of plan assets at 1 January	729,544	831,203
Expected return on plan assets	102,393	104,500
Benefits paid by the plan	(129,446)	(124,393)
Employer contributions	38,000	35,000
Recognised actuarial losses	(64,667)	(112,322)
Administrative expenses paid	(6,000)	(4,444)
Fair value of plan assets at 31 December	**669,824**	729,544
Movement in the present value of the retirement benefit obligations		
Retirement benefit obligations at 1 January	741,748	790,000
Interest cost	100,664	100,000
Past service cost	30,000	30,000
Benefits paid by the plan	(129,446)	(124,393)
Recognised actuarial losses/(gains)	12,234	(53,859)
Retirement benefit obligations at 31 December	**755,200**	741,748
The net charge recognised in profit or loss is as follows:		
Interest cost	(100,664)	(100,000)
Expected return on plan assets	102,393	104,500
Past service cost	(30,000)	(30,000)
Movement in irrecoverable surplus	–	(4,500)
Movement in liability for minimum funding requirements	–	(100)
Administration expense	(6,000)	(4,444)
Total charge included in staff costs	**(34,271)**	(34,544)

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

	2016 % pa	2015 % pa
Discount rate	15	15
Expected return on plan assets	15	15
Future pension increases	–	–

The overall expected long-term rate of return on the assets is 15% (2015 - 15%) based on the portfolio as a whole and not on the sum of the returns on the individual assets.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

37 RETIREMENT BENEFIT OBLIGATIONS (Continued)

Group and Company

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

	2016 KShs '000	2015 KShs '000
At 1 January	**(12,204)**	(4,700)
Employer contributions	**38,000**	35,000
Charge to profit or loss	**(34,271)**	(34,544)
Recognised in other comprehensive income	**(76,901)**	(7,960)
At 31 December	**(85,376)**	(12,204)

Historical information	**2016 Shs '000**	2015 KShs '000	2014 KShs '000	2013 KShs '000	2012 KShs '000
Fair value of plan assets	**669,824**	729,544	831,203	835,956	771,036
Present value of funded obligations	**(755,200)**	(741,748)	(790,000)	(735,800)	(759,000)
Retirement benefit obligations before asset ceiling	**(85,376)**	(12,204)	41,203	100,156	12,036
Irrecoverable surplus	**–**	–	(41,203)	(100,156)	(12,036)
Additional liability for minimum funding requirements	**–**	–	(4,700)	(9,000)	(25,000)
Retirement benefit obligations	**(85,376)**	(12,204)	(4,700)	(9,000)	(25,000

Sensitivity analysis

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

	2016		2015	
	Increase KShs '000	**Decrease KShs '000**	Increase KShs '000	Decrease KShs '000
Discount rate (-1% movement)	**33,800**	**–**	34,000	–
Discount rate (+1% movement)	**–**	**32,200**	–	31,200
Future mortality (longevity of member aged 60 increasing by 1 year)	**33,400**	**–**	25,100	–

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

38 SHARE CAPITAL AND RESERVES

Company

(a) Share capital

Authorised

The authorised share capital of the Company at 31 December 2016 was KShs 1,998 million (2015 – KShs 1,905 million) made up of 344 million (2015 – 325 million) ordinary shares of KShs 5.00 each and 56 million (2015 – 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

2016:	Number of ordinary shares ('000)	Number of preference shares ('000)	Authorised share capital KShs'000
At 1 January 2016	325,000	56,000	1,905,000
Increase	18,511	–	92,553
31 December 2016	**343,511**	**56,000**	**1,997,553**
2015:			
At 1 January 2015 and 31 December 2015	**325,000**	**56,000**	**1,905,000**

Issued and fully paid

2016:	Number of ordinary shares ('000)	Number of preference shares ('000)	Issued share capital KShs'000 ('000)
At 1 January 2016	309,159	56,000	1,825,798
Issue of bonus shares	34,352	–	171,755
31 December 2016	**343,511**	**56,000**	**1,997,553**
At 1 January 2015 and 31 December 2015	**309,159**	**56,000**	**1,825,798**

On 1 July 2016, a bonus issue of one ordinary share for every nine fully paid up ordinary shares held, was made by capitalising KShs 171,755,290 from retained earnings and a total of 34,351,058 ordinary shares of KShs 5.00 each were issued.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

38 SHARE CAPITAL AND RESERVES (Continued)

(a) Share capital (Continued)

The shareholders at 31 December 2016 that had large holdings were as follows:

Name	Number of shares	%
1. Standard Chartered Holdings (Africa) BV	253,814	73.89
2. Kabarak Limited	3,531	1.03
3. Co-op Bank Custody A/C 4003A	1,974	0.57
4. Standard Chartered Nominees – RESD A/C KE11450	1,712	0.50
5. Standard Chartered Nominees – A/C 9230	1,525	0.44
6. Kenya Commercial Bank Nominees Limited – A/C 915B	1,482	0.43
7. Standard Chartered Africa Limited	1,452	0.42
8. Old Mutual Life Assurance Company Limited	1,349	0.39
9. Standard Chartered Nominees – RESD A/C KE11401	1,177	0.34
10. Kenya Commercial Bank Nominees Limited – A/C 915A	1,157	0.34
11. Others	74,338	21.65
	343,511	**100.00**

The distribution of shareholders as at 31 December 2016 and 2015 was as follows:

	2016			2015		
Share range	Number of shareholders	Shares held ('000)	%	Number of shareholders	Shares held ('000)	%
Less than 500	9,513	1,736	0.51	9,559	1,800	0.58
501 to 5,000	20,240	27,423	7.98	19,912	25,091	8.12
5,001 to 10,000	404	2,774	0.81	333	2,369	0.77
10,001 to 100,000	525	16,083	4,68	499	15,477	5.01
100,001 to 1,000,000	114	26,322	7.66	101	23,849	7.71
Above 1,000,000	10	269,173	78.36	9	240,573	77.81
Total	**30,806**	**343,511**	**100.00**	30,413	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.

	2016 KShs '000	2015 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 reserve is 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

39 NOTES TO THE STATEMENT OF CASH FLOWS

Group

(a) Reconciliation of profit before taxation to net cash (used in)/from operating activities

	Note	2016 KShs '000	2015 KShs '000
Profit before taxation		**13,288,119**	9,159,932
Depreciation	30	**441,737**	480,980
Amortisation of intangible assets	31	**461,647**	485,506
Profit on sale of non-current asset held for sale		**(88,039)**	(240,443)
Loss/(profit) on sale of property and equipment		**2,225**	(241)
Profit on sale of motor vehicle		**(289)**	(3,300)
Amortisation of prepaid operating lease rentals	32	**2,928**	2,928
Retirement benefit obligations	37	**34,271**	34,544
(Increase)/decrease in operating assets			
Balances with Central Bank of Kenya			
– Cash Reserve Ratio		**(1,839,359)**	(1,104,292)
Government and other securities held for trading		**929,279**	(2,633,478)
Derivative financial instruments		**134,512**	(588,296)
Loans and advances to banks		**500,000**	500,000
Loans and advances to customers		**(7,585,611)**	7,623,806
Investment securities		**(20,532,571)**	(3,780,945)
Amounts due from group companies		**–**	2,722,500
Other assets		**(583,591)**	(121,812)
Increase/(decrease) in operating liabilities			
Deposits from customers		**14,562,170**	17,969,125
Derivative financial instruments		**(205,748)**	80,295
Amounts due to group companies		**(2,023,000)**	802,016
Defined benefit obligations		**(38,000)**	(35,000)
Other liabilities		**575,032**	(441,308)
Cash (used in)/from operating activities		**(1,964,288)**	30,912,517
Income taxes paid	24	**(3,236,979)**	(3,193,632)
Net cash (used in)/from operating activities		**(5,201,267)**	27,718,885

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

	2016 KShs '000	2015 KShs '000
Cash on hand	**3,473,071**	3,791,248
Unrestricted cash balances with Central Bank of Kenya	**766,461**	1,014,670
Treasury bills	**2,980,792**	9,844,306
Loans and advances to banks	**1,316,035**	2,440,915
Deposits from banks	**(3,046,415)**	(4,293,413)
Amounts due from group companies	**14,151,412**	17,857,239
Amounts due to group companies	**(2,999,520)**	(1,157,723)
	16,641,836	29,497,242

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

40 CONTINGENCIES AND COMMITMENTS

Group and Company

In the ordinary course of business, the Group conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

	2016 KShs '000	2015 KShs '000
Guarantees and standby letters of credit	**24,969,554**	24,502,534
Letters of credit, acceptances and other documentary credits	**10,646,143**	9,884,460
	35,615,697	34,386,994

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.

41 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.

Four 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 ruling was delivered in 2016 in favour of the Company on its application to set aside the KShs 251 million judgment. The Court of Appeal found that there was a failure of justice in the 2002 Court of Appeal ruling and the appeal against the Company's favourable judgment shall be heard afresh in the Court of Appeal. The plaintiff has however served the Company with a notice to appeal to the Supreme Court.

- A pension 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.

- 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

41 OTHER CONTINGENT LIABILITIES (Continued)

— A claim where the plaintiff has sued the Company and Standard Chartered Estates Management (SCEM) Limited, a former wholly owned subsidiary of the Company, seeking compensation for losses incurred after the plaintiff engaged SCEM Limited to manage their flower farm in 1996.

In addition, the Company has some on-going matters with the Kenya Revenue Authority. As at 31 December 2016, the directors have not made provisions for tax demand letters as they are of the view, based on advice received, that these amounts are not payable.

42 ASSETS PLEDGED AS SECURITY

As at 31 December 2016, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities.

43 FIDUCIARY ACTIVITIES

The Group holds asset security documents on behalf of customers with a value of KShs 765,476,583,949 (2015 – KShs 734,811,129,735). 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.

44 RELATED PARTY TRANSACTIONS

Group and Company

In the ordinary course of business, transactions are entered into with Standard Chartered PLC, the ultimate holding company and other companies related to Standard Chartered Bank Kenya Limited through common shareholding or common directorships. The relevant balances are shown in Note 26. 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 2016, deposits from SCKPF and SCKSRBS 2006 amounted to KShs 99,272,293 (2015 – KShs 152,487,034).

At 31 December 2016, balances relating to deposits from directors, employees and associates amounted to KShs 759,314,719 (2015 – KShs 637,677,820).

The interest expense paid during the year on deposits from directors, employees and associates amounted to KShs 7,938,182 (2015 – KShs 8,668,637).

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

Loans and advances to directors, employees and their associates	**2016 KShs '000**	2015 KShs '000
At start of the year	**5,946,533**	5,221,993
Amounts advanced during the year	**4,638,853**	3,390,057
Amounts repaid during the year	**(4,336,992)**	(2,665,517)
At end of the year	**6,248,394**	5,946,533
Loans and advances to directors or companies controlled by directors or their families	**21,237**	28,252
Loans and advances to employees	**6,227,157**	5,918,281
	6,248,394	5,946,533

The interest income earned during the year on loans and advances to directors, employees and associates amounted to KShs 562,489,921 (2015 – KShs 504,075,544).

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

None of the loans and advances above are impaired at 31 December 2016 (2015 – Nil).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

44 RELATED PARTY TRANSACTIONS (Continued)

Group and Company

Key management compensation	2016 KShs '000	2015 KShs '000
Salaries and other employee benefits	406,302	379,604

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

During the year, the number of key management staff increased to 15 (2015: 13).

45 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

Group and Company

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

	2016		2015	
	Premises KShs '000	Equipment KShs '000	Premises KShs '000	Equipment KShs '000
Within 1 year	355,171	737,144	364,571	199,540
After 1 year but less than 5 years	689,061	268,341	766,808	185,094
After 5 years	5,524	–	24,046	–
	1,049,756	1,005,485	1,155,425	384,634

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.

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 and agenda of the Annual General Meeting

To the members of Standard Chartered Bank Kenya Limited

Notice is hereby given that the thirty first Annual General Meeting of the Company will be held at the Safari Park Hotel, Thika Road, Nairobi on Thursday, 25 May 2017 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 2016 with the Auditors' report thereon.

2. To confirm the payment of one interim dividend of KShs 6.00 paid on 31 August 2016 and to approve the payment of a final dividend of KShs 14.00 for each ordinary share of KShs. 5.00 on the issued share capital of the Company in respect of the year ended 31 December 2016. This will bring the total dividend payout for the year to KShs 20.00 per ordinary share.

   To approve the payment of a final dividend of KShs 84,230,137 on the non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares. An interim dividend of KShs 83,769,863 was declared on 17 August 2016 and paid on 31 August 2016.

   The dividends will be payable to shareholders registered on the Company's Register at the close of business on 25 April 2017 and will be paid on or after 26 May 2017.

3. To elect the following Directors:

   Directors retiring by rotation:
   (i) 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; and
   (ii) 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;

   Board Audit Committee:
   In accordance with the provisions of Section 769 of the Kenyan Companies Act, 2015, the following directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee:
   (i) Mr. Les Baillie;
   (ii) Mr. Kaushik Shah; and
   (iii) Mr. Patrick Obath.

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 721 of the Kenyan Companies Act, 2015, subject to Section 24(1) of the Banking Act and to authorise the Directors to fix their remuneration.

6. To transact any other business of the Annual General Meeting for which notice has been given.

BY ORDER OF THE BOARD

N.N. Oginde
Company Secretary
Standard Chartered Bank Kenya Limited
P.O. Box 30003 - 00100 Nairobi GPO
19 April 2017

Note:
A copy of this Notice, Proxy Form and entire Annual Report and Accounts can be viewed from the Company's website, www.sc.com/ke/investor-relations.

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 can be downloaded from the Company's website, www.sc.com/ke/investor-relations and should be delivered or sent to the Share Registrar, Image Registrars Limited (IMAGE), 5th Floor Barclays Plaza, Loita Street, P.O. Box 9287 – 00100 GPO, Nairobi, so as to be received not later than 23 May 2017 at 3:00 p.m.

Notes

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 25, May 2017 at the Safari Park Hotel, Thika Road, Nairobi at 11.30 a.m.

or any adjournment thereof.

As witness my/our hand/hands this day of ____2017

Signed: ____

Note:

1. **The completed Form of Proxy by members must be lodged at the Share Registrar, Image Registrars Limited (IMAGE), 5th Floor, Barclays Plaza, Loita Street, Nairobi, or to be posted so as to reach Image Registrars Limited, P.O. Box 9287 – 00100 GPO Nairobi, not later than 3.00 p.m. on Tuesday 23 May 2017, 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/nawateua

____

____

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 25 2017, Safari Park Hotel, Thika Road, Nairobi na wakati wa ahirisho lolote litakalotokea baadaye.

Kama shahidi siku hii: ____2017

Sahihi: ____

Muhimu:

1. **Hii fomu ya uwakilishi lazima irudishwe kwa afisi ya Image Registrars Services (IMAGE), orofa la tano, Barclays Plaza, Barabara ya Loita, ama itumwe kwa njia ya posta kwa kutumia anwani ya Image Registrars Services (IMAGE), SLP 9287 – 00100, Nairobi kufika kabla ya Jumanne saa tisa alasiri Mei 23 2017. 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.**

Notes

Notes

Standard Chartered

We back your protection needs.

We understand it's not fear but protection that drives you to plan ahead for your family and your business. We have partnered with world-class insurance firms to offer solutions that help you secure and protect your wealth. **We look forward to being part of your bigger picture.**

Life Insurance	General Insurance	Business Insurance
• Educare • Last Respects • Accident Protector Plan • Super Endowment and more	• Motor Insurance • Home Contents Insurance and more	• Building Cover • Contents Cover: Fire & Burglary • Business Insurances • Cover for employees (WIBA) and more

To know more, visit our website, call us on 020 329 3900 or engage our financial advisors across our branch network.

sc.com/ke

Here for good

The insurance covers are provided by our insurance partners and distributed through our subsidiary Standard Chartered Insurance Agency Limited. The entire insurance risk is borne by the Insurer. Standard Chartered Bank Kenya Limited is regulated by Central Bank of Kenya. Terms and conditions apply.

Standard Chartered

Kenya Headquarters

Standard Chartered Bank Kenya Limited
48 Westlands Road
PO Box 30003-00100
Nairobi,
Kenya

Contact Information

Social media:
Twitter handle **@StanChartKE**
Facebook page **Standard Chartered Kenya**
Email: **Ke.Service@sc.com**

Contact Centre Numbers:

For priority customers
+254 20 3293939 / 0703093939 / 0732143939

For Personal banking
+254 20 3293900 / 0703093900 / 0732143900