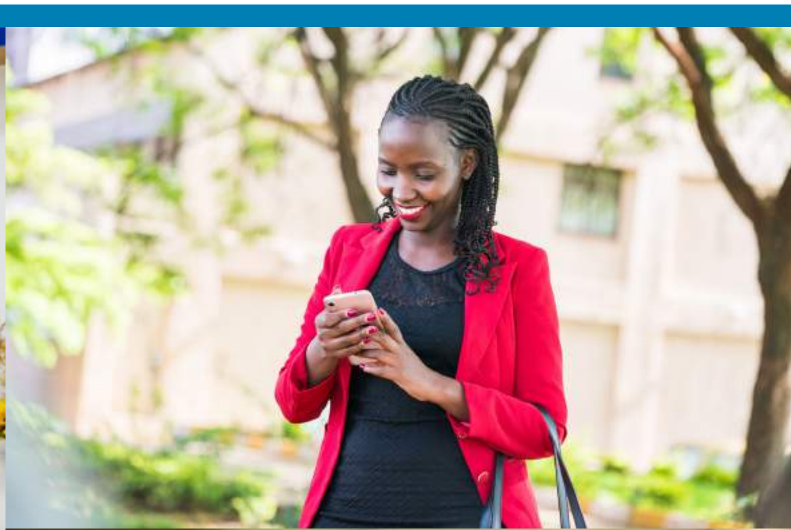

Annual Report 2017

Driving commerce and prosperity through our unique diversity

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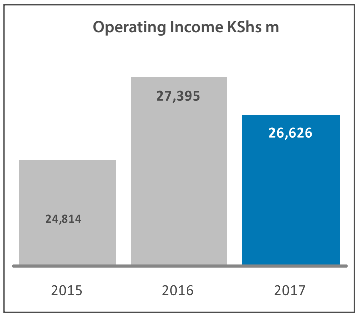
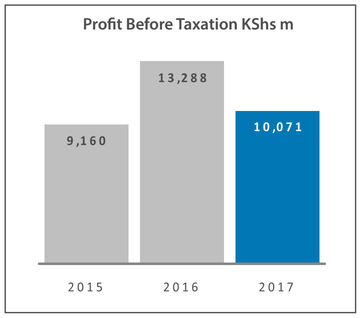
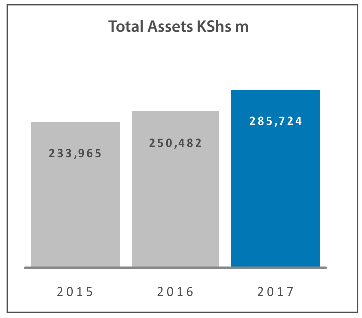
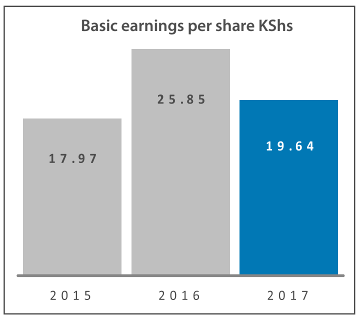
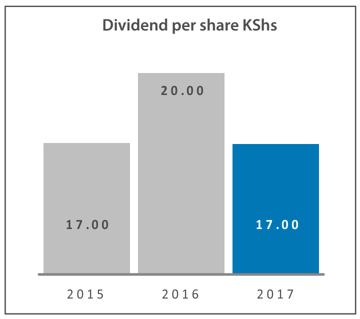
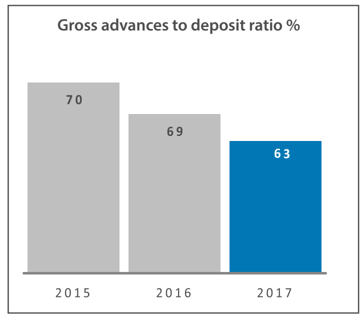


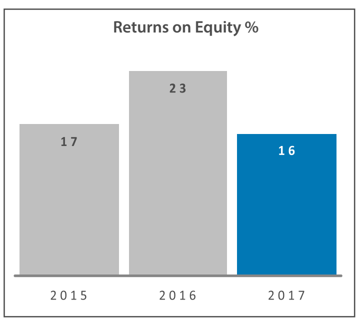


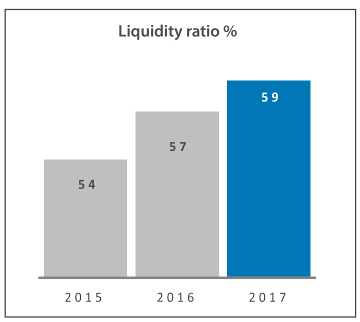


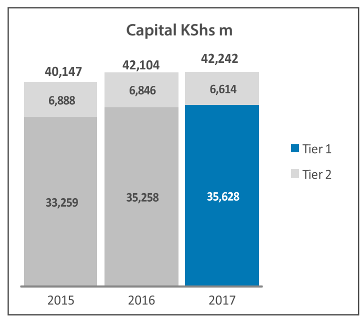




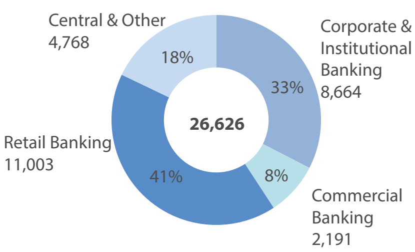




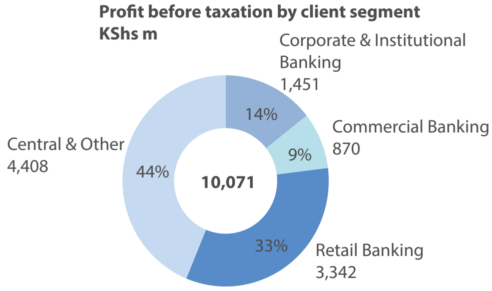




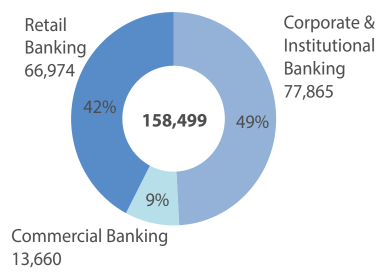
Operating income by client segment KShs m



Profit before taxation by client segment KShs m



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



Non-financial Highlights

Employees
1,587
2016: 1,872 2015: 1,881

Branches
36
2016: 38 2015: 39

ATMs
106
2016: 98 2015: 98

Five Year Summary

Group

Income Statement	2017 KShs '000	2016 KShs '000	2015 KShs '000	2014 KShs '000	2013 KShs '000
Operating income	26,626,326	27,395,352	24,814,354	25,587,016	23,417,444
Impairment losses on loans and advances	(3,770,514)	(1,878,258)	(4,591,647)	(1,047,430)	(783,050)
Operating expenses	(12,784,519)	(12,228,975)	(11,062,775)	(10,193,605)	(9,279,429)
Profit before taxation	10,071,293	13,288,119	9,159,932	14,345,981	13,354,965
Taxation	(3,157,195)	(4,238,812)	(2,817,505)	(3,909,801)	(4,092,044)
Profit after taxation	6,914,098	9,049,307	6,342,427	10,436,180	9,262,921
Information per ordinary share					
Basic earnings per share (KShs) (2013–2015 restated)	19.64	25.85	17.97	29.89	26.48
Dividend per share on each ordinary share (KShs)	17.00	20.00	17.00	17.00	14.50
Statement of Financial Position					
Loans and advances to customers (gross)	134,328,447	128,290,401	120,393,564	126,275,274	131,965,961
Impairment losses on loans and advances	(8,033,977)	(5,579,363)	(5,268,137)	(3,526,041)	(2,293,957)
Government securities	110,532,758	86,488,749	73,126,068	58,215,860	55,642,528
Other assets	48,897,213	41,282,213	45,713,952	41,530,731	35,076,648
Total assets	285,724,441	250,482,000	233,965,447	222,495,824	220,391,180
Deposits from customers	213,349,290	186,598,226	172,036,056	154,066,931	154,720,011
Other liabilities	26,710,614	19,279,946	20,677,606	27,770,719	29,464,768
Total liabilities	240,059,904	205,878,172	192,713,662	181,837,650	184,184,779
Net assets	45,664,537	44,603,828	41,251,785	40,658,174	36,206,401
Shareholders' funds	45,664,537	44,603,828	41,251,785	40,658,174	36,206,401
Ratios					
Cost income ratio	48%	45%	45%	40%	40%
Return on capital employed	16%	23%	17%	28%	29%
Impairment charge/gross loans and advances	3%	1%	4%	1%	1%
Gross loans and advances to deposits ratio	63%	69%	70%	82%	85%
Gross non-performing loans and advances/total gross loans and advances	6%	8%	10%	9%	3%
Core capital/total deposit liabilities	17%	19%	19%	19%	17%
Core capital/total risk weighted assets	16%	18%	18%	16%	17%
Total capital/total risk weighted assets	19%	21%	21%	20%	21%

Chair to the Board's Statement

For the year ended 31 December 2017

"The Board continues to see many attractive opportunities across the Kenyan economy and remains confident that the Bank's solid foundations underpinned by strong relationships with our clients and a highly liquid and well capitalised balance sheet provides a platform for sustainable growth in the long term."

My commitment as we started 2017 was to focus on four key priorities: Putting our clients first, supporting our staff and management to unlock their true potential; improving our business resilience to external and internal shocks and ensuring excellent governance and the highest ethical standards. This is critical to achieving sustainable long-term growth and improving long-term value.

Driving a culture of resilience

We entered 2017 with cautious optimism due to pressures occasioned by external challenges particularly the Banking (Amendment) Act, 2016 and an impending general election.

Our optimism was largely drawn from our remarkable recovery in 2016 which saw profitability grow by 45 per cent year-on-year driven by increased income, controlled costs and investment in new business opportunities.

Going into an election year was bound to be challenging. Several sectors of the economy would be largely impacted as businesses either slowed down or adopted a wait and see attitude. It is worth noting that 2017 was the first full calendar year that the sector was going to operate under the interest rate cap regime. The country was also affected by a severe drought occasioned by short rains leading to a significant deterioration in food security.

2017 was also critical to the Bank as we entered the second year of implementing our renewed strategy aimed at being a leaner and more efficient Bank, a simpler client-focused organisation and a digitally driven Bank with a human touch.

It is worth noting that our respective business segments i.e. Retail Banking, Corporate & Institutional Banking and Commercial Banking responded well to the external constraints and remained resilient. The Corporate & Institutional Banking segment continues to embed the basics of banking by focusing on cash management, financial markets and trade solutions while leveraging our geographic diversity.

Chair to the Board's Statement (Continued)

The Retail Banking business is realising the benefits of continued investment in digital capabilities to drive client experience. After an intensive period devoted to reorganisation, the Commercial Banking business is now on a growth trajectory.

The business recorded a 24.2 per cent drop in profitability year-on-year, largely because of a challenging operating environment and increased provisions for non-performing loans. During the year, we saw the gross non-performing loans portfolio increase from KShs 10.2 billion to KShs 11.3 billion year on year. The non-performing loans ratio in 2017 has similarly increased to 12.5 per cent from 11.3 per cent in 2016. The industry average ratio at 31 December 2017 was 10.6 per cent. This increase is related to the downgrade of a small number of Corporate & Institutional Banking clients. The loans portfolio has been extensively reviewed and we continue to critically assess the quality of our loan book.

The challenging environment is not an excuse for our performance. We are not unwitting victims. Rather, the external challenges increase our urgent need to take all necessary steps towards improving returns.

Operating environment

The global economy grew at 3.9 per cent in 2017 compared to 3.1 per cent the previous year. Locally, the economy grew by 4.9 per cent down from 5.8 per cent in 2016. The decline was largely because of the uncertainty associated with the political environment coupled with effects of adverse weather conditions. Despite the macroeconomic fundamentals remaining relatively stable, most sectors of the economy recorded slower growth.

The foreign exchange market was relatively stable in 2017 boosted by earnings from tea and horticulture exports, diaspora remittances, tourism recovery and lower petroleum products import bill. The Kenyan Shilling strengthened against the Pound Sterling and the Japanese Yen but weakened against the US Dollar and the Euro. On the regional front, the Shilling strengthened against the Ugandan and Tanzanian currencies. Annual inflation remained within the government targeted single-digit levels despite the adverse weather effects which led to crop failure, increased food insecurity and an increase in energy costs.

The effects of the interest rate cap law continued to be felt in the industry leading to a decline of private-sector credit growth which dropped to an all-time low of 2 per cent year-on-year as at October 2017. This was despite the fact that the Central Bank of Kenya (CBK) retained the Central Bank Rate (CBR) at 10 per cent in 2017.

Business performance

Our financial performance in 2017 is not where we need it to be and does not reflect the earnings capability we believe we possess. Having worked hard to maintain a sound balance sheet and capital position, we remain focused on realising this earnings potential. We will do this by fully engaging with our clients, improving productivity and investing in our people and culture.

The Chief Executive Officer, Lamin Manjang and the Management Team continue to implement our renewed strategy with the focus being:

- **People:** investment in top talent within the Bank aimed at creating the next generation of leaders. We are also committed to the training and development of our staff to drive productivity;
- **Risk:** tightened risk tolerance to create a more diverse and resilient balance sheet in addition to the implementation of strong controls aimed at minimising operational losses, fraud and process lapses;
- **Innovation:** we continue to challenge and streamline our processes to increase efficiencies and customer satisfaction;
- **Digital:** delivering cost efficiencies through investment in technology and funding incremental investments which build capacity in key areas of strength across the business. This is further complimented by rolling out enhancements to our Retail digital capabilities to enhance customer service; and
- **Execute:** execution of our strategy and plans will be a critical enabler.

Chair to the Board's Statement (Continued)

The Board continues to see many attractive opportunities across the Kenyan economy and remains confident that the Bank's solid foundations underpinned by strong relationships with our clients and a highly liquid and well capitalised balance sheet provides a platform for sustainable growth in the long term.

Dividend

The Board is recommending the payment of a final dividend for the year of KShs 12.50 for every ordinary share of KShs 5.00. This, in addition to the interim dividend paid in October 2017 of KShs 4.50 for every ordinary share of KShs 5.00, brings the total dividend to KShs 17.00 for every ordinary share of KShs 5.00. This compares to a total dividend of KShs 20.00 per ordinary share paid in 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.

Ensuring excellence in corporate governance

I would like to commend CBK for its continued commitment to strengthening the sector to ensure stronger governance. We recognise the responsibility to practise high standards of corporate governance as key to delivering sustainable shareholder value. We have an integrated approach to governance culture, values and a robust Code of Conduct.

There was enhanced focus on conduct in 2017 with training for all staff and directors in line with the Bank'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.

Our commitment towards tackling financial crime remains resolute. We continue to invest in our financial crime control framework in tandem with developing trends in financial crime, new technologies and product innovation. In 2017, we realised tremendous benefits of the investments made towards improving the Bank's financial crime control environment. We now have a consistent and standardised approach to assessment, analysis and decision making on financial crime risk events across the Bank. This has safeguarded the effectiveness and efficiency in the surveillance process.

In 2017, the CBK published a Guidance Note on identifying and mitigating cyber risk. The Guidance Note directs institutions licensed under the Banking Act (Cap. 488) to develop and implement a programme to mitigate cyber security risk. The Guidance Note has established minimum requirements that institutions should adopt in order to develop effective cyber security policies and procedures. It provides regulatory guidance for Governance, independent assessments, tests, outsourcing and training. We have put in place a robust implementation plan to ensure compliance.

Last year, we had a change in the composition of our Board as Mr. Richard Etemesi was appointed a non-executive director of the Bank following the resignation of Mr. Angarai Ganesh Dorairajan. Richard is a past Managing Director and Chief Executive Officer of Standard Chartered Bank Kenya Limited, a position he held until March 2014. Richard then moved on to become Chief Executive Officer for South Africa & Southern Africa. He is currently the Vice Chair of Standard Chartered Bank, Africa. I would like to thank Mr Ganesh for his role and contribution while serving on the Board and welcome Richard back to the Board.

Embedding a high-performance culture

As part of our focus on brand and culture in 2017, we have gone through a process of evaluating the essence of what we stand for, who we are and how we need to behave to deliver our full potential as an organisation. This led to the launch of our new purpose statement – *"Driving commerce and prosperity through our unique diversity"* – and a refreshed set of valued behaviours. These are designed to support the organisation's desired culture, drive our transformation and increase our returns and resilience. We value the contribution of our employees and to this end, we have launched a *Fair Pay Charter* which sets out the principles we use to guide our reward and performance. The *Fair Pay Charter* is a public declaration of our position regarding pay and remuneration and will also guide staff to adhere to conduct and valued behaviours. The *Fair Pay Charter* reiterates our commitment to rewarding employees

Chair to the Board's Statement (Continued)

in a way that is free from discrimination on the basis of diversity, including gender.

Commitment to sustainability

We are also proud of the contribution the Bank continues to make towards development of Kenya's economy. Our obligation is to carry out our business in a way which not only provides returns for our shareholders but also delivers value for society: our clients, communities and people.

We released findings of an independent study on the social and economic impact of our operations which indicate that the Bank supports more than KShs 150 billion in value-added impact in Kenya (1.9 per cent of Gross Domestic Product) and supports 330,000 jobs (1.6 per cent of the labour force). The study also makes a qualitative assessment of other ways in which the Bank contributes to local communities in Kenya, including through infrastructure, business practices and community investments. Besides supporting jobs, trade and growth, the independent study indicates that the Bank is contributing to core infrastructure development and knowledge building in the financial services sector.

In recognition of our commitment to innovation and governance, we were recognised locally and internationally by winning the following awards:

- Best New Online Platform Kenya – Banker East Africa Awards;
- Best Consumer Digital Bank Kenya – Global Finance Awards;
- Best Sub Custodian Africa – Global Finance Awards;
- Best Private Banking Africa – Euro Money Awards;
- Third place Sustainable Finance – Kenya Bankers Association; and
- Most Improved in Board Gender & Management Diversity.

Summary

The global economy is projected to grow at 3.9 per cent in 2018. In Sub-saharan Africa, a projected 3.2 per cent growth is premised on improved commodity prices, mainly oil, and strengthened domestic demand.

The CBK projects the country's economy will grow by 6.2 per cent this year. Inflation is expected to fall further coupled with optimism pegged on reduced political tension, increased investments and improved weather conditions.

However, we do see some challenges in 2018:

- oil prices are tipped to rise further occasioned by supply cuts by OPEC countries and increasing global demand;
- foreign exchange fluctuations due to a strengthened US dollar;
- implementation of the International Financial Reporting Standard 9 (IFRS 9) which came into force on 1 January 2018 will affect the banking sector due to the new model of classifying financial assets; and
- continued adverse effects of the interest rate cap law.

I would like to reiterate our commitment to Kenya. We shall continue to run our business in a responsible manner by making substantial investments aimed at enhancing convenience for our clients while at the same time contributing to the socio-economic agenda of this country.

I would like to thank our Clients, Board of Directors, Management and Staff for their tireless contribution in helping us to drive our agenda in 2017. I look forward to your support in making 2018 even better.

Anne Mutahi
Chair to the Board

22 March 2018

Chief Executive Officer's Statement

"We will continue to focus on improving the way we do business with our clients who are at the centre of all we do"

Introduction

The Banking sector in Kenya experienced challenges in 2017 as the sector responded to external factors while at the same time adjusted to dynamic technological advancements which continue to reshape the industry. These presented challenges and opportunities in equal measure as we endeavoured to maintain our growth momentum.

To respond to the challenging environment, we put in place the requisite fundamentals to ensure that we remained efficient and competitive. We prioritised diversification of our client offerings with heightened focus on our Wealth Management and Transaction Banking businesses whilst continuing with the digitisation of the Retail Banking business for sustained competitive advantage. As a result, we launched several products and services in the market in a move to enhance efficiency. These include video and chat banking services, electronic cash deposit machines and a partnership with Sanlam Kenya Limited to offer General Insurance amongst others.

During the year, we also embarked on a branch rationalisation exercise which saw us close four branches – Kitengela, Warwick, Bungoma and Kisii – as we roll out our digital offerings. This was prompted by investments in better technology. The closure has not interrupted clients' access to their accounts as they have been allocated to the nearest branches and are still accessing all our banking services from any branch that is most convenient complemented by our digital channels.

We also completed the migration of our Data Centre to the United Kingdom and the Shared Service Centre from Nairobi to our Global Shared Services Centre in Chennai, India. The Shared Service Centre in Nairobi used to provide operations services to several Standard Chartered Bank entities including Botswana, Zambia, Uganda, Tanzania and South Africa. The migration was in line with our Group's strategy to centralise all Shared Service Centre operations globally into three Global Shared Service Centres based in India, Malaysia and China.

Chief Executive Officer's Statement (Continued)

Financial performance for the year

In November 2017, we signalled through a profit warning our anticipation that the net earnings for the year ended 31 December 2017 would be at least 25 per cent lower than that reported for the year ended 31 December 2016. Our results did come in better than anticipated with a drop of 24 per cent.

Our financial performance reflects the challenging environment and is primarily due to two factors:

- an increase in the non-performing loans portfolio; and
- the financial impact from the Banking (Amendment) Act, 2016.

Profit before taxation was KShs 10.1 billion compared to KShs 13.3 billion, a decline of 24.2 per cent driven by the following:

- interest income on loans and advances declined by KShs 1.2 billion (8 per cent) to KShs 13.2 billion. This was weighed down by decreased average volumes from a contracted credit market coupled with margin compression following the Banking (Amendment) Act, 2016. The growth was further muted by the growth in non-performing loans during the year;
- interest income from investments in government securities increased by 12 per cent to KShs 11.1 billion due to increased liquidity;
- total interest expense at KShs 8 billion increased by 20 per cent driven by growth in deposits volumes as well as an increase in average cost of funds following the implementation of the Banking Amendment (Act), 2016;
- net fee and commission income remained flat at KShs 4.5 billion. This was impacted by the prolonged electioneering period which saw a slowdown in business momentum;
- trading income increased by 5 per cent to reach KShs 4.0 billion primarily due to higher foreign exchange volumes; and
- operating expenses increased by 4.5 per cent to KShs 12.8 billion largely due to the implementation of the "Digital by Design" strategy which aims to migrate over 80 per cent of transactions to non-branch channels by 2020. Standard Chartered has prioritised deployment of technology to promote efficiency and enhance risk management.

Loan impairment has increased by 100 per cent year-on-year to KShs 3.8 billion. Gross non-performing loans have also increased from KShs 10.2 billion to KShs 11.3 billion year-on-year driven by increases related to the downgrade of a small number of Corporate & Institutional Banking clients reflecting continued stresses in the economic environment. The cover ratio increased to 81 per cent and remains above the industry average.

Balance sheet and capital

Balance sheet

Net customer loans and advances were up 3 per cent year-on-year to KShs 126.3 billion as we continue to focus on disciplined balance sheet management and selective asset origination. Customer deposits at KShs 213.3 billion were up 14 per cent year-on-year from new mandates and deepening existing relationships. As a result, the Company remains highly liquid with the customer advances to customer deposits ratio at 59 per cent and the liquidity ratio at 59 per cent.

We remain a customer deposit funded bank with Current Account and Savings Account (CASA) balances at 79 per cent (2016: 77 per cent).

Capital

The Company is well capitalised with a total capital adequacy ratio (CAR) at the end of 2017 of 18.5 per cent which is 400 basis points above the regulatory minimum capital requirement.

IFRS 9

The estimated impact of adopting IFRS 9 on 1 January 2018 is an increase in credit provisions of KShs 2.5 billion. This results in a 96 basis points reduction in the CAR.

Chief Executive Officer's Statement (Continued)

Client segment

Retail Banking

Segment overview

Retail Banking serves individuals and small businesses, with a focus on affluent and emerging affluent. We provide digital banking services with a human touch to our clients across deposits, payments, financing products and Wealth Management, as well as supporting their business banking needs.

Retail Banking represents one-third of the Group's operating profit. The business is closely integrated with the Group's other client segments, for example offering employee banking services to Corporate & Institutional Banking clients. A key priority is to improve productivity through increasing digitisation, driving cost efficiencies and simplifying processes.

Strategic priorities

- continue to focus on affluent and emerging affluent clients and their wealth needs, and capture the significant rise of the middle class in the market;
- continue to build on our client ecosystem; and
- improve our clients' experience through an enhanced end-to-end digital offering, with intuitive platforms, best-in-class products and service responding to the change in digital habits of clients in our markets.

Performance highlights

- operating income at KShs 11.0 billion is 12 per cent down year-on-year primarily due to margin compression and a contracted credit market following the Banking (Amendment) Act, 2016;
- strong momentum from Wealth Management helped to offset margin compression and slow growth in loan products; and
- profit before tax at KShs 3.3 billion was 36 per cent lower than in 2016 largely due to continued investment in digital platforms in line with our strategic priorities as well as the impact of the Banking (Amendment) Act, 2016.

Corporate & Institutional Banking

Segment overview

Corporate & Institutional Banking supports clients with their transaction banking, corporate finance, financial markets and borrowing needs. Our clients include large corporations, financial institutions, public sector and the government.

The business maintained its strong presence in the China-Africa corridor supporting key infrastructure projects whilst at the same time creating new networks with businesses in China.

Strategic priorities

- delivering sustainable growth for clients by understanding their agendas and providing trusted advice;
- managing the balance sheet to grow income and returns by driving balance sheet velocity and maintaining strengthened risk controls; and
- improving efficiency, innovating and digitising to enhance client experience.

Performance highlights

- Operating income of KShs 8.7 billion was stable year-on-year. 2017 was characterised with subdued corporate activity which resulted in decreased client income;
- Profit before tax of KShs 1.5 billion was down 63 per cent year-on-year due to an increase in loan impairments resulting from the downgrade of a small number of clients.

Commercial Banking

Segment overview

Commercial Banking serves local corporates and medium sized enterprises. We aim to be our clients' main international bank, providing a range of financial solutions in areas such as trade finance, cash management, financial markets and corporate finance.

Through our close linkages with Retail Banking, our clients can access additional services they value including employee banking and personal wealth solutions. There is a strong collaboration with Corporate & Institutional Banking to service their clients' end-to-end supply chains.

Chief Executive Officer's Statement (Continued)

Our clients represent an important segment of the economy and are potential future multinational corporates. Commercial Banking is at the heart of our shared purpose to drive commerce and prosperity through our unique diversity.

Strategic priorities

- drive quality sustainable growth by deepening relationships with our existing clients and attracting new clients that are aligned with our strategy; and
- improve client experience through investing in frontline training.

Performance highlights

- Operating income of KShs 2.2 billion was down 9 per cent year-on-year impacted by margin compression and a contracted credit market following the Banking (Amendment) Act, 2016.
- Profit before taxation of KShs 0.9 billion more than doubled year-on-year primarily driven by lower impairment.

People

Our people are at the core of our strategy delivered through our Five-point plan around People, Risk, Innovation, Digital and Execution (PRIDE). They remain critical to delivering our Vision of *"Putting Customers First"* and ensuring we are delivering exceptional service to all our clients.

We have put in place a robust performance management process to stretch our employees to deliver more. We continued to win the hearts and minds of our people in 2017 by delivering on various exciting employee engagement initiatives. This was key to attaining high engagement levels which in turn translated to increased productivity and performance, as well as customer satisfaction.

Outlook

Two years ago, we set out on a journey to drive a high performance culture, challenge and reposition our business for success. This was hinged on securing our foundations, becoming lean and focused, and continually investing and innovating. I am happy to note that we are very much focused on achieving these objectives.

We will continue to focus on improving the way we do business with our clients who are at the centre of all we do. We shall position ourselves strategically to seize the opportunities ahead of us by continued investment in the digital channels. This will see us constantly upgrade technology that we deploy in servicing our clients' needs in all the three business segments. I would like to assure you that we have the right strategy, resources and the people to realise our goal.

I would like to thank the Board, Management and staff for their resilience and determination to succeed in the face of very challenging market conditions. Finally, I want to thank the customers for their loyalty and the opportunity to partner with us to meet their evolving needs.

Lamin Manjang
Managing Director & Chief Executive Officer

22 March 2018

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 under 25 per cent (remainder held by Standard Chartered PLC), and comprises over 30,000 shareholders. We have a total of 36 branches spread across the country, 106 ATMs and more than 1,500 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 Limited 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 is modelled around three clients' segments (Retail Banking, Commercial Banking and Corporate & Institutional Banking) and supported by five products groups (Transaction Banking, Corporate Finance, Financial Markets, Lending and Capital Markets).

Awards in 2017

During the year we were honoured with the following awards:

- Best New Online Platform Kenya - Banker East Africa Awards;
- Best Consumer Digital Bank Kenya - Global Finance Awards;
- Best Sub custodian Africa - Global Finance Awards; and
- Best Private Banking Africa - Euro Money Awards.

The Retail Banking team celebrates upon receiving an award.

Standard Chartered Headquarters at Chiromo, Nairobi

Sustainability and our business

We are committed to promoting social and economic development in our markets through our core business of banking. Sustainability is integrated into how we do business and focuses on three priorities:

- contributing to sustainable economic growth;
- being a responsible company; and
- investing in communities.

Contributing to sustainable economic growth

We use our core capabilities as a Bank to support sustainable economic growth. We partner with our clients to extend access to financial services and to promote responsible finance across our markets. The financing we provide supports key sectors of the economy that are driving sustainable growth from infrastructure financing to microfinance. Standard Chartered supports more than KShs 150 billion in value-added impact in Kenya (1.9 per cent of Gross Domestic Product) and supports 330,000 jobs (1.6 per cent of the labour force).

We support (directly and indirectly) 3.4 per cent of the manufacturing sector's total contribution to GDP, 3.3 per cent of the utilities sector's share of GDP, 3.5 per cent of the trade sector's GDP and 2.5 per cent of the transport sector's share of GDP.

Retail Banking

The Retail Banking segment provides a full range of products and services to small businesses, affluent and emerging affluent individuals. It comprises of three client sub-segments namely; Priority Banking, Business Banking and Personal Banking.

We continue to execute on our refreshed strategy of banking the affluent and emerging affluent and accelerating digital investments. Our clients remain at the center of our business; our strategy aims at providing them with a differentiated and superior client experience by building deep client relationships and delivering world-class services and products.

Sustainability Review (Continued)

Contributing to sustainable economic growth (Continued)

ICT Cabinet Secretary, Joe Mucheru, during the launch of the Video Banking Platform.

We have chosen to be "Digital by Design" with the aim of developing digital banking solutions that not only transform client experience but also provide the highest levels of security. We would like to ensure that almost all transactions traditionally executed at branches are available through alternate channels. To support the "Digital by Design" strategy, we invested in the following digital capabilities in 2017:

- *Cash Deposit Machines (CDMs):* These machines allow our clients to make real-time cash deposits into their accounts. Our clients now have greater flexibility to deposit cash into their accounts at any time of the day or night, seven days a week. Our aim is to migrate 80 per cent of transactions to non-branch channels by progressively investing in alternate channels. We now have 34 CDMs spread across the country.

- *Video Banking:* This service is another "Digital First" in Kenya which allows clients to connect with banking agents via a secure video connection – or through chat or audio channels. Clients can speak with banking consultants over a secure video connection from a location of their choice.

- *One-Time bill payment capability:* The feature was added to our online and mobile banking platforms. It allows clients to pay bills either to MPESA, AirtelMoney, Schools or utility companies without having to create the payee as a beneficiary on the client's account.

In recognition of the quality of our digital banking platforms, our online platform was declared the "Best New Online Platform – Kenya" 2017 by Banker East Africa Awards.

We currently have 36 branches across the country. In this network, there are seven Priority centers that are designed to exclusively serve our Priority clients. We opened a new ultra-modern branch at Two Rivers Mall in February 2017. We also refurbished Moi Avenue, Machakos, Nakuru and Eldoret branches as part of the ongoing improvement and standardisation of the 'look and feel' across our branch network.

In line with the Retail Banking strategy of banking the affluent and emerging affluent clients, we launched Premium Banking in November 2017. Premium Banking is a sub-segment of Personal Banking focused on the top-tier clients of the Personal Banking segment.

This sub-segment focuses on the middle-income group with a high propensity of moving into the Priority Banking segment.

We continue building alliances with partners that support clients with small businesses. To this end, we partnered with Kenya Investment Authority (KenInvest), Strathmore Business School (SBS) and Kenya Association of Manufacturers (KAM) to support our Business Banking clients. This is attained either through training or by enabling them to enjoy greater access to local and international trade corridors.

As part of our revenue diversification strategy, we partnered with Sanlam Kenya Limited to distribute General insurance products to existing and potential customers. Standard Chartered Insurance Agency Limited (SCIAL), now distributes Sanlam Kenya products (mainly Domestic and Motor Private insurance packages). The partnership has combined our experience and Sanlam's deep insurance expertise with an aim of increasing and consolidating our market share by becoming a one stop financial services provider. We now have a diverse and rapidly evolving distribution platform including a direct and online capability and strong financial adviser and agent network. We have also enhanced our Wealth products offering by increasing focus on offshore mutual funds and introducing a wealth lending proposition.

Lamin Manjang (2nd right), CEO Standard Chartered Bank Kenya, and Mr. Mugo Kibati, MD Sanlam, during the launch of the Bancassurance partnership.

Sustainability Review (Continued)

Contributing to sustainable economic growth (Continued)

In 2018, the Retail Banking business will continue to digitise products and services and deepen our presence in key cities to grow and maintain our market share as well as provide superior client experience to our valued customers.

Commercial Banking

The Commercial Banking business segment targets medium sized enterprises aspiring for fast growth and seeing them through their expansion plans, maturity, succession and transformation into large corporates locally and internationally.

Having secured a strong foundation, Commercial Banking segment has continued to transform its business model over the past two years to serve clients in a more efficient and effective way.

Our key products include:

– *Cash Management:* Our team of cash management specialists provides consultation services and customised solutions for clients based on their objectives, geographies and operations 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 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 with greater productivity and transparency, reducing Working Capital cycles and integrating the physical and financial supply chains;

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

Jin Olivia, Relationship Manager, Commercial Banking, meets Chinese clients.

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

The year 2017 presented a challenging operating environment with limited growth opportunities as a result of political uncertainty and macro-economic headwinds leading to slow uptake of credit within the private sector. Despite this, our performance was resilient and we remain focused on serving our clients and growing our business.

In consultation with our clients and stakeholders, we took key actions to enable us to serve our clients more effectively. We:

– shortened the client on-boarding process for new clients by re-designing the account opening forms and streamlining the internal process to make it more efficient and faster;
– reviewed and created more robust and competitive underwriting criteria to guide our lending decisions based on our clients requirements; and
– simplified the security perfection process to allow clients to enjoy/access their facilities faster.

Building long and sustainable relationships with our clients is 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. 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 – Straight2Bank.

Our dedicated Chinese relationship teams support clients from China as they trade within and invest in East Africa and the rest of the world. The focus of the Chinese segment has shifted over time from pure trading to tangible, long term capital investments into Africa.

Clients interacting with Standard Chartered staff during a Diwali Celebrations Cocktail.

Sustainability Review (Continued)
Contributing to sustainable economic growth (Continued)

Vimal Shah, a Corporate & Institutional Banking Client, meets Simon Cooper, Standard Chartered Group Head, Corporate & Institutional Banking, during a client event.

Using Kenya as the East Africa gateway for business, investment and trade under China's "One Belt, One Road" initiative, we expect to build on the significant growth achieved in the prior years.

Our Commercial Banking business continues 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.

In 2018, we intend to continue to:

- proactively improve our clients' experience and create value;
- improve our internal efficiencies through innovation and leveraging on our strengths;
- reposition our Trade Financing proposition in the market; and
- enhance 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, Corporate & Institutional Banking 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 of Kenya, Multilaterals, The National Treasury and other government ministries).

- *International Corporates* focuses on provision of world-class solutions to the local subsidiaries of global Multi-National Corporations that operate in Kenya. This also includes 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 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.

- *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.

Alvin Lema (centre), Relationship Manager, Global Banking, interacts with Clients.

Sustainability Review (Continued)

Being a responsible Company

In keeping with our role as a digital bank, we launched Cash Deposit Machines which provides our Corporate & Institutional clients with both a liquidity and treasury management tool that enables them to deposit cash any time of the day or night, seven days a week. It also helps our clients reduce operational and transit risks when handling physical cash. We further built on our tax integration with Kenya Revenue Authority to provide cash management solutions to our customers, a move geared towards building a strong transaction bank with a healthy liability position.

The Bank also dominated the China-Africa trade corridor through supporting key infrastructure projects during the year. During the year, we organised a round table event hosted by the renowned Chinese mogul Jack Ma.

Dr. Mukhisa Kitui, UNCTAD Secretary General and Jack Ma, Chinese business mogul join delegates at a business roundtable hosted by Standard Chartered.

The event showcased business opportunities in Kenya to a delegation of visiting Chinese business leaders. The year also marked the launch of a custody reporting tool, which automated the process and ensured timely and accurate reports. This tool has enhanced client satisfaction, regulatory compliance and increased capacity for handling volumes as business grows.

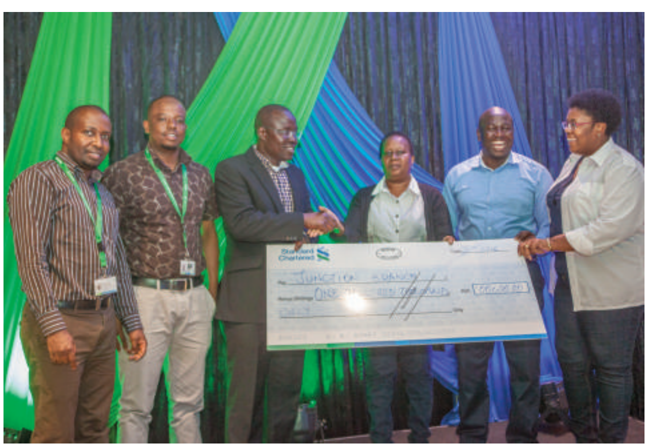
The 2018 economic outlook is positive and the Corporate & Institutional Banking business has been positioned to take advantage of the projected uplift in business activity. The Corporate & Institutional Banking business looks to strategically grow through leveraging on the China-Africa corridor and the digital initiatives implemented in 2017. We shall endeavour to maintain the trusted advisor status with the government.

Being a responsible company

We seek to promote strong governance, prevent financial crime, minimise our environmental impact and embed our culture and values to be a responsible company. We uphold a strong conduct framework and invest in our people to deliver fair outcomes for our stakeholders.

Governance

Standard Chartered Bank Kenya Limited recognises that exemplary governance is key to the Company's long-term success. Our culture and values are deeply embedded within the organisation and serve as the expected behaviour of all employees. All employees of the Bank have a responsibility to know the rules which govern us and exemplify good judgment and behaviour. We believe that simply complying with written corporate governance standards is not enough. We embody good conduct in everything we do and we are guided by both the letter and the spirit of laws and regulations.



Staff awarded for excellence.

Tackling Financial Crime

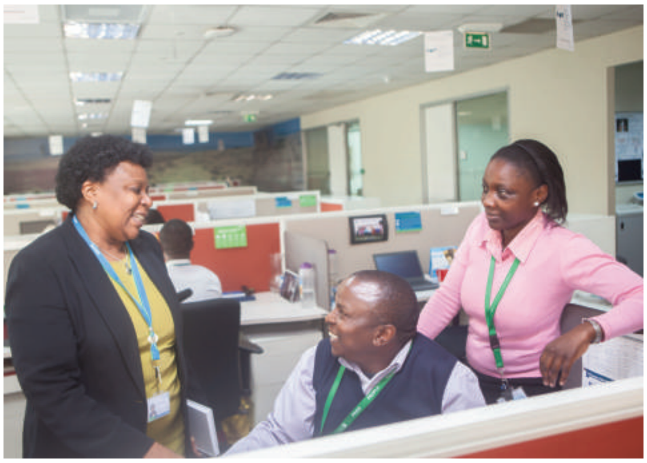
We are leading the way in the fight against financial crime whilst providing quality service to our clients. The Bank is committed to creating a sustainable Financial Crime Control framework that develops in tandem with developing trends in financial crime, new technologies and product innovation. The Bank is continually reviewing its approach to financial crime to mitigate against financial crime exposure.

2017 was a year of realisation of some benefits of the investments made to improving the Bank's financial crime's control environment that were initiated from 2014. Some of the financial crime mitigation programme projects included Phase one of the Strategic Surveillance Transformation which saw the implementation of the Enterprise Case Management system and the post investigative guide. The benefits of this transformation include ensuring a consistent and standardised approach to assessment, analysis and decision making on financial crime risk events across the Bank and safeguarding effectiveness and efficiency in the surveillance process. This implementation is aimed at ensuring that risk management efforts are placed on higher risk events and relationships. Improvement in the surveillance processes will continue in 2018.

The impact of the 'Journey to Satisfactory' campaign which was launched in 2016 became evident last year. The objective of the campaign was to improve the Bank's risk profile and control environment by ensuring that appropriate actions are progressed to move individual financial crime controls to Satisfactory.

Sustainability Review (Continued)

Being a responsible Company (Continued)



Rebecca Kaggwa, Head of Compliance talks to staff during the Valued Behaviours Campaign.

A lot of time, resources and focus was invested in ensuring that the Bank's financial crime control environment achieved a Satisfactory rating in the Standard Chartered Bank Group financial crime risk assessment. Through the process, there was enhancement of the governance framework including risk identification, assessment, mitigation and reporting. Training and resourcing was also significantly improved to ensure that all relevant staff have the requisite capacity to identify, escalate and mitigate financial crime.

We continued with outreach activities by participating in the Regional Correspondent Banking Academy initiative. The Academy brings together all our correspondent banks for training on fighting financial crime. The 2017 training focused more on risks posed by new payment innovations such as crypto currencies and conducting effective financial crime assessments.

People and values

The Human Resources function contributes to business growth by attracting top talent to the Bank, developing the talent and inculcating an environment where the people achieve their full potential. A high-performance culture is critical to achieving business priorities.

Our People are the custodians of the Bank's purpose, which is *"Driving Commerce and Prosperity through our Unique Diversity".* This purpose and vision is translated through the advice and service we offer to our colleagues by enabling and fostering an environment which they are able to bring their best selves to work every day. We leverage on creating a diverse organisation that is inclusive of all people.

The Bank's organisational transformation journey which started back in 2015 continued into 2017, as we prioritised productivity and effectiveness in the business. Through the transformation we had a headcount decrease from 1,872 in 2016 to 1,587 staff as at end of December 2017. Women comprise majority of our staff at 53 per cent (841). Staff attrition stood at 15.2 per cent in 2017, and is largely attributed to the redundancies in the year.

Investing in learning and development

We encourage our employees to own and drive their careers by having frequent quality career conversations with their Line Managers, who coach and enable them to succeed. As part of career development, we offer classroom learning, on-the-job experience-based learning, leadership development and career coaching.

Our Learning Academy continues to facilitate induction, work-based learning, coaching and management development programmes with an emphasis on management and leadership skills. Last year, the total number of employees trained on various programmes increased by 15% compared to 2016 to stand at 1,629 for classroom training. With digital adoption, some of the learning solutions have been migrated to e-learning platforms and all employees have undertaken e-learning courses.

The Bank launched a mentoring programme for newly recruited International Graduates (IGs). The IGs are now mentored for one year by members of the Executive Committee (EXCO).

As part of the Bank's strategy to develop a strong succession pipeline into senior leadership roles, we have in place *The Africa and Middle East (AME) Leadership Accelerator,* a programme that aims to fast-track development of the most promising talent in the Bank. The programme admits the best talent across the Bank in Africa and the Middle East. Kenya was privileged to sponsor 16 participants into the Programme. The participants underwent coaching, training and development in Kenya and United Arab Emirates. They were exposed to Senior Leadership in the country through participating in EXCO meetings as well as coaching by Heads from Africa & the Middle East Region. This cohort is now ready to take up senior roles in the Bank.

As part of senior leadership development, 3 Executive Committee members were selected to participate in the

Long Service Award: Members of staff celebrated for attaining 25 years of service to the Bank.

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

acclaimed Leading Across Boundaries (LAB) Programme offered in conjunction with the Oxford University, UK. Other leaders participated in various programmes, locally and overseas.

We have put in place a robust performance management process to stretch our employees to deliver more, reward them for high productivity and effectively manage poor performance. We have in place a mix of short-term and long-term rewards ranging from commissions, bonuses, salary increases and Employee Share Options.

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

We recognise that highly engaged employees translate to increased productivity and performance, as well as ensuring high customer satisfaction. We continued to win the hearts and minds of our people in 2017 by delivering on various exciting employee engagement initiatives including;

- *Financial Literacy* - the programme was conducted in the month of February 2017 by providing financial skills to our staff so as to use the knowledge and skills gained to manage their resources effectively in order to attain financial freedom. This was delivered in partnership with the Bank's Executive Committee.

- *Wellness Quarter* - this was launched in Quarter 2 and was aimed towards being mindful of the health and wellbeing of our staff. The activities included "Drop the Kilo" Challenge reloaded, weekly Zumba sessions, a medical camp in partnership with Sanlam Kenya Limited and Employee Value proposition sessions, which created awareness of the Bank's benefits.

- *Walk, Stop, Listen* - the initiative involves the HR team visiting various departments across the Bank. The platform created a great opportunity for clarification on different items and increased interaction.

Dr. Catherine Adeya-Weya (right), non-executive Board member Standard Chartered Bank, participating in a panel discussion during the Women In Tech Incubator launch.


Sheila M'Mbijiwe, Deputy Governor Central Bank, joins Standard Chartered Bank's senior leaders during Women's Day celebration.

- *Career Development Month* - launched in 2016, the sessions enable our employees to self reflect and align their personal career goals with the Bank's strategic business priorities by mapping their own career paths.

We track staff engagement levels through "My Voice" survey. The assessment provides an engagement index based on a series of indices. Last year, the engagement levels index stood at 74 per cent, a slight increase from 73 per cent in 2016.

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

- 'My Voice' survey - 1,463 employees provided feedback using this channel representing a 92 per cent response rate;
- Speak up/ grievance channels; and
- direct communication to HR.

We plan to continue our investment in people, as they are the Bank's most valuable capital responsible for driving the success of the Bank.

Diversity and inclusion

We are committed to creating a culture of inclusion where every employee has an opportunity to realise his or her full potential and deliver outstanding business results. We purpose to ensure that staff from all backgrounds and beliefs are accommodated as well as creating an environment that is free from bias.

Our Diversity and Inclusion commitment in Kenya comprises the following:

- *Parental Leave Policy* - the Bank extended the parental leave policy for mothers to 20 weeks excluding annual

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

Members of Staff enjoying a break during a community engagement event.

leave from the previous 90 days while mothers who opt for adoption are entitled to up to 3 months leave. This was implemented in order to help working parents balance work and family responsibilities.

– *Flexible Working Practices* – Flexible working (Flexi) was introduced due to the changing world of working which is driven by new technology, evolving view of 'office space' and an integrating approach towards work and life. Flexi enables our staff to meet their personal and professional goals and allows them to maximise performance and deliver exceptional performance.

– *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 supporting existing colleagues and those who get 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. We have three staff who are visually impaired and they serve as our 'Seeing is Believing' ambassadors.

As part of our commitment to developing women leaders, the Bank undertook a mentorship programme geared towards fast-tracking career development of the women to ensure they achieve their full potential as well as increase their readiness for leadership roles. As a result, 89 women managers were coached and mentored by the Senior Leadership on core leadership skills, leading to a colourful graduation in November 2017. The mentees gained immense knowledge on how to develop all-round capability in order to succeed in their respective careers and attain their personal and professional goals.

Further, the Bank doubled sponsorship of female staff in the Female Future Leaders Programme to 10 up from 5 in 2016. This programme is spearheaded by Federation of Kenya Employers and aims to equip women with capability to lead at Senior and Board levels.

Fair Pay Charter - we recently launched a *Fair Pay Charter* in our commitment to make the Bank a better place to work. The *Fair Pay Charter* clearly sets out the principles we use to guide our reward and performance decision-making, and supports our commitment of delivering fair and competitive remuneration to all staff. It is a public declaration of our position when it comes to pay. We would like to ensure that all staff feel valued and are treated fairly by recognising ability and performance, as well as potential and adherence to conduct and valued behaviours. Our commitment to the principles will be tracked and measured annually against key metrics.

Health, Safety and Wellness

The Bank continued to focus on creating a culture of reporting accidents, incidents, hazards and near misses so as to effectively manage health and safety risks. There was a tremendous increase in reported incidents in 2017, growing by 184 per cent compared to 2016. This is an indication of increased awareness on safety amongst our staff. 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 645 accidents, incidents and near misses were reported in the year 2017. The reported incidents that related to building integrity issues accounted for 32 per cent while health & hygiene and access & egress accounted for 31 per cent and 15 per cent respectively of the total incidents reported.

Minor injuries accounted for 46 per cent of all reported injuries, major injuries accounted for 17 per cent and 29 per cent of the reported cases were personal health issues.

The total number of work related injuries reduced to 17 compared to 25 injuries reported in 2016. However, the number of major injuries doubled in 2017 compared to


Michael Gorriz, Group CIO Standard Chartered Bank, interacts with a student during a mentorship session at Strathmore University.

Sustainability Review (Continued)

Investing in Communities

2016, leading to a total of 51 lost working days.

There was continuous commitment to comply with our Group Health and Safety standards and local health and safety regulations. The actions taken to ensure compliance with the 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 of over 90 employees on fire safety and basic first aid skills.

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 for which Kenya has four namely, Chiromo Head Office, Kenyatta Avenue Branch, Moi Avenue Branch and Treasury Square.

In 2017, the Bank's Energy Use Intensity (EUI) was 248 kwh/m^2/yr against a target of 230 Kwh/ m^2/yr by 2019. The 2017 EUI decreased by 18 per cent compared to 2016. The reduction in EUI was achieved due to the ambitious project of replacing Standard Compact Fluorescent (CFL) light tubes with Light Emitting Diode (LED) light tubes and installation of grid-tied solar panels with a capacity of producing about 160Mwh per annum to supplement energy from the main grid at the head office building. Since the installation of the LED lighting and the solar system our average savings have been about KShs 1.25 million every month. In addition to this, we completed installation of modern LED lighting at our Two Rivers, Kericho, Machakos, Eldoret and Moi avenue branches.

Finance Team poses for a picture after a tree planting exercise.

Staff volunteers cleaning up Nairobi River.

Our Water Use Intensity (WUI) was at 0.51 kl/m^2/yr against a target of 0.50 kl/ m^2/yr by 2019 and a drop of over 80 per cent compared to 2016. The significant reduction in WUI was achieved after some major water leakages were addressed at the head office building.

Investing in communities

We support communities to address local social and economic needs. We work closely with local partners and our Employee Volunteers to deliver programmes focused on health and education. Our main programmes are "Seeing is Believing", Goal and Financial Education.

'Seeing is Believing'

The Standard Chartered Group launched the 'Seeing is Believing' initiative in 2003 to help mitigate the devastating effects of avoidable blindness. This was out of the realisation that blindness was drastically impacting the economic wellbeing of individuals, families and communities. The global initiative is a collaboration between the Bank and the International Association for Preventable Blindness.

In Kenya, it is funded through proceeds from Standard Chartered Nairobi Marathon registration, donations from staff and funding from the Standard Chartered Group "Seeing is Believing" initiative.

Since 2003, we have worked closely with more than five community partners, our employees, client and supplier networks to tackle avoidable blindness. Through the initiative we have managed to heighten awareness and education of child eye health among families and communities. We have also set up referral networks to identify and correctly diagnose children, ensured the clinical infrastructure and human resources are in place to treat children with blindness and visual impairment and ensured that children who cannot be medically or surgically treated are given support and educational opportunities.

In conjunction with our implementing partners, Operation Eyesight and Christian Blind Mission, the Bank sponsors cataract, glaucoma and trauma related surgeries for needy

Sustainability Review (Continued)

Investing in Communities (Continued)


Eye screening at a Seeing is Believing Clinic.

children under the age of 15 at five hospitals countrywide. These are:

- Kikuyu Eye Hospital;
- Kwale District Eye Centre;
- Mombasa Lighthouse for Christ Eye Centre;
- Sabatia Eye Hospital in Western Kenya; and
- Tenwek Hospital Eye Unit in the Rift Valley.

We also work closely with the following Government Hospitals;

- Narok County Referral Hospital;
- Kerugoya County Hospital in Kirinyaga County;
- Moi Teaching and Referral Hospital in Uasin Gishu County;
- Huruma-Sub County Hospital in Uasin Gishu County;
- Iten County Hospital in Elgeyo Marakwet County;
- Kapsabet County Hospital in Nandi County; and
- Kitale County Hospital in Trans Nzoia County.

During the year 2017, we signed a Memorandum of Understanding (MoU) with the Kirinyaga County government for the upgrade of the Kerugoya County Hospital Eye Unit. The project kicked off by first training 18 Community Health Volunteers on Primary Eye Care (PEC) followed by door to door screening where 8,991 people were screened. The project is set for completion in 2018. We also sponsored two clinical officers to train as Cataract Surgeons and three nurses to be trained as ophthalmic nurses at the Kenya Medical Training College.

The second phase of the screening exercise for pupils in Trans Nzoia County continued with a lot of success. Using the Portable Eye Examination Kit (PEEK) technology, the programme is targeting to screen 200,000 pupils in 350 schools in Trans Nzoia County over a period of three years. In 2017, a total of 84,429 pupils were screened from 202 schools and 2,062 pupils treated. Through our implementing partner, Operation Eyesight, Trans Nzoia County Ministry of Education Officers, school head teachers, contact teachers and Curriculum Support Officers were also sensitised on eye health care.

We are humbled by the contribution 'Seeing is Believing' has made in bettering the lives of children in Kenya. In 2017, the following success was achieved across our programmes:

- screened 297,373 people;
- performed 3,617 surgeries;
- treated 56,361 people;
- removed 1,768 cataracts; and
- dispensed 1,164 spectacles.

In conjunction with the Fred Hollows Foundation Kenya we launched a project that aims to develop an integrated and comprehensive model of care for people at risk of vision loss due to diabetes mellitus within the urban-poor population in Nairobi County and its environs. The project integrates ophthalmic care and services with routine screening and management of diabetes mellitus patients, while also addressing cataract incidences which are the leading cause of avoidable blindness. Diabetes is rapidly becoming a major cause of blindness among Kenyans, with the national prevalence of 2.2% in 2015. The project model links the target beneficiaries with diabetes and eye health services for awareness, ensuring timely identification, referral, treatment and follow-up. With quality diabetes mellitus and eye health training, equipment, service provision and advocacy, the project will make screening and treatment available and accessible to those with diabetes and cataract problems in Nairobi County. The two year initiative is targeting to reach more than 80,000 community members.

Standard Chartered Nairobi Marathon

The 15th edition of the Standard Chartered Nairobi Marathon was held on 26 November 2017. The event was well attended as athletics enthusiasts turned out in large numbers to lend support to the 'Seeing is Believing' cause. Below are the highlights of the event:

- KShs 32 million raised towards 'Seeing is Believing';
- 15,552 registered participants;
- 350 corporate teams; and
- 616 volunteers.

The Bank has extended sponsorship of the Standard


Nairobi Governor Mike Sonko, and CEO Lamin Manjang during the launch of Diabetic Retinopathy Programme in Partnership with Fred Hollows Foundation at Mbagathi District Hospital.

Sustainability Review (Continued)

Investing in Communities (Continued)

Chartered Nairobi Marathon to 2022. Proceeds from participation fees are channelled to the 'Seeing is Believing' community initiatives and have greatly contributed to the Group's USD 100m fundraising target towards Seeing is believing.

The event features six race categories - 42km male and female, 21km male and female, 10km male and female, 21km wheelchair male and female, 5km Family Fun Run race and the 3km CEO challenge. The winners take home more than KShs 8 million in prize money.

We would like to sincerely thank our partners who support us in funding and organising the event. These are the Nairobi County Government, Athletics Kenya, Internet Solutions, Alpine Coolers, Avenue Health Care, Sanlam Insurance, Kenafric Diaries, Nakumatt, Parapet, Safaricom, Subaru Kenya, Sketchers, AUA Industria and Kenyatta International Convention Centre. We take pride in the role the Standard Chartered Nairobi Marathon has played in identifying raw sporting talent while raising the profile of the city of Nairobi in the tourism circles.

Goal

The Goal project which seeks to empower adolescent girls from low income families in urban areas entered the third year of sponsorship in 2017. Through Goal we reach out to under privileged girls equipping them with knowledge on HIV/AIDS, Financial literacy and mentorship. The Kenya Chapter of the Goal project is implemented by Vijana Amani Pamoja, an NGO operating in the eastern part of Nairobi.

Kenya is part of 12 countries in the Standard Chartered Group network in Africa and Asia that is running the programme. We believe investing in women has a multiplier effect on the society. Adolescent girls have the potential to be the most significant agents of change in the community and to a larger extent the economy. The programme gives the girls the tools to shape their own future thus contributing immensely to their empowerment. The girls are engaged through various activities namely Traditional Goal, Events

Elite runners take the lead during the Standard Chartered Nairobi Marathon

Helen Nangonzi (2nd left), Head of Corporate Affairs and Marketing, poses with marathon brand Ambassadors during 2017 Standard Chartered Nairobi Marathon Staff launch.

and Economic empowerment.
Traditional Goal curriculum is focused on four core content areas - *Be Yourself, Be healthy, Be empowered and Be Money Savvy.* In 2017, 1,612 girls participated in the traditional goal curriculum. They were drawn from 10 Primary schools, 3 Secondary Schools, 1 soccer team and Vocational training institutions.

Goal Events is a sports programme that introduces adolescent girls to financial literacy and other related life skills. In the year under review, we worked with 11 centres reaching out to 1,919 girls.

Economic Empowerment focuses on equipping girls with skills to become job-ready and mentoring girls who are already working. In 2017, 35 girls took vocational training courses in Baking & Pastry and Hairdressing & Beauty Therapy as well as other work readiness trainings such as C.V writing, Financial and computer literacy. Out of this, 23 of the girls got income generating opportunities by either getting jobs or starting their own businesses.
The programme also held the annual Mrembo Economic Empowerment Trade-fair (MEET) providing an opportunity for the vocational training candidates to showcase their skills to potential employers.

Financial education

Financial education is aligned with the Bank's core business of banking. We are committed to building financial capability among the vulnerable population which constitutes mainly the youth, women and micro and small businesses. These groups have limited knowledge and access to financial services. This is borne out of our recognition that the security, prosperity and stability of our financial systems, communities and economies depend on well educated, financial capable young people and entrepreneurs.

We have two global financial education programmes that are delivered by our employee volunteers, Financial Education for Youth (FE4Y) and Education for Entrepreneurs (E4E).

Sustainability Review (Continued)

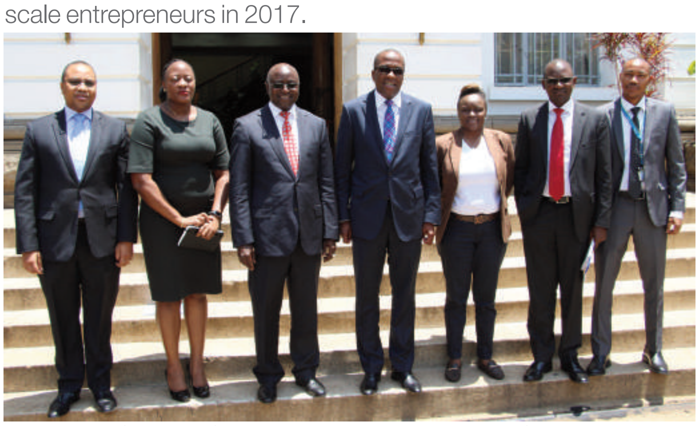
Investing in Communities (Continued)

Management of Standard Chartered Bank and @iLabafrica pose with PS ICT Sammy Itemere, (4th right), during the Women In Tech Incubator launch.

FE4Y is aimed at building financial capability among youth in our markets. FE4Y targets youth between the ages of 12 to 20 in our communities. The FE4Y curriculum covers topics that include borrowing, budgeting, expenditure, income, making financial choices, money basics, products and services, risk/safety/security, saving and investment and starting a business. It aims at influencing behavioural change and engrain financial responsibility at an early age.

E4E is a programme aimed at building the capacity of non client micro and small businesses in our communities. The programme is delivered to micro and small businesses through employee volunteers. The curriculum covers topics such as cash flow management, budgeting, accounting and business planning.

Our financial education programme is an affirmation of our 'Here for good' brand promise in the communities where we do business. Our Financial education programme reached more than 10,300 youth and small scale entrepreneurs in 2017.



Members of Standard Chartered Nairobi Marathon Local Organising Committee during a courtesy call to Nairobi County Government.

We also set aside a fund for capacity building for women-owned small enterprises. Under the initiative dubbed *Women In Tech Incubator,* the Bank in partnership with iLab Africa, a division of Strathmore University, identified start-ups to be mentored over a period of one year. The *Women In Tech incubator* programme targeted women entrepreneurs and business owners in Kenya who want to or are using technology to grow their businesses but lack the requisite support. We are optimistic that the programme will change the fortunes of women entrepreneurs and business owners in Kenya. This initiative builds upon Standard Chartered's global track record of increasing women's access to entrepreneurial finance and supporting adolescent girls and women through financing and capacity building.

The launch of the programme in Kenya follows a successful rollout of a similar initiative in USA by Standard Chartered. The Bank first launched the

Members of Staff battle it out at the Standard Chartered Trophy "Road to Anfield tournament.

programme to support women in technology in 2014 at the City College of New York where it created the Women Entrepreneurs Resource Center.
The US programme includes a dedicated workspace, mentorship, coursework and access to an extensive network designed to support entrepreneurs navigating the challenges of starting a business.

Board of Directors

Anne Mutahi
Chair to the Board

Appointment
Anne was appointed to the Standard Chartered Bank Kenya Board on 24 February 2009 and became Chairperson in 2013.

Experience
Anne 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. Anne has also served as Chairperson of the Association of Micro Finance Institutions (AMFI), Governor and Board Member of Kenya Private Sector Alliance (KEPSA) and board member of the Kenya Institute of Public Policy Research and Analysis (KIPPRA). Age: 57

Lamin Manjang
Managing Director and Chief Executive Officer

Appointment
Lamin was appointed Managing Director and Chief Executive Officer of Standard Chartered Bank Kenya on 1 March 2014.

Experience
Lamin has over 17 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. Lamin has also served as CEO in Uganda and Sierra Leone. Age: 54

Chemutai Murgor
Executive Director, Finance

Appointment
Chemutai joined the Board on 1 March 2007 after being appointed to the position of Finance Director.

Experience
Chemutai has been with the Bank for 17 years and has wide experience in finance having worked previously as the Head of Finance as well as Head of Business Finance. Chemutai has also held various senior positions at Deloitte & Touche both in Kenya and the United Kingdom. Age 48.

Ian Bryden
Non-Executive Director

Appointment
Ian was appointed to the Board on 12 July 2016.

Experience
Ian is the Standard Chartered Bank Chief Risk Officer for Africa and Middle East region. Ian 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. Ian has previously worked at Bear Stearns and Chase Bank. Age 62

Kaushik Shah
Non-Executive Director

Appointment
Kaushik was appointed to the Board on 19 February 2004.

Experience
Kaushik is the Group Governance Officer and Director Eastern Africa for Safal Group. He also sits on the Boards of Kenya Association of Manufacturers, Bahari Insurance Brokers Limited, Bahari Forwarders Limited and Mwanzi Road Development Limited, among others. Age 65.

Les Baillie
Non-Executive Director

Appointment
Les was appointed to the Board on 5 August 2010.

Experience
Les 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, Les held various financial director positions within the Vodafone Group in the UK, having joined Vodafone in 1986. Age 63.

Board of Directors (Continued)

Patrick Obath
Non-Executive Director

Appointment
Patrick was appointed to the Board on 24 January 2012.

Experience
Patrick 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. Patrick is a Managing Consultant at Eduardo and Associates. Previous appointments include Managing Director at Shell East Africa.
Age 63.

Richard Etemesi
Non-Executive Director

Appointment
Richard was appointed to the Board on 30 June 2017.

Experience
Richard is a past Managing Director and Chief Executive Officer of Standard Chartered Bank Kenya Limited a position he held until March 2014. Richard then moved on to become Chief Executive Officer for South Africa & Southern Africa. He is currently the Vice Chair of Standard Chartered Bank, Africa. Richard has over 20 years experience in Banking, Finance and Compliance.
Age 56.

Dr. Catherine Adeya-Weya
Non-Executive Director

Appointment
Catherine was appointed to the Board on 1 January 2016.

Experience
Catherine is an Information Scientist with over 20 years experience in the area of Information and Communication Technologies (ICTs) for development. These include the social, political and economic impacts of ICTs particularly in Africa, but in the developing world in general. She has extensive knowledge and is widely published in the ICT sector. Catherine has worked on numerous projects including at the United Nations University/Institute for New Technologies in the Netherlands; and the prestigious Konza City project. Age 49.

Tejinder Singh
Executive Director

Appointment
Tejinder was appointed to the Board on 1 January 2016.

Experience
Tejinder heads Global Banking with responsibility for all Corporate & Institutional business for Kenya. With over 20 years of experience, Tejinder has previously headed the Corporate & 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 46

David Idoru
Executive Director

Appointment
David was appointed to the Board on 26 May 2016.

Experience
David was appointed Head of Retail Banking for Kenya and East Africa in 2015. Previously he was the Group Programme Director, SCB Way based in Singapore. He also served as the General Manager, Integrated Distribution, during which he was responsible for Branch Banking, mobile, online banking & contact centers. He has also worked in Uganda and the United Kingdom.
Age 46.

Nancy Oginde
Board Secretary

Appointment
Nancy was appointed Board Secretary in 1999.

Experience
Nancy is an Advocate of the High Court of Kenya and a Certified Company Secretary.

Nancy has wide experience in Legal and Compliance and was previously Head of Legal and Compliance Kenya and East Africa. Nancy is currently the Head of Legal and Company Secretary Kenya. Age 57.

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.

Chemutai Murgor
Chief Financial Officer

Chemutai joined the Bank 17 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 previously held senior positions at Deloitte in Kenya and the United Kingdom.

Tejinder Singh
Head of Global Banking

Tejinder heads Global Banking with responsibility for the Corporate & Institutional Banking business in 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 as Head of Public Sector & Financial Institutions in Malaysia & Head of Correspondent business in India, Sri Lanka and Nepal.

David Idoru
Head of Retail Banking

David was appointed to the 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, Florence 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 over 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).

Jared Obongo
Head of Risk

Jared joined the Bank in 2013. He is a risk and compliance practitioner having worked in the financial services sector. Jared has previously worked at Central Bank of Kenya, Co-operative Bank of Kenya, Commercial Bank of Africa and Stanbic.

Executive Committee (Continued)

Kennedy Mubita
Head of Transaction Banking

Kennedy was appointed 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 in Ghana and West Africa. He has a wealth of experience in the banking sector and has worked in various countries including Zambia, Tanzania, and as Transaction Banking Head for Cameroon and the CEMAC Zone

Helen Nangonzi
Head of Corporate Affairs and Brand & Marketing

Helen was appointed to the role in 2017. She has held multiple roles across the Bank since joining in 2006. In addition to her experience in Corporate Affairs and Brand & Marketing, she has held roles in Retail Banking, Human Resources and the CEO's office.

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

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.

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 in PricewaterhouseCoopers. 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.

Rebecca Kaggwa
Head of Compliance

Rebecca has extensive experience in Standard Chartered Bank, 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 and Company Secretary, Standard Chartered Bank, Uganda.

Paul Njoki
Head of Wealth Management

Paul was appointed to the role in 2017. Prior to the appointment he was the Senior Manager, Business Finance, Retail Banking & Commercial Banking, having joined Standard Chartered Bank in October 2013. Before joining Standard Chartered, Paul worked for HSBC as Head of Treasury Finance. He started his career in Audit, where he worked for leading global audit and consulting firms, Deloitte and KPMG. Paul has a solid technical background in finance and investments.

The Board and Statutory Information

Directors

A. Mutahi	Board Chair
L. Manjang*	Chief Executive Officer
K. Shah**	
C. Murgor	
L. Baillie**	
P. Obath	
C. Adeya-Weya	
I. Bryden**	
A. Ganesh***	(Resigned 9 October 2017)
R. Etemesi	(Appointed 30 June 2017)
T. Singh***	
D. Idoru****	

* Gambian **British ***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
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*	Finance Director
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
P. Obath	
C. Adeya-Weya	
J. Obongo*	Head, Risk
L. Manjang	
N. Oginde	Secretary
C. Murgor*	
D. Idoru*	
T. Singh*	

* By invitation

Board Credit Committee Members

K. Shah	Chairman
P. Obath	
C. Adeya-Weya	
L. Manjang*	
G. Akello*	
N. Oginde	Secretary
C. Murgor*	
D. Idoru*	
T. Singh*	

* 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	
F. Michuki	(Resigned 4 October 2017)
C. Murgor	
D. Luusa	
F. Nyokabi	
P. Gitau	
D. Mwindi	
N. Oginde	
R. Kaggwa	
K. Mubita	
H. Nangonzi	
J. Obongo	
P. Njoki	

Report of the Directors
For the year ended 31 December 2017

The directors are pleased to submit their report together with the audited financial statements for the year ended 31 December 2017 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 (together referred to as the Group).

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 52 to 150.

3. Dividends
The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of KShs 12.50 for every ordinary share of KShs 5.00. One interim dividend of KShs 4.50 was declared on 29 August 2017 and paid on 24 October 2017.

This will bring the total dividend for the year to KShs 17.00 per ordinary share (2016 – KShs 20.00).

The Board has also resolved to recommend to the shareholders at the forthcoming Annual General Meeting the payment of a final dividend of KShs 84,690,411 on the non-redeemable non-cumulative, non-voting, non-participating and non-convertible preference shares. An interim dividend of KShs 83,309,589 was declared on 29 August 2017 and paid on 24 October 2017. This will bring the total dividend for the year to KShs 168,000,000 (2016 – KShs 168,000,000).

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

The dividends will be payable to shareholders registered on the Company's Register at the close of business on 24 April 2018 and will be paid on or after 25 May 2018. The Register will remain closed on 25 April 2018 for the preparation of dividend warrants.

4. Directors
The directors who served during the year up to and including the date of this report are set out on page 31.

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

– Mr. Les Bailie and Dr. Catherine Adeya-Weya retire from office by rotation and will offer themselves for re-election at the forthcoming Annual General Meeting in accordance with Section 96(1) of the Memorandum and Articles of Association.

5. Property
Details of the movements in property are shown on note 26 to the financial statements.

6. Business Review
Performance and position

Details of the Group's performance, financial and capital position are included in the Chief Executive Officer's statement on pages 9 to 12.

Principal risks and uncertainties

The Company's principal risks that are inherent in the banking business include credit, market, liquidity, operational, reputational, compliance, conduct, information security & cyber security and financial crime. These principal risks are managed through implementing an enterprise level ability to identify and assess current and future risks, openly discuss and take prompt mitigating actions.

All employees engaged in, or supporting, revenue generating activities are expected to demonstrate the highest level of integrity by being transparent and proactive in disclosing and managing all types of risks. Our people in control functions adopt a constructive and collaborative approach in providing oversight and challenge, and take decisions in a clear and timely manner. The directors expect all staff to be accountable for their decisions and feel safe using their judgment to make these considered decisions.

The directors acknowledge that banking inherently involves risk taking and bad outcomes will occur from time to time; however, we take the opportunity to learn from our experience and formalise what we can do to get better. The directors expect all staff to demonstrate a high awareness of risk and control approach by self-identifying issues and managing them in a manner that will deliver lasting change.

Future outlook

The directors are confident that the Company is well positioned to take advantage of opportunities across the Kenyan economy. The Company's foundations remain solid, underpinned by strong relationships with our clients and a highly liquid and well capitalised

Report of the Directors
For the year ended 31 December 2017 (Continued)

balance sheet that provides a platform for sustainable growth in the long term.

Environmental matters and Employees Corporate Social Investment (CSI) Contracts

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. Community engagement is a key way in which we take forward this commitment. In 2017, we continued to engage the community by financing programmes in the health and education sectors with a special focus on the youth. This was achieved through our community flagship initiative 'Seeing is Believing', 'Goal' and Financial Education programmes.

We seek to minimise the environmental impact of our operations by observing practices that encourage efficient use of energy, water and paper consumption. In 2017, we made tremendous progress in reducing Energy Use Intensity (EUI) by installing energy saving lights across our property portfolio while investing in green energy concurrently. We also remain on course to meet our Water Use Intensity (WUI) targets.

7. Donations

Donations of KShs 123 Million (2016: KShs 101 Million) were made to various Corporate Social Responsibility initiatives during the year.

8. Directors' interests

Mr. Kaushik Shah holds 10,125 shares in the Company as at 31 December 2017. The other directors do not hold any shares in the Company.

9. Governance Audit

The Board commissioned an inaugural Governance Audit for the year ended 31 December 2017. The audit will form the basis of an ongoing governance compliance programme in order to ensure that the Board's objectives, structure and operations are consistent with the latest developments in Corporate Governance.

10. Relevant audit information

The directors in office at the date of this report confirm that:

(i) There is no relevant audit information of which the Company's auditors are unaware; and

(ii) Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

11. Auditors

The auditors, KPMG Kenya, continue in office in accordance with the Kenyan Companies Act, 2015.

12. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 22 March 2018.

BY ORDER OF THE BOARD

Lamin Manjang
Director

22 March 2018

Statement on Corporate Governance

For the year ended 31 December 2017

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 2017.

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 2017

- Director training on corporate governance, in particular, strategic planning and performance monitoring;
- Director training on IFRS 9;
- Changes in directors and senior management to strengthen the business;
- 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; and
- Maintained balance in pursuing growth opportunities in tandem with appropriate governance systems, controls, processes and information flows.

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
R. Etemesi	Banking and Financial Management
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 non-executive directors, and four executive directors. The Company Secretary is a member of the Institute of Certified Public Secretaries of Kenya (ICPSK) whilst the Finance Director is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

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.

Mr. Angarai Ganesh, a non-executive director, resigned from the Board on 9 October 2017 to focus more on his role as head of Commercial Banking, Africa and Middle East.

Mr. Richard Etemesi, was appointed a non-executive director on 30 June 2017, in addition to his role as the Vice Chairperson, Standard Chartered Bank Africa.

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 2017 on corporate governance, strategic planning and monitoring, International Financial Reporting Standard 9 (IFRS 9), board evaluation, market risk, regulatory changes, information technology, macroeconomic changes in the business environment and the general banking environment among others.

The induction process entails:

Constitution and governance structure

The director undertakes a review of the constitutional documents and governance structure as follows:

- Memorandum and Articles of Association (Standard Chartered Bank Kenya Limited);
- Group corporate structure (High Level);
- Subsidiary governance structure (Committees);
- Board Charter;
- Board and Committee Terms of Reference (TORs);
    - Schedule of matters reserved for the decision of the Board
    - Executive Committee/ Management Committee TOR
    - Any other Committee TORs as applicable.
- Board and Committee meeting dates;
- Rolling agenda for Board and Committee meetings; and
- Directors' diversity.

Directors' duties

A director receives information tailored to maximise their knowledge and understanding on the following critical aspects:

- Key legal and regulatory provisions (e.g. Code on Corporate Governance);
- Directors' roles and responsibilities;
- Summary rules on disclosing insider information;
- Summary of the Directors' and Officers' liability insurance; and
- Conflicts of interests including all directorships and personal interests.

About the business

The induction is designed to ensure a director receives essential information regarding the business in the areas below:

- History of the Group;
- A brief about the business;
- Company organisation chart;
- Directors' induction and continuous education programme; and
- Key meetings to be attended.

Other areas

A director also receives the following additional information necessary for their understanding of the Company's business, operations and values:

- Company Code of Conduct;
- Annual Report and Accounts; and
- Delegated Authorities Manual

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 and financial nature in the Company to the directors or designated official through the "Speak Up" portal. All "Speak-Up" cases are investigated and the required action taken to ensure feedback is provided as appropriate.

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.

Statement on Corporate Governance (Continued)

For the year ended 31 December 2017

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 activities in 2017

The key activities undertaken by the Board during 2017 are as set out below:

Policy and oversight

- setting of strategic plans, policies, monitoring the operational performance, and processes that ensure integrity of the Company's risk management and internal controls;
- establishing a sound system of internal control for the Company and overseeing the corporate governance framework;
- establishing clear roles and responsibilities in discharging its fiduciary and leadership functions to ensure that management actively cultivates a culture of ethical conduct and set the values which the Company will adhere to;
- setting strategies that promote the sustainability of the Company and establish policies and procedures for the effective operation of the Company; and
- ensuring that management adheres to all applicable laws, regulations, governance codes, guidelines and established systems to effectively monitor and control compliance across the Company.

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

Budget and performance oversight

- regularly reviewed and scrutinised the strategic and operational performance of the business across client segments and products;
- monitored and assessed the Company's capital and liquidity positions;
- approved the Company's 2017 budget and monitored it against the agreed risk appetite thresholds; and
- monitored progress against the strategic priorities and reviewed and approved the corporate plan.

External environment

In recognition of the Company's corporate citizenship responsibilities, the Board undertook the following activities:

- received internal and external briefings and input across a range of topics, including geopolitical risks, developments in the regulatory environment, the macro economic landscape, cyber security and brand and culture;
- reviewed the potential impact of the implementation of IFRS 9, Financial Instruments on the Company's performance and capital position;
- closely monitored the potential impact of the interest rate law on the Company; and
- attended the 'Seeing is Believing' (SIB) Nairobi marathon event, and other Corporate Social Responsibility (CSR) projects funded by the Company.

Shareholder and stakeholder relationship

The Board considers the impact of its decisions and its responsibilities to all of the Group's stakeholders, including the employees, shareholders, regulators, clients, suppliers, the environment and the communities in which it operates. In line with these responsibilities, the Board:

- engaged with investors throughout the year and hosted an interactive session with shareholders at the Annual General Meeting (AGM) to obtain feedback and respond to all shareholders' queries;
- participated in community engagement activities and projects; and
- noted regulatory developments throughout the year.

Risk and governance

As part of its role in exercising oversight over risk management and governance, the Board:

- received regular reports from the Risk officer;
- evaluated and approved proposed changes in risk appetite;

Statement on Corporate Governance (Continued)

For the year ended 31 December 2017

- discussed specific conduct matters and potential outcomes and impacts; and
- assessed the outcome of the 2017 Board effectiveness review and approved the 2017 action plan.

People, culture and values

The Board recognises the importance of embedding a sustainable agenda in relation to people, values and conduct. In line with this objective, the Board undertook the following activities over the year:

- reviewed the People Strategy and its key priorities for people development;
- discussed the results of the "My Voice" employee engagement survey, the Company's talent pool and leadership development programmes;
- discussed the Company's culture, refreshed valued behavious and the importance of a robust conduct culture throughout the Company; and
- endorsed the refreshed Code of Conduct which every director recommitted to.

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 December 2017 to review, discuss and agree the Company's strategy. There was sufficient time to examine the emerging risks and opportunities in detail.

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 2017 in a process led by the Chairperson and supported by the Company Secretary. The evaluation entailed a self-evaluation for each director, and of the overall Board interactions, conduct of business meetings and scope of control exercised by the directors as well as evaluation of the functioning of the Board Committees. 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 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 7	Ad Hoc 3
A. Mutahi (Chair)	7/7	3/3
L. Manjang	7/7	3/3
K. Shah	7/7	3/3
L. Baillie	7/7	3/3
P. Obath	5/7	2/2
C. Adeya-Weya	6/7	2/2
I. Bryden	6/7	2/3
A. Ganesh (Resigned 9 October 2017)	4/4	2/2
R. Etemesi (Appointed 30 June 2017)	3/4	–
C. Murgor	7/7	3/3
T. Singh	6/7	3/3
D. Idoru	6/7	3/3

Statement on Corporate Governance (Continued)

For the year ended 31 December 2017

BOARD COMMITTEES

The Board has six primary 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 all chaired by independent directors. The respective Chairpersons present their reports to the Board at each scheduled meeting. The Asset and Liability Committee (ALCO), and the Executive Committee (EC) are chaired by the CEO and report quarterly to the Board.

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 compliance 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 of the staff remuneration policies and review of Board remuneration as well as Board composition and balance of skills.	Oversight over the Company balance sheet to ensure it is managed in line with regulatory requirements and Company policies.	Assist the CEO in the oversight and day-to-day management as well as implement the Board strategy.

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	

Chair   Member

Statement on Corporate Governance (Continued)

For the year ended 31 December 2017

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*	Finance Director
D. Mwindi*	Head of Internal Audit
R. Kaggwa*	Head of Compliance
KPMG Kenya*	

* By Invitation

Highlights for 2017

In 2017, the Committee discharged its mandate as set out in its Terms of Reference as follows:

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

Role and function

The Committee has a Charter that specifies the qualifications, responsibilities and procedures of the Committee including conduct of special investigations. The key responsibilities of the Committee are:

Financial reporting

The Committee reviews the integrity of the financial statements of the Group and Company 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 Head of Internal Audit, and reviews management's responses and remedial actions.

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 Internal Audit and Compliance functions at the beginning of each year and guides on the areas of focus.

All the Committee members have relevant experience. The Board is satisfied that Mr. Les Baillie, as Chairman, has the relevant financial experience to lead the committee and that all other committee members have broad experience and sufficient knowledge of financial reporting and the attendant requirements.

The Committee receives regular reports from the Head of Internal Audit on internal audits, compliance and legal risks and on the assurance framework. The Head of Compliance also submits reports on regulatory, compliance and conduct issues. The Finance Director, 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 independent non-executive directors hold meetings with the Head of Internal Audit and External Auditors without management to freely discuss issues arising from the audits and monitor progress on the audit plan for the year.

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

- review of the enhanced regulatory reporting;
- Central Bank of Kenya mandated Information & Communication Technology audit;
- review of audit reports;
- review of the Group and Company financial statements; and
- approval of the audit and compliance monitoring plans.

Attendance

Number of meetings scheduled in 2017	4
L. Baillie (Chairman)	4/4
K. Shah	4/4
P. Obath	4/4

Statement on Corporate Governance (Continued)

For the year ended 31 December 2017

BOARD RISK COMMITTEE

Members	
K. Shah	Chairman
P. Obath	
C. Adeya-Weya	
J. Obongo*	Head, Risk
L. Manjang*	
N. Oginde	Secretary
C. Murgor*	
D. Idoru*	
T. Singh*	

* By invitation

Highlights for 2017

- 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 Head of Risk presents a report to the Committee at every scheduled meeting and the Committee discusses the major risks faced by the Company across the business segments. The Committee also reviews the Company's risk appetite periodically. The directors provide critical guidance and feedback to management.

The Committee is responsible for ensuring that there are written policies, procedures and processes for identifying and managing all risks within the Company.

The Committee receives reports on all aspects of risk management from the risk sub-committees and risk managers.

Capital and liquidity

The Committee maintained a clear focus on capital and liquidity in 2017. The Finance Director 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 2017	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*	
N. Oginde	Secretary
C. Murgor*	
D. Idoru*	
T. Singh*	

* By invitation

Highlights for 2017

- reviewed the overall lending policy of the Company;
- reviewed the key changes in the Commercial Banking business underwriting portfolio standards; and
- reviewed the quality of the Company's loan portfolio to ensure compliance with requirements of the Prudential Guidelines.

Roles 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 2017	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

Statement on Corporate Governance (Continued)
For the year ended 31 December 2017

Highlights for 2017
- 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
- reviewed and recommended the Board succession plan for approval by 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 provided oversight on the Board evaluation process and implementation of the actions agreed by the Board. The online process helps to synthesise the reports more succinctly for action taking.

Attendance

Number of meetings scheduled in 2017	5
A. Mutahi (Chairperson)	5/5
L. Baillie	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.

EXECUTIVE COMMITTEE

Members	
L. Manjang	Chairman
D. Idoru	
T. Singh	
F. Michuki	(Resigned 4 October 2017)
C. Murgor	
D. Luusa	
F. Nyokabi	
P. Gitau	
D. Mwindi	
N. Oginde	
P. Njoki	
R. Kaggwa	
K. Mubita	
J. Obongo	

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.

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

Statement on Corporate Governance (Continued)
For the year ended 31 December 2017

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 effectiveness of the Company's internal controls 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.

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 2017 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 is used as an opportunity to communicate with all shareholders. The Company always gives shareholders the 21 days notice of the AGM as provided for in the Kenyan Companies Act, 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 presents the Directors' remuneration report for the year ended 31 December 2017. This report is in compliance with the Company's reward policy, banking regulations, the Capital Markets Authority (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 a clear and measurable linkage to business performance.

Directors' remuneration

The remuneration policy supports the achievement of the strategic objectives through balancing reward for both short-term and long-term sustainable performance.

The Board Nomination, Evaluation and Remuneration Committee reviews the implementation of the policy which provides for alignment of remuneration to the delivery of the Company's strategy and sustainable shareholder returns.

The Committee has the responsibility to review the annual remuneration of the executive and non-executive directors and the structure of their compensation package for approval by the Board. The Board received shareholders' authorisation to fix the directors remuneration by a resolution passed at the Annual General Meeting held on 25 May 2017. The Committee monitors the competitiveness of directors' remuneration to ensure the Company is able to motivate and retain individuals of the appropriate calibre as directors. The remuneration of the executive directors is as per negotiated employment contracts.

In determining remuneration for non-executive directors, regular surveys on the market rates for non-executive directors and the levels of remuneration are carried out for consideration by the Committee. All the remuneration and privileges accorded to the directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity as the Company. Compensation is 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.

The non-executive directors are paid an annual fee and sitting allowance for meetings attended. Fees for additional Board duties such as chairpersonship and membership of a committee are payable. The non-executive directors are also reimbursed for expenses, such as travel and subsistence, incurred in the performance of their duties.

Board effectiveness

An annual evaluation of directors' performance is carried out to measure performance of individual directors and the Board as a whole. The evaluation is conducted in accordance with the Capital Markets Authority (CMA) Code of Corporate Governance Guidelines and the Central Bank of Kenya's (CBK) Prudential Guidelines. The Board Nomination, Evaluation and Remuneration Committee has oversight of the process.

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, Mr. Tejinder Singh, Mr. David Idoru and Ms. Chemutai Murgor.
- Two non-executive directors appointed by Standard Chartered Bank PLC, the ultimate holding company of Standard Chartered Bank Kenya Limited: Mr. Ian Bryden, Mr. Angarai Ganesh (Resigned 9 October 2017) and Mr. Richard Etemesi (Appointed 30 June 2017).

The Company's iNEDs and non-executive directors were appointed on the dates indicated below:

A. Mutahi	(appointed 24 February 2009)
K. Shah*	(appointed 20 May 2004)
L. Baillie*	(appointed 1 August 2010)
P. Obath	(appointed 24 January 2012)
C. Adeya-Weya	(appointed 1 January 2016)
I. Bryden*	(appointed 12 July 2016)
A. Ganesh**	(appointed 12 July 2016 and resigned 9 October 2017)
R. Etemesi	(appointed 30 June 2017)

* British **Indian

Directors' Remuneration Report (Continued)

Non-executive directors' remuneration and policy

The Company has put in place a policy that adequately defines the remuneration and related privileges received by the non-executive directors of the Company.

All the remuneration and privileges accorded to the directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity. The components in the policy are directors' monthly fees, directors' sitting allowances, travel and accommodation. The fees payable reflect the time commitment and responsibilities of a non-executive director of the Company. The non-executive directors appointed by Standard Chartered Bank PLC are not remunerated by the Company.

Service contracts for non-executive directors

Non-executive directors are appointed for fixed terms not exceeding two years, which may be renewed subject to their re-election by shareholders at annual general meetings. Non-executive directors are bound by letters of appointment issued for and on behalf of the Company. Other than as set out above, there are no obligations in the non-executive directors' letters of appointment which could give rise to payments for loss of office.

Executive directors' remuneration policy

Executive directors 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). The Company's remuneration approach is consistent with effective risk management and the delivery of the Company strategy, underpinned by the principles of:

- a competitive remuneration opportunity that enables the Company to attract, motivate and retain the executive directors;
- a clearly defined performance management framework that ensures executive directors have clear objectives and receive ongoing feedback;
- remuneration outcomes that relate to the performance of the executive director and the Company. The Company aims to ensure the executive director is aligned to deliver long-term sustainable growth of the Company in the interest of stakeholders;
- variable remuneration and deferred options that recognises the achievement, conduct, behaviours and values of each executive director, ensuring reward is aligned to the Company's performance. The Company takes 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 each executive director'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 the executive directors and reflects the Company's commitment to employee wellbeing.

There were no changes in remuneration policy from the prior year.

Service contracts for executive directors

The remuneration policy provides for a combination of permanent terms and renewable fixed term employment contracts for executive directors on international assignments.

The executive directors were appointed as indicated below:

	Appointed	Contract end date
L. Manjang*	1 March 2014	31 January 2019
T. Singh**	1 January 2016	30 September 2018
D. Idoru***	26 May 2016	31 March 2020
C. Murgor	1 March 2007	Permanent terms

*Gambian **Indian ***Ugandan

Directors’ Remuneration Report (Continued)

Directors’ emoluments

The following table shows the Directors’ remuneration for services rendered for the financial year ended 31 December 2017 together with the comparative figures for 2016. The aggregate directors’ emoluments are shown in Note 11.

Year ended 31 December 2017 Executive Directors	Basic pay KShs ‘000	Bonus KShs ‘000	Deferred cash awards KShs ‘000	Share based awards KShs ‘000	Non-cash benefits KShs ‘000	Pension KShs ‘000	Fees retainer KShs ‘000	Sitting allowance KShs ‘000	Total KShs ‘000
L. Manjang	37,039	10,836	7,224	18,735	28,707	1,476	–	–	**104,017**
T. Singh	39,738	22,127	3,929	1,449	20,820	2,544	–	–	**90,607**
D. Idoru*	23,493	10,730	–	606	21,808	5,932	–	–	**62,569**
C. Murgor	21,800	9,479	–	130	1,343	3,052	–	–	**35,804**
	122,070	**53,172**	**11,153**	**20,920**	**72,678**	**13,004**	**–**	**–**	**292,997**
Non-executive directors									
A. Mutahi	–	–	–	–	–	–	2,640	1,618	**4,258**
P. Obath	–	–	–	–			1,100	1,786	**2,886**
C. Adeya-Weya	–	–	–	–	–	–	1,100	1,433	**2,533**
K. Shah	–	–	–	–	–	–	1,100	1,265	**2,365**
L. Baillie	–	–	–	–	–	–	1,100	1,042	**2,142**
I. Bryden	–	–	–	–	–	–	–	–	**–**
R. Etemesi	–	–	–	–	–	–	–	–	**–**
	–	**–**	**–**	**–**	**–**	**–**	**7,040**	**7,144**	**14,184**
	122,070	**53,172**	**11,153**	**20,920**	**72,678**	**13,004**	**7,040**	**7,144**	**307,181**
Year ended 31 December 2016									
Executive directors									
L. Manjang	33,887	12,170	8,113	15,142	30,359	1,408	–	–	**101,079**
T. Singh	38,800	22,971	4,277	2,820	20,793	1,640	–	–	**91,301**
D. Idoru*	11,439	7,804	563	563	16,550	1,670	–	–	**38,589**
C. Murgor	19,704	8,173	–	203	1,089	2,759	–	–	**31,928**
	103,830	**51,118**	**12,953**	**18,728**	**68,791**	**7,477**	**–**	**–**	**262,897**
Non-executive directors									
A. Mutahi	–	–	–	–	–	–	2,640	1,426	**4,066**
P. Obath	–	–	–	–			1,100	1,834	**2,934**
C. Adeya-Weya	–	–	–	–	–	–	1,100	1,584	**2,684**
K. Shah	–	–	–	–	–	–	1,100	1,424	**2,524**
L. Baillie	–	–	–	–	–	–	1,100	1,211	**2,311**
I. Bryden	–	–	–	–	–	–	–	–	**–**
R. Etemesi	–	–	–	–	–	–	–	–	**–**
	–	**–**	**–**	**–**	**–**	**–**	**7,040**	**7,479**	**14,519**
	103,830	**51,118**	**12,953**	**18,728**	**68,791**	**7,477**	**7,040**	**7,479**	**277,416**

** D Idoru was appointed to the Board on 26 May 2016.*

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party to, under which directors acquired benefits by means of acquisition of the Company’s shares.

Share awards

The Group’s employees participate in a number of share based payment schemes (equity-settled and cash-settled) 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.

Directors' Remuneration Report (Continued)

In addition, employees have the choice of opening a three-year or five-year savings contract under the All Employee Share Save plan. 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 the All Employee Share Save plan.

The Management Long Term Incentive Plan (MLTIP) awards are granted with vesting subject to performance measures.

Deferred share awards are used to deliver the deferred portion of variable remuneration, in line with both market practice and the Standard Chartered Group's regulatory requirements. These awards vest in instalments on anniversaries of the award date specified at the time of the grant.

MLTIP and deferred share awards are delivered through the Standard Chartered PLC Share Plan (2011 plan) which replaced the 2006 Restricted Share Scheme.

Finally, although the Restricted Share Scheme has now closed, there are outstanding shares still to vest. Within the 2011 plan, the grants made are differentiated to indicate the year it was made and also the type of share.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Further details are provided in Note 10.

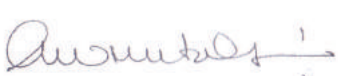
The following details are with respect to the outstanding share awards:

	As at 1 January 2017	Awarded	Exercised	Lapsed	As at 31 December 2017	Performance period end	Vesting date
L. Manjang							
2011 Deferred Restricted Share Award	2,895	7,895	1,786	–	9,004	–	13 March 2018 to 13 March 2020
2011 Performance Share Award	7,639	–	–	7,639	–	–	–
Management Long Term Incentive Plan	41,341	–	–	–	41,341	11 March 2019	11 March 2019 to 11 March 2023
T. Singh							
2006 Deferred Shares	1,661	–	1,661	–	–	–	–
2011 Deferred Restricted Share Award	13,133	4,162	1,837	–	15,458	–	13 March 2013 to 13 March 2020
2011 Performance Share Award	1,018	–	–	1,018	–	–	–
C. Murgor							
2011 Deferred Restricted Share Award	309	–	–	–	309	–	13 March 2015 to 13 March 2017
2013 Share Save Plan	2,496	–	–	798	1,698	–	1 December 2019
D. Idoru							
2011 Deferred Restricted Share Award	–	910	–	–	910	–	13 March 2018 to 13 March 2020

Approval of the directors' remuneration report

The directors confirm that this report has been prepared in accordance with the Kenyan Companies Act, 2015, Capital Markets Authority (CMA) Code and listing rules and reflects the disclosure requirements under the IFRSs.

BY ORDER OF THE BOARD



A. Mutahi
Director

22 March 2018

Statement of Directors' Responsibilities

The directors are responsible for the preparation and presentation of the financial statements of Standard Chartered Bank Kenya Limited set out on pages 52 to 150. These comprise the Consolidated and Company statements of financial position as at 31 December 2017, the Consolidated and Company income statements and statements of other comprehensive income as well as statements of changes in equity and the Consolidated and Company statements 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 Notes 2 and 3 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 and Company for that year. The Act also requires the directors to ensure the Group and Company 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 position of the Group and Company and of its profit or loss.

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 going concerns and have no reason to believe the Group and Company will not be going concerns 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 and authorised for issue by the Board of Directors on 22 March 2018.

Director: A. Mutahi

Director: L. Manjang

Director: C. Murgor

22 March 2018

To the Members of Standard Chartered Bank Kenya Limited

Report on the Audit of the Financial Statements

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Standard Chartered Bank Kenya Limited set out on pages 52 to 150 which comprise the Consolidated and Company statements of financial position as at 31 December 2017, the Consolidated and Company income statements and statements of other comprehensive income, the Consolidated and Company statements of changes in equity and the Consolidated and Company statements 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 separate financial position of Standard Chartered Bank Kenya Limited as at 31 December 2017, and of its Consolidated and Company 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 Auditors' Responsibilities for the Audit of the 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 financial statements in Kenya and, we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unqualified 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 and Company 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 – Financial assets and Liabilities and disclosure in Note 19 – Loans and advances to customers

The key audit matter	How the matter was addressed
The Group and Company's loans and advances are carried at amortised cost in the Consolidated and Company 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 Company's exposure to credit risk.

To the Members of Standard Chartered Bank Kenya Limited

Report on the Audit of the Financial Statements (Continued)

Key audit matters (Continued)

Assessment of the impairment of goodwill

See accounting policy and disclosure on Note 27 – Goodwill and 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 are 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 and Company to assess how results are monitored and reported. – Comparing the cash flow forecasts to those approved by the Board. We also evaluated the forecasting process undertaken by the Group and Company 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 and Company's valuation methodologies, discount rates and growth rates. This included comparing the Group and Company'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 Note 3 – Financial assets and liabilities

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 Group and Company. – 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 disclosure Note 33 (ii) – Legal and regulatory matters

The key audit matter	How the matter was addressed
The Group and Company are subject to claims, which could have an impact on the Group and Company'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 and Company'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 Group and Company's external counsel for significant litigation matters to ensure completeness of provisioning and disclosure and also analysing correspondence with regulators. – Assessing whether the Group and Company's disclosures detailing significant legal proceedings adequately disclose the potential liabilities of the Group and Company.

To the Members of Standard Chartered Bank Kenya Limited
Report on the Audit of the Financial Statements (Continued)

Key audit matters (Continued)

Information Technology (IT) systems and controls	
The key audit matter	**How the matter was addressed**
The Group and Company's financial accounting and reporting processes are highly dependent on the automated controls over the Group and Company's information systems such that there exists a risk that gaps in the IT control environment could result in the financial accounting and reporting records being materially misstated. Our audit effort focused on key systems used by the Group and Company.	Our audit procedures in this area included: – General IT controls: we tested the governance and other higher controls operating over the information technology environment across the company, including system access and system change management, program development and computer operations. – We considered the appropriateness of the access rights granted to applications relevant to financial accounting and reporting systems and the operating effectiveness of controls over granting, removal and appropriateness of access rights. – Application controls: we tested the design and operating effectiveness of automated controls critical to financial reporting. For any identified deficiencies, tested the design and effectiveness of compensating controls and, where necessary, extended the scope of our substantive audit procedures.

Other information
The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, but does not include the consolidated and separate financial statements and our auditors' report there on.

Our opinion on the consolidated and separate 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 and separate 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 and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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 financial statements
As stated on page 47, the directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, 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 and/or the Company or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Group's and Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated and separate financial statements.

To the Members of Standard Chartered Bank Kenya Limited
Report on the Audit of the Financial Statements (Continued)

Auditors' responsibilities for the audit of the financial statements (Continued)

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

- identify and assess the risks of material misstatement of the consolidated and separate 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's 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 auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Group and Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group and Company audits. 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 financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditors' 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) the information given in the report of the directors on pages 32 to 33 is consistent with the financial statements;

(ii) the auditable part of the directors' remuneration report on pages 43 to 46 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and

(iii) our opinion is unqualified.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is FCPA Eric Aholi - P/1471.

KPMG Kenya

22 March 2018

Income Statement
For the year ended 31 December 2017

	Note	2017 Group KShs '000	2017 Company KShs '000	2016 Group KShs '000	2016 Company KShs '000
Interest income	6	25,961,513	25,909,711	25,570,542	25,554,294
Interest expense	6	(8,005,162)	(8,033,726)	(6,647,746)	(6,676,259)
Net interest income	6	17,956,351	17,875,985	18,922,796	18,878,035
Fee and commission income	7	5,107,409	4,368,181	5,034,152	4,404,993
Fee and commission expense	7	(592,715)	(592,715)	(499,868)	(499,868)
Net fee and commission income	7	4,514,694	3,775,466	4,534,284	3,905,125
Net trading income	8	4,011,928	4,011,928	3,829,230	3,829,230
Other operating income	9	143,353	143,467	109,042	109,074
OPERATING INCOME		26,626,326	25,806,846	27,395,352	26,721,464
Staff costs	10	(7,017,876)	(6,842,959)	(7,179,560)	(7,084,296)
Premises and equipment costs	10	(934,641)	(910,259)	(974,178)	(948,762)
General administrative expenses		(3,950,011)	(3,891,139)	(3,168,925)	(3,139,410)
Depreciation and amortisation	10	(881,991)	(881,991)	(906,312)	(906,312)
OPERATING EXPENSES		(12,784,519)	(12,526,348)	(12,228,975)	(12,078,780)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		13,841,807	13,280,498	15,166,377	14,642,684
Net impairment losses on loans and advances	19 (b)	(3,770,514)	(3,770,514)	(1,878,258)	(1,878,258)
PROFIT BEFORE TAXATION	11	10,071,293	9,509,984	13,288,119	12,764,426
INCOME TAX EXPENSE	12	(3,157,195)	(2,987,331)	(4,238,812)	(4,077,698)
NET PROFIT FOR THE YEAR		6,914,098	6,522,653	9,049,307	8,686,728
BASIC AND DILUTED EARNINGS PER SHARE – (KShs)	13	19.64	18.50	25.85	24.80

The notes set out on pages 60 to 150 form an integral part of these financial statements.

Statement of Other Comprehensive Income

For the year ended 31 December 2017

	Note	2017 Group KShs '000	2017 Company KShs '000	2016 Group KShs '000	2016 Company KShs '000
Net profit for the year		**6,914,098**	**6,522,653**	9,049,307	8,686,728
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Actuarial losses on retirement benefit obligation	35	**(63,838)**	**(63,838)**	(76,901)	(76,901)
Deferred tax on actuarial gains on retirement benefit obligation	29	**19,151**	**19,151**	23,070	23,070
Revaluation surplus		**488,605**	**488,605**	–	–
Deferred tax on revaluation surplus		**(155,581)**	**(155,581)**	–	–
		288,337	**288,337**	(53,831)	(53,831)
Items that may subsequently be reclassified to profit or loss:					
Change in fair value of available-for-sale investments	20	**517,431**	**531,444**	638,233	639,422
Deferred tax on change in fair value of available-for-sale investments	29	**(155,229)**	**(159,433)**	(191,470)	(191,827)
		362,202	**372,011**	446,763	447,595
Total other comprehensive income for the year		**650,539**	**660,348**	392,932	393,764
Total comprehensive income for the year		**7,564,637**	**7,183,001**	9,442,239	9,080,492

The notes set out on pages 60 to 150 form an integral part of these financial statements.

Statement of Financial Position

At 31 December 2017

	Note	2017 Group KShs '000	2017 Company KShs '000	2016 Group KShs '000	2016 Company KShs '000
ASSETS					
Cash and balances with Central Bank of Kenya	15	13,341,592	13,341,592	15,513,554	15,513,554
Government and other securities held for trading	16	7,046,674	7,046,674	4,780,246	4,780,246
Derivative financial instruments	17	597,360	597,360	554,026	554,026
Loans and advances to banks	18	5,325,864	5,325,864	1,566,035	1,566,035
Loans and advances to customers	19(a)	126,294,470	126,294,470	122,711,038	122,711,038
Investment securities	20	103,495,083	102,846,471	82,218,712	82,075,385
Tax recoverable	12	1,389,789	1,350,060	7,168	-
Other assets	21	5,418,717	5,402,602	3,228,954	3,170,588
Amounts due from group companies	22	16,121,687	16,090,088	14,151,412	14,011,495
Investment in subsidiaries	23	–	141,243	–	141,243
Non-current asset held for sale	25	–	–	47,360	47,360
Property and equipment	26	3,351,240	3,351,240	2,938,391	2,938,391
Intangible assets	27	2,220,661	2,220,661	2,457,419	2,457,419
Prepaid operating lease rentals	28	240,557	240,557	243,980	243,980
Deferred tax asset	29	880,747	875,656	63,705	63,348
TOTAL ASSETS		285,724,441	285,124,538	250,482,000	250,274,108
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposits from banks	30	12,701,356	12,701,356	3,046,415	3,046,415
Deposits from customers	31	213,349,290	213,349,290	186,598,226	186,598,226
Derivative financial instruments	17	491,613	491,613	252,921	252,921
Tax payable	12	25,721	–	1,128,697	1,046,259
Other liabilities	32	4,879,100	4,856,755	4,592,017	4,580,576
Amounts due to group companies	22	8,448,453	8,448,453	10,174,520	10,174,520
Amount due to subsidiaries	22	–	528,848	-	585,036
Retirement benefit obligation	35	164,371	164,371	85,376	85,376
Total liabilities		240,059,904	240,540,686	205,878,172	206,369,329
Shareholders' equity (Pages 55 - 58)					
Share capital	36a	1,997,553	1,997,553	1,997,553	1,997,553
Share premium	36b	7,792,427	7,792,427	7,792,427	7,792,427
Capital contribution reserve	36c	1,888,862	1,888,862	1,870,305	1,870,305
Revaluation reserve	36d	751,347	751,347	457,041	457,041
Fair value reserve	36e	636,134	646,775	273,932	274,764
Statutory credit risk reserve	36f	216,289	216,289	568,868	568,868
Retained earnings		28,003,352	26,912,026	26,750,324	26,050,443
Dividends	14	4,378,573	4,378,573	4,893,378	4,893,378
Total shareholders' equity		45,664,537	44,583,852	44,603,828	43,904,779
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		285,724,441	285,124,538	250,482,000	250,274,108

The financial statements set out on pages 52 to 150 were approved and authorised for issue by the Board of Directors on 22 March 2018.

Director A. Mutahi

Director C. Murgor

Director L. Manjang

The notes set out on pages 60 to 150 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

2017	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 2017		1,997,553	7,792,427	1,870,305	457,041	273,932	568,868	26,750,324	4,893,378	44,603,828
Net profit for the year		–	–	–	–	–	–	6,914,098	–	6,914,098
Other comprehensive inome										
Re-measurement of retirement benefit obligation	35	–	–	–	–	–	–	(63,838)	–	(63,838)
Deferred tax on re-measurement of retirement benefit obligation	29	–	–	–	–	–	–	19,151	–	19,151
Change in fair value of available-for-sale investments		–	–	–	–	517,431	–	–	–	517,431
Deferred tax on change in fair value of available-for-sale investments		–	–	–	–	(155,229)	–	–	–	(155,229)
Realised revaluation reserves on sale of property		–	–	–	(46,644)	–	–	46,644	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	13,993	–	–	(13,993)	–	–
Revaluation surplus		–	–	–	488,605	–	–	–	–	488,605
Deferred tax on revaluation surplus		–	–	–	(155,581)	–	–	–	–	(155,581)
Excess depreciation transfer		–	–	–	(8,667)	–	–	8,667	–	–
Deferred tax on excess depreciation transfer		–	–	–	2,600	–	–	(2,600)	–	–
Transfer from statutory credit risk reserve		–	–	–	–	–	(352,579)	352,579	–	–
Total other comprehensive income		**–**	**–**	**–**	**294,306**	**362,202**	**(352,579)**	**346,610**	**–**	**650,539**
Total comprehensive income for the year		**–**	**–**	**–**	**294,306**	**362,202**	**(352,579)**	**7,260,708**	**–**	**7,564,637**
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2016 paid		–	–	(46,632)	–	–	–	–	–	(46,632)
– 2017 accrual		–	–	65,189	–	–	–	–	–	65,189
Dividends paid:										
– Ordinary shares – Final 2016		–	–	–	–	–	–	–	(4,809,148)	(4,809,148)
– Preference shares – Final 2016		–	–	–	–	–	–	–	(84,230)	(84,230)
– Ordinary shares – Interim 2017		–	–	–	–	–	–	(1,545,797)	–	(1,545,797)
– Preference shares – Interim 2017		–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed dividends:										
– Ordinary shares	14	–	–	–	–	–	–	(4,293,883)	4,293,883	–
– Preference shares	14	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners		**–**	**–**	**18,557**	**–**	**–**	**–**	**(6,007,680)**	**(514,805)**	**(6,503,928)**
At 31 December 2017		**1,997,553**	**7,792,427**	**1,888,862**	**751,347**	**636,134**	**216,289**	**28,003,352**	**4,378,573**	**45,664,537**

The notes set out on pages 60 to 150 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

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 obligation	35	–	–	–	–	–	–	(76,901)	–	(76,901)
Deferred tax on re-measurement of retirement benefit obligation	29	–	–	–	–	–	–	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	14	–	–	–	–	–	–	(4,809,148)	4,809,148	–
– Preference shares	14	–	–	–	–	–	–	(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 60 to 150 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2017

2017	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 2017		1,997,553	7,792,427	1,870,305	457,041	274,764	568,868	26,050,443	4,893,378	43,904,779
Net profit for the year		–	–	–	–	–	–	6,522,653	–	6,522,653
Other comprehensive inome										
Re-measurement of retirement benefit obligation	35	–	–	–	–	–	–	(63,838)	–	(63,838)
Deferred tax on re-measurement of retirement benefit obligation	29	–	–	–	–	–	–	19,151	–	19,151
Change in fair value of available-for-sale investments		–	–	–	–	531,444	–	–	–	531,444
Deferred tax on change in fair value of available-for-sale investments		–	–	–	–	(159,433)	–	–	–	(159,433)
Realised revaluation reserves on sale of property		–	–	–	(46,644)	–	–	46,644	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	13,993	–	–	(13,993)	–	–
Revaluation surplus		–	–	–	488,605	–	–	–	–	488,605
Deferred tax on revaluation surplus		–	–	–	(155,581)	–	–	–	–	(155,581)
Excess depreciation transfer		–	–	–	(8,667)	–	–	8,667	–	–
Deferred tax on excess depreciation transfer		–	–	–	2,600	–	–	(2,600)	–	–
Transfer from statutory credit risk reserve		–	–	–	–	–	(352,579)	352,579	–	–
Total other comprehensive income		**–**	**–**	**–**	**294,306**	**372,011**	**(352,579)**	**346,610**	**–**	**660,348**
Total comprehensive income for the year		**–**	**–**	**–**	**294,306**	**372,011**	**(352,579)**	**6,869,263**	**–**	**7,183,001**
Transactions with owners, recorded directly in equity										
Share based payments:										
– 2016 paid		–	–	(46,632)	–	–	–	–	–	(46,632)
– 2017 accrual		–	–	65,189	–	–	–	–	–	65,189
Dividends paid:										
– Ordinary shares – Final 2016		–	–	–	–	–	–	–	(4,809,148)	(4,809,148)
– Preference shares – Final 2016		–	–	–	–	–	–	–	(84,230)	(84,230)
– Ordinary shares – Interim 2017		–	–	–	–	–	–	(1,545,797)	–	(1,545,797)
– Preference shares – Interim 2017		–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed dividends:										
– Ordinary shares	14	–	–	–	–	–	–	(4,293,883)	4,293,883	–
– Preference shares	14	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners		**–**	**–**	**18,557**	**–**	**–**	**–**	**(6,007,680)**	**(514,805)**	**(6,503,928)**
At 31 December 2017		**1,997,553**	**7,792,427**	**1,888,862**	**751,347**	**646,775**	**216,289**	**26,912,026**	**4,378,573**	**44,583,852**

The notes set out on pages 60 to 150 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2017

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 obligation	35	–	–	–	–	–	–	(76,901)	–	(76,901)
Deferred tax on re-measurement of retirement benefit obligation	29	–	–	–	–	–	–	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	14	–	–	–	–	–	–	(4,809,148)	4,809,148	–
– Preference shares	14	–	–	–	–	–	–	(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 60 to 150 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 Group KShs '000	2017 Company KShs '000	2016 Group KShs '000	2016 Company KShs '000
Net cash used in operating activities	37(a)	**(2,251,947)**	**(2,143,629)**	**(5,201,267)**	**(5,374,722)**
Cash flows from investing activities					
Purchase of property and equipment	26	(380,468)	(380,468)	(261,997)	(261,997)
Proceeds from sale of non-current asset held for sale		231,851	231,851	181,323	181,323
Proceeds from sale of motor vehicle		–	–	4,333	4,333
Purchase of intangible assets	27	(221,839)	(221,839)	(13,075)	(13,075)
Net cash used in investing activities		**(370,456)**	**(370,456)**	**(89,416)**	**(89,416)**
Cash flows from financing activities					
Share based payments:					
– 2016/2015 settled		(46,632)	(46,632)	(42,811)	(42,811)
– 2017/2016 allocated during the year		65,189	65,189	46,632	46,632
Dividends paid on ordinary shares:					
– Final 2016/2015	14	(4,809,148)	(4,809,148)	(3,864,494)	(3,864,494)
– Interim 2015	14	–	–	(1,391,217)	(1,391,217)
– Interim 2017/2016	14	(1,545,797)	(1,545,797)	(2,061,063)	(2,061,063)
Dividends paid on preference shares:					
– Final 2016/2015	14	(84,230)	(84,230)	(84,690)	(84,690)
– Interim 2015	14	–	–	(83,310)	(83,310)
– Interim 2017/2016	14	(83,310)	(83,310)	(83,770)	(83,770)
Net cash used in financing activities		**(6,503,928)**	**(6,503,928)**	**(7,564,723)**	**(7,564,723)**
Decrease in cash and cash equivalents		(9,126,331)	(9,018,013)	(12,855,406)	(13,028,861)
Cash and cash equivalents at 1 January		16,641,836	16,501,919	29,497,242	29,530,780
Cash and cash equivalents at 31 December	37(b)	**7,515,505**	**7,483,906**	**16,641,836**	**16,501,919**

The notes set out on pages 60 to 150 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

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Notes to the Financial Statements
For the year ended 31 December 2017

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.

2. ACCOUNTING POLICIES

The accounting policies used by the Group and Company are detailed in the relevant note to the financial statements, except those set out below. All have been applied consistently across the Group and to all the years presented in these financial statements.

(a) Statement of compliance

The Group financial statements consolidate Standard Chartered Bank Kenya Limited (the Company) and its subsidiaries (together referred to as the Group).

The Group and Company financial statements have been prepared and approved by the directors 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 Group and Company financial statements set out on pages 52 to 150 have been prepared under the historical cost convention, as modified by the revaluation of the following items:

- 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 obligation 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) Significant accounting 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.

Further information about key assumptions concerning the future, and other key sources of estimation uncertainty are set out in the relevant disclosure notes for the following areas:

- Loan loss provisioning (Note 3)
- Fair value and impairment of financial instruments (Note 3)
- Taxation (Note 12)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

2. ACCOUNTING POLICIES (Continued)

(c) Significant accounting estimates and judgments (Continued)

- Goodwill impairment (Note 27)
- Retirement benefit obligation (Note 35)

(d) Functional and presentation currency

Items included in the Group financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency of that entity). Both the Group and Company financial statements are presented in Kenya shillings (KShs), which is the functional and presentation currency of the Group. Except as otherwise indicated, financial information presented in KShs has been rounded to the nearest thousand.

(e) Transactions and balances in foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Non-monetary assets and liabilities are translated at historical cost, or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the income statement or shareholders' equity depending on the treatment of the gain or loss on the asset or liability.

(f) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year

The Group has adopted the following new standards and amendments during the year ended 31 December 2017, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2017. The nature and effects of the changes are as explained here in.

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.

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; and
- 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.

2. ACCOUNTING POLICIES (Continued)

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

(i) New standards, amendments and interpretations effective and adopted during the year (Continued)

Various other standards

Standard	Amendments
IAS 19 Employee Benefits	**Discount rate: regional market issue** Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).
IAS 34 Interim Financial Reporting	**Disclosure of information 'elsewhere in the interim financial report'** Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 and early adoption was permitted.

The adoption of these changes did not have an impact on the Group's financial statements.

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements.

The Group does not plan to adopt these standards early.

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
IFRS 9 Financial Instruments (2014)	IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement; introducing new requirements for the classification and measurement of financial instruments; the recognition and measurement of credit impairment provisions; and providing for a simplified approach to hedge accounting. The Group has elected to continue hedge accounting in line with the IAS 39 requirements and has not therefore applied the IFRS 9 hedging requirements. The changes in measurement arising on initial application of IFRS 9 will be incorporated through an adjustment to the opening reserves and retained earnings position as at 1 January 2018. Although IFRS 9 will be retrospectively applied, the Group is only permitted to restate comparatives if, and only if, it is possible without the use of hindsight. Detailed transition disclosures setting out the impact of initial adoption of IFRS 9 will be provided in the Group's 2018 financial statements in addition to the disclosure requirements set out in IFRS 7. A summary of the Group's approach to determining impairment provisions under IFRS 9 is set out in note 42.	The initial adoption of the Expected Credit Loss approach is expected to impact retained earnings by about KShs 2,538 million before tax. Out of this amount, KShs 1,975 million relates to loans and advances to customers and KShs 563 million to debt securities. This adjustment is expected to reduce the Company's core capital to risk weighted assets ratio by about 96 basis points.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

2. ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

IFRS 9 Financial instruments (2014) – (Continued)

The estimated impact of the re-measurement and re-classifications, and the impact of the changes to the recognition and measurement of credit impairment loss allowances, net of the related tax impacts, is set out by category of reserve in the table below.

Group	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
As at 31 December 2017	1,997,553	7,792,427	1,888,862	751,347	636,134	216,289	28,003,352	4,378,573	**45,664,537**
Net impact of:									
Transfer from statutory credit risk reserve	–	–	–	–	–	(216,289)	216,289	–	**–**
IFRS 9 Re-classifications	–	–	–	–	–	–	–	–	**–**
IFRS 9 Re-measurements	–	–	–	–	–	–	–	–	**–**
Expected credit loss, net	–	–	–	–	–	–	(2,538,299)	–	**(2,538,299)**
Tax Impact	–	–	–	–	–	–	761,490	–	**761,490**
Total estimated IFRS 9 transition adjustments	–	–	–	–	–	(216,289)	(1,560,520)	–	**(1,776,809)**
As at 1 January 2018	**1,997,553**	**7,792,427**	**1,888,862**	**751,347**	**636,134**	**–**	**26,442,832**	**4,378,573**	**43,887,728**

2. ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
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.
Amendments to IFRS 2	The International Accounting Standard Board (IASB) has added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as that used for equity-settled share-based payments. The amendments are effective for annual periods beginning on or after 1 January 2018.	The Group is yet to assess amendments to IFRS 2's full impact on the financial statements.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

2. ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
IFRS 15 Revenue from Contracts with Customers	This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation. IFRS 15 is effective from 1 January 2018.	IFRS 15 will not have a material impact on the Group's consolidated financial statements and there will not be an adjustment to retained earnings in respect of adoption.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

3. FINANCIAL ASSETS AND LIABILITIES

Accounting policy

Classification and measurement

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 re-classification.

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.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy (Continued)

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.

Initial recognition of financial instruments

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.

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.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy (Continued)

Fair value of financial instruments (Continued)

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 the income statement depending on the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation techniques is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the statement of financial position.

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

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.

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;

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy (Continued)

Identification and measurement of impairment of financial assets (Continued)

- 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 the income statement 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 the income statement.

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 the income statement. 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 the income statement.

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.

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy (Continued)

Re-classifications of financial assets and financial liabilities

Re-classifications 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 re-classification 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 re-classified 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 re-classified at their fair value on the date of re-classification. For financial assets re-classified 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 re-classification is amortised to the income statement over the remaining life of the financial asset, using the effective interest method.

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.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy (Continued)

Derecognition (Continued)

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

Significant accounting estimates and judgments

(i) Loan loss provisioning

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.

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.

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.

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy (Continued)

(i) Loan loss provisioning (Continued)

Corporate & Institutional Banking and Commercial Banking segments (Continued)

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.

(ii) 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 financial instruments are carried at fair value, with changes in fair value either reported within the income statement or within other comprehensive income until the instrument is sold or becomes impaired.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active, including for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data. The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters.

Equity investments that do not have observable market prices are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) Accounting classification

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

Group 31 December 2017 Assets	Note	Fair value through profit or loss KShs '000	Loans and receivables KShs '000	Available-for-sale KShs '000	Financial liabilities at amortised cost KShs '000	Total carrying amount KShs '000
Cash and balances with Central Bank of Kenya	15	–	13,341,592	–	–	**13,341,592**
Government and other securities held for trading	16	7,046,674	–	–	–	**7,046,674**
Derivative financial instruments	17	597,360	–	–	–	**597,360**
Loans and advances to banks	18	–	5,325,864	–	–	**5,325,864**
Loans and advances to customers	19(a)	–	126,294,470	–	–	**126,294,470**
Investment securities	20	–	–	103,495,083	–	**103,495,083**
Other assets – uncleared effects	21	–	679,811	–	–	**679,811**
Amounts due from group companies	22	–	16,121,687	–	–	**16,121,687**
Total assets		**7,644,034**	**161,763,424**	**103,495,083**	**–**	**272,902,541**
Liabilities						
Deposits from banks	30	–	–	–	12,701,356	**12,701,356**
Deposits from customers	31	–	–	–	213,349,290	**213,349,290**
Derivative financial instruments	17	491,613	–	–	-	**491,613**
Other liabilities – bills payable	32	–	–	–	850,337	**850,337**
Amounts due to group companies	22	–	–	–	8,448,453	**8,448,453**
Total liabilities		**491,613**	**–**	**–**	**235,349,436**	**235,841,049**
31 December 2016						
Assets						
Cash and balances with Central Bank of Kenya	15	–	15,513,554	–	–	**15,513,554**
Government and other securities held for trading	16	4,780,246	–	–	–	**4,780,246**
Derivative financial instruments	17	554,026	–	–	–	**554,026**
Loans and advances to banks	18	–	1,566,035	–	–	**1,566,035**
Loans and advances to customers	19(a)	–	122,711,038	–	–	**122,711,038**
Investment securities	20	–	–	82,218,712	–	**82,218,712**
Other assets – uncleared effects	21	–	616,253	–	–	**616,253**
Amounts due from group companies	22	–	14,151,412	–	–	**14,151,412**
Total assets		**5,334,272**	**154,558,292**	**82,218,712**	**–**	**242,111,276**
Liabilities						
Deposits from banks	30	–	–	–	3,046,415	**3,046,415**
Deposits from customers	31	–	–	–	186,598,226	**186,598,226**
Derivative financial instruments	17	252,921	–	–	–	**252,921**
Other liabilities – bills payable	32	–	–	–	770,120	**770,120**
Amounts due to group companies	22	–	–	–	10,174,520	**10,174,520**
Total liabilities		**252,921**	**–**	**–**	**200,589,281**	**200,842,202**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) Accounting classification (Continued)

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

Company 31 December 2017 Assets	Note	Fair value through profit or loss KShs '000	Loans and receivables KShs '000	Available-for-sale KShs '000	Financial liabilities at amortised cost KShs '000	Total carrying amount KShs '000
Cash and balances with Central Bank of Kenya	15	–	13,341,592	–	–	**13,341,592**
Government and other securities held for trading	16	7,046,674	–	–	–	**7,046,674**
Derivative financial instruments	17	597,360	–	–	–	**597,360**
Loans and advances to banks	18	–	5,325,864	–	–	**5,325,864**
Loans and advances to customers	19(a)	–	126,294,470	–	–	**126,294,470**
Investment securities	20	–	–	102,846,471	–	**102,846,471**
Other assets – uncleared effects	21	–	679,811	–	–	**679,811**
Amounts due from group companies	22	–	16,090,088	–	–	**16,090,088**
Total assets		**7,644,034**	**161,731,825**	**102,846,471**	**–**	**272,222,330**
Liabilities						
Deposits from banks	30	–	–	–	12,701,356	**12,701,356**
Deposits from customers	31	–	–	–	213,349,290	**213,349,290**
Derivative financial instruments	17	491,613	–	–	–	**491,613**
Other liabilities – bills payable	32	–	–	–	850,337	**850,337**
Amounts due to group companies	22	–	–	–	8,448,453	**8,448,453**
Total liabilities		**491,613**	**–**	**–**	**235,349,436**	**235,841,049**
31 December 2016						
Assets						
Cash and balances with Central Bank of Kenya	15	–	15,513,554	–	–	**15,513,554**
Government and other securities held for trading	16	4,780,246	–	–	–	**4,780,246**
Derivative financial instruments	17	554,026	–	–	–	**554,026**
Loans and advances to banks	18	–	1,566,035	–	–	**1,566,035**
Loans and advances to customers	19(a)	–	122,711,038	–	–	**122,711,038**
Investment securities	20	–	–	82,075,385	–	**82,075,385**
Other assets – uncleared effects	21	–	616,253	–	–	**616,253**
Amounts due from group companies	22	–	14,011,495	–	–	**14,011,495**
Total assets		**5,334,272**	**154,418,375**	**82,075,385**	**–**	**241,828,032**
Liabilities						
Deposits from banks	30	–	–	–	3,046,415	**3,046,415**
Deposits from customers	31	–	–	–	186,598,226	**186,598,226**
Derivative financial instruments	17	252,921	–	–	-	**252,921**
Other liabilities – bills payable	32	–	–	–	770,120	**770,120**
Amounts due to group companies	22	–	–	–	10,174,520	**10,174,520**
Total liabilities		**252,921**	**–**	**–**	**200,589,281**	**200,842,202**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

3. 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 2017 and 2016:

Group

31 December 2017 Assets	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Government and other securities held for trading	16	–	7,046,674	–	**7,046,674**
Derivative financial instruments	17	–	597,360	–	**597,360**
Investment securities	20	–	103,495,083	–	**103,495,083**
Total assets		**–**	**111,139,117**	**–**	**111,139,117**
Derivative financial instruments	17	–	491,613	–	**491,613**
Total liabilities		**–**	**491,613**	**–**	**491,613**
31 December 2016 **Assets**					
Government and other securities held for trading	16	–	4,780,246	–	**4,780,246**
Derivative financial instruments	17	–	554,026	–	**554,026**
Investment securities	20	–	82,218,712	–	**82,218,712**
Total assets		**–**	**87,552,984**	**–**	**87,552,984**
Derivative financial instruments	17	–	252,921	–	**252,921**
Total liabilities		**–**	**252,921**	**–**	**252,921**

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy (Continued)

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

Company

31 December 2017 Assets	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Government and other securities held for trading	16	–	7,046,674	–	**7,046,674**
Derivative financial instruments	17	–	597,360	–	**597,360**
Investment securities	20	–	102,846,471	–	**102,846,471**
Total assets		**–**	**110,490,505**	**–**	**110,490,505**
Derivative financial instruments	17	–	491,613	–	**491,613**
Total liabilities		**–**	**491,613**	**–**	**491,613**
31 December 2016					
Assets					
Government and other securities held for trading	16	–	4,780,246	–	**4,780,246**
Derivative financial instruments	17	–	554,026	–	**554,026**
Investment securities	20	–	82,075,385	–	**82,075,385**
Total assets		**–**	**87,409,657**	**–**	**87,409,657**
Derivative financial instruments	17	–	252,921	–	**252,921**
Total liabilities		**–**	**252,921**	**–**	**252,921**

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.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy (Continued)

(ii) Financial instruments measured at amortised cost

The valuation hierarchy, and the main types of instruments classified into each level within the hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)
Types of financial assets:	Actively traded corporate or other debt	Cash and balances at central banks Loans to banks and other financial institutions	Loans and advances to customers Illiquid or highly structured corporate bonds Illiquid loans and advances
Types of financial liabilities:	Quoted debt securities in issue Quoted subordinated liabilities	Unquoted debt securities in issue Unquoted subordinated liabilities Time deposits by customers Deposits by banks	Illiquid or highly structured debt securities in issue

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy (Continued)

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

The table below summarises the carrying amounts and incorporates the Group and Company's estimate of fair values of those financial assets and liabilities not presented on the Group and Company's balance sheet at fair value at 31 December 2017 and 2016:

Group 31 December 2017 Assets	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair values KShs '000	Total carrying amount KShs '000
Cash and balances with Central Bank of Kenya	15	–	13,341,592	–	13,341,592	**13,341,592**
Loans and advances to banks	18	–	5,325,864	–	5,325,864	**5,325,864**
Loans and advances to customers	19(a)	–	–	126,294,470	126,294,470	**126,294,470**
Other assets – uncleared effects	21	–	–	679,811	679,811	**679,811**
Amounts due from group companies	22	–	–	16,121,687	16,121,687	**16,121,687**
Total assets		**–**	**18,667,456**	**143,095,968**	**161,763,424**	**161,763,424**
Liabilities						
Deposits from banks	30	–	12,701,356	–	12,701,356	**12,701,356**
Deposits from customers	31	–	43,387,977	169,961,313	213,349,290	**213,349,290**
Other liabilities – bills payable	32	–	–	850,337	850,337	**850,337**
Amounts due to group companies	22	–	6,198,000	2,250,453	8,448,453	**8,448,453**
Total liabilities		**–**	**62,287,333**	**173,062,103**	**235,349,436**	**235,349,436**
31 December 2016						
Assets						
Cash and balances with Central Bank of Kenya	15	–	15,513,554	–	15,513,554	**15,513,554**
Loans and advances to banks	18	–	1,566,035	–	1,566,035	**1,566,035**
Loans and advances to customers	19(a)	–	–	122,711,038	122,711,038	**122,711,038**
Other assets – uncleared effects	21	–	–	616,253	616,253	**616,253**
Amounts due from group companies	22	–	–	14,151,412	14,151,412	**14,151,412**
Total assets		**–**	**17,079,589**	**137,478,703**	**154,558,292**	**154,558,292**
Liabilities						
Deposits from banks	30	–	3,046,415	–	3,046,415	**3,046,415**
Deposits from customers	31	–	39,214,904	147,383,322	186,598,226	**186,598,226**
Other liabilities – bills payable	32	–	–	770,120	770,120	**770,120**
Amounts due to group companies	22	–	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**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy (Continued)

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

Company

31 December 2017 Assets	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair values KShs '000	Total carrying amount KShs '000
Cash and balances with Central Bank of Kenya	15	–	13,341,592	–	13,341,592	**13,341,592**
Loans and advances to banks	18	–	5,325,864	–	5,325,864	**5,325,864**
Loans and advances to customers	19(a)	–	–	126,294,470	126,294,470	**126,294,470**
Other assets – uncleared effects	21	–	–	679,811	679,811	**679,811**
Amounts due from group companies	22	–	–	16,090,088	16,090,088	**16,090,088**
Total assets		**–**	**18,667,456**	**143,064,369**	**161,731,825**	**161,731,825**
Liabilities						
Deposits from banks	30	–	12,701,356	–	12,701,356	**12,701,356**
Deposits from customers	31	–	43,387,977	169,961,313	213,349,290	**213,349,290**
Other liabilities – bills payable	32	–	–	850,337	850,337	**850,337**
Amounts due to group companies	22	–	6,198,000	2,250,453	8,448,453	**8,448,453**
Total liabilities		**–**	**62,287,333**	**173,062,103**	**235,349,436**	**235,349,436**
31 December 2016						
Assets						
Cash and balances with Central Bank of Kenya	15	–	15,513,554	–	15,513,554	**15,513,554**
Loans and advances to banks	18	–	1,566,035	–	1,566,035	**1,566,035**
Loans and advances to customers	19(a)	–	–	122,711,038	122,711,038	**122,711,038**
Other assets – uncleared effects	21	–	–	616,253	616,253	**616,253**
Amounts due from group companies	22	–	–	14,011,495	14,011,495	**14,011,495**
Total assets		**–**	**17,079,589**	**137,338,786**	**154,418,375**	**154,418,375**
Liabilities						
Deposits from banks	30	–	3,046,415	–	3,046,415	**3,046,415**
Deposits from customers	31	–	39,214,904	147,383,322	186,598,226	**186,598,226**
Other liabilities – bills payable	32	–	–	770,120	770,120	**770,120**
Amounts due to group companies	22	–	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**

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy (Continued)

(ii) Financial instruments measured at amortised cost (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 17 and 3 respectively.

Cash and balances with Central Bank of Kenya

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

Loans and advances to banks

The fair value of floating rate placements and overnight deposits approximates their carrying amounts due to their short term nature. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances re-price within 12 months and hence the fair value approximates their carrying amounts.

Investment securities

Investment securities with observable market prices, including debt and equity securities are fair valued using that information. Debt securities that do not have observable market data are fair valued by either discounting cash flows using prevailing market rates for debts with a similar credit risk and remaining maturity or using quoted market prices for securities with similar credit risk maturity and yield characteristics.

Deposits from banks and customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

A substantial proportion of deposits mature within 6 months and hence the fair value approximates their carrying amounts.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

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

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

The Board Risk 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 Risk 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 Risk 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

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.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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 an early alert report and reviewed by the 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, Head of Risk, 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(ii) Retail Banking segment (Continued)

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 Financial Statements (Continued)

For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The exposure to credit risk is analysed as follows:

(iii) Loans and advances to customers

Group and Company	2017 KShs '000	2016 KShs '000
Individually impaired:		
Grade 13: Impaired	1,196,504	2,286,090
Grade 14: Impaired	10,121,204	7,880,717
	11,317,708	10,166,807
Allowance for impairment	(6,849,755)	(4,631,430)
	4,467,953	5,535,377
Loans past due but not impaired:		
Past due up to 30 days	8,803,931	9,978,689
Past due 31 – 60 days	1,316,975	886,170
Past due 61 – 90 days	492,598	390,941
	10,613,504	11,255,800
Loans neither past due nor impaired:		
Grade 1	–	192,526
Grade 2	–	–
Grade 3	3,520	21
Grade 4	2,882,458	2,652,488
Grade 5	4,625,878	1,349,994
Grade 6	2,949,412	617,476
Grade 7	12,261,695	14,628,969
Grade 8	7,431,286	8,052,262
Grade 9	6,646,120	5,556,873
Grade 10	5,000,528	10,608,568
Grade 11	69,155,213	60,736,475
Grade 12 – watch	1,441,125	2,472,142
	112,397,235	106,867,794
Portfolio impairment provision	(1,184,222)	(947,933)
	111,213,013	105,919,861
Net loans and advances	126,294,470	122,711,038

(iv) Fair value of collateral held

Group and Company	2017	2016
Against impaired loans	5,123,345	5,647,724
Against past due but not impaired loans	6,343,445	5,833,599

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Fair value of collateral held (continued)

The Group holds collateral against loans and advances to customers in the form of cash, residential, commercial and industrial property, fixed assets such as plant and machinery, marketable securities, bank guarantees and letters of credit.

The Group also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral.

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is backtested at least annually.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2017 and 2016.

(v) Loans and advances concentration by sector

Group and Company	2017 KShs '000	2016 KShs '000
Business services	1,817,309	1,478,825
Manufacturing	14,749,712	17,552,523
Wholesale and retail trade	20,474,745	18,908,285
Transport and communication	16,118,155	16,278,065
Real estate	2,068,885	895,175
Agriculture	4,362,294	4,400,922
Energy and water	11,657,989	12,107,004
Others	63,079,358	56,669,602
	134,328,447	**128,290,401**

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	2017 KShs '000	2016 KShs '000
Corporate & Institutional Banking	48,977,804	49,807,069
Commercial Banking	17,479,494	15,944,251
Retail Banking	67,871,149	62,539,081
	134,328,447	**128,290,401**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(vii) Other financial assets

	2017		2016	
	Group	Company	Group	Company
Neither past due nor impaired:	KShs '000	KShs '000	KShs '000	KShs '000
Cash and Balances with Central Bank of Kenya	13,341,592	13,341,592	15,513,554	15,513,554
Government and other securities held for trading	7,046,674	7,046,674	4,780,246	4,780,246
Derivative financial instruments	597,360	597,360	554,026	554,026
Loans and advances to banks	5,325,864	5,325,864	1,566,035	1,566,035
Investment securities	103,495,083	102,846,471	82,218,712	82,075,385
Other assets – uncleared effects	679,811	679,811	616,253	580,934
Amounts due from group companies	16,121,687	16,090,088	14,151,412	14,011,495

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 Traded Credit Risk (TCR).

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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(vii) Other financial assets (Continued)

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.

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 Treasury Risk. Limit excesses are escalated and approved under a delegated authority structure and reviewed by ALCO.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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.

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	2017	2016
	%	%
At 31 December	59	57
Average for the year	65	62
Highest for the year	70	66
Lowest for the year	59	55

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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 exceed customer loans resulting from the emphasis placed on generating a high level of stable funding from customers.

The advances to deposits ratio at the end of the reporting period was as follows:

Group and Company	2017 KShs '000	2016 KShs '000
Loans and advances to customers	126,294,470	122,711,038
Deposits from customers	213,349,290	186,598,226
	%	%
Advances to deposits ratio	59	66

Group and Company

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

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

2017 LIABILITIES	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Deposits from banks	12,701,356	–	–	–	–	**12,701,356**
Deposits from customers	172,190,990	15,264,544	23,493,464	4,755,931	–	**215,704,929**
Derivative financial instruments	491,613	–	–	–	–	**491,613**
Other liabilities - bills payable	850,337	–	–	–	–	**850,337**
Amounts due to group companies	2,220,169	30,284	–	–	8,009,188	**10,259,641**
At 31 December 2017	**188,454,465**	**15,294,828**	**23,493,464**	**4,755,931**	**8,009,188**	**240,007,876**
2016 **LIABILITIES**						
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**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Customer deposits up to three months represent current, savings and call deposit account balances, which past experience has shown to be stable and of a long-term nature.

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time-frame.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

(c) Market risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises in support of its client activities, facilitation of which entails the Group taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk related activities is broadly stable.

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;
- commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; covering energy, precious metals, base metals etc; and
- option implied volatilities; covering energy, precious metals, base metals etc.

The Market and Traded Credit Risk function (MTCR) approves all the other market risk limits within delegated authorities, monitors exposures against these limits and reports to the Executive Risk Committee (ERC). The Executive Risk Committee (ERC) provides adequate oversight of the Group's market risk exposures.

The Market and Traded Credit Risk function (MTCR) co-ordinates the limit review process: typically, the main limit review is concluded in the first two months of the year, and an additional, light touch review is performed at mid year, ordinarily to accommodate business changes that have occurred in the first half.

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 a one basis point increase in yields, whereas foreign exchange, commodity and equity sensitivities are measured in terms of the underlying values or amounts involved.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

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.

The Group applies two VaR methodologies:

– Historical simulation: involves the revaluation of all existing positions 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 the majority of specific (credit spread) risk VaR; and

– Monte Carlo simulation: this methodology is similar to historical 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 some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets.

VaR is calculated as the exposure as at close of business. Intra-day risk levels may vary from those reported at the end of the day.

Losses beyond the 97.5 per cent confidence interval are not captured by a VaR calculation, which therefore gives 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, Market and Traded Credit Risk (MTCR) complements the VaR measurement by weekly stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress-testing methodology is applied to trading and non-trading books.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Sensitivity analysis (Continued)

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

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

Daily value at risk:	2017 At 31 December	Average	High	Low
Foreign exchange risk	8,534	9,889	34,312	5,494
Interest rate risk	59,147	89,156	114,680	54,019
Rates trading	11,969	14,122	30,472	4,522
	79,650	**113,167**	**179,464**	**64,035**
2016				
Daily value at risk:				
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**

(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.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

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 2017 ASSETS	Weighted average effective interest rate (%)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	13,341,592	**13,341,592**
Government and other securities held for trading	11.74	3,800	1,113,210	1,027,600	71,400	4,800,100	30,564	**7,046,674**
Derivative financial instruments	–	597,360	–	–	–	–	–	**597,360**
Loans and advances to banks	1.94	5,103,020	–	–	–	–	222,844	**5,325,864**
Loans and advances to customers	10.37	15,935,212	78,498,043	4,275,799	16,387,100	7,914,580	3,283,736	**126,294,470**
Investment securities	11.60	8,252,500	16,000,000	47,198,863	27,715,100	4,500,000	(171,380)	**103,495,083**
Other assets – uncleared effects	–	–	–	–	–	–	679,811	**679,811**
Amounts due from group companies	1.34	9,183,843	–	3,615,500	–	–	3,322,344	**16,121,687**
At 31 December 2017		**39,075,735**	**95,611,253**	**56,117,762**	**44,173,600**	**17,214,680**	**20,709,511**	**272,902,541**
LIABILITIES								
Deposits from banks	4.24	12,701,356	–	–	–	–	–	**12,701,356**
Deposits from customers	3.01	36,129,381	15,101,125	22,415,787	3,572,263	–	136,130,734	**213,349,290**
Derivative financial instruments	–	491,613	–	–	–	–	–	**491,613**
Other liabilities – bills payable	–	–	–	–	–	–	850,337	**850,337**
Amounts due to group companies	3.58	660,738	30,284	–	–	6,198,000	1,559,431	**8,448,453**
At 31 December 2017		**49,983,088**	**15,131,409**	**22,415,787**	**3,572,263**	**6,198,000**	**138,540,502**	**235,841,049**
Interest rate sensitivity gap		**(10,907,353)**	**80,479,844**	**33,701,975**	**40,601,337**	**11,016,680**	**(117,830,991)**	**37,061,492**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

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

Company 2017 ASSETS	Weighted average effective interest rate (%)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	13,341,592	**13,341,592**
Government and other securities held for trading	11.74	3,800	1,113,210	1,027,600	71,400	4,800,100	30,564	**7,046,674**
Derivative financial instruments	–	597,360	–	–	–	–	–	**597,360**
Loans and advances to banks	1.94	5,103,020	–	–	–	–	222,844	**5,325,864**
Loans and advances to customers	10.37	15,935,212	78,498,043	4,275,599	16,387,100	7,914,580	3,283,736	**126,294,470**
Investment securities	11.60	8,252,500	16,000,000	46,535,050	27,715,100	4,500,000	(156,179)	**102,846,471**
Other assets – uncleared effects	–	–	–	–	–	–	679,811	**679,811**
Amounts due from group companies	1.34	9,183,843	–	3,615,500	–	–	3,290,745	**16,090,088**
At 31 December 2017		**39,075,735**	**95,611,253**	**55,453,949**	**44,173,600**	**17,214,680**	**20,693,113**	**272,222,330**
LIABILITIES								
Deposits from banks	4.24	12,701,356	–	–	–	–	–	**12,701,356**
Deposits from customers	3.01	36,129,381	15,101,125	22,415,787	3,572,263	–	136,130,734	**213,349,290**
Derivative financial instruments	–	491,613	–	–	–	–	–	**491,613**
Other liabilities – bills payable	–	–	–	–	–	–	850,337	**850,337**
Amounts due to group companies	3.58	660,738	30,284	–	–	6,198,000	1,559,431	**8,448,453**
At 31 December 2017		**49,983,088**	**15,131,409**	**22,415,787**	**3,572,263**	**6,198,000**	**138,540,502**	**235,841,049**
Interest rate sensitivity gap		**(10,907,353)**	**80,479,844**	**33,038,162**	**40,601,337**	**11,016,680**	**(117,847,389)**	**36,381,281**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

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 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)	**82,218712**
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 Financial Statements (Continued)

For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

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

Company 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	2,500,000	–	(1,183,265)	**82,075,385**
Other assets – uncleared effects	–	–	–	–	–	–	616,253	**616,253**
Amounts due from group companies	0.70	11,641,245	–	–	–	–	2,370,250	**14,011,495**
At 31 December 2016		**44,038,779**	**90,086,692**	**61,820,344**	**15,258,479**	**8,493,470**	**22,130,268**	**241,828,032**
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**	**9,006,082**	**2,343,470**	**(89,601,810)**	**40,985,830**

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 and Company

2017 ASSETS	USD	Euro	GBP	Other	Total
Cash, deposits and advances to banks	6,061,833	102,186	94,674	103,917	**6,362,610**
Loans and advances to customers	38,073,076	1,803,744	433,620	737,120	**41,047,560**
Other assets	180,794	976,917	163,416	28,617	**1,349,744**
Amounts due from group companies	12,071,349	481,888	2,317,239	129,196	**14,999,672**
At 31 December 2017	**56,387,052**	**3,364,735**	**3,008,949**	**998,850**	**63,759,586**
LIABILITIES					
Deposits from banks	2,827,582	11,441	47	3,379	**2,842,449**
Deposits from customers	52,555,844	3,117,482	2,972,851	81,705	**58,727,882**
Other liabilities	1,551,013	327,966	36,962	162,843	**2,078,784**
Amounts due to group companies	6,269,724	–	–	753,729	**7,023,453**
At 31 December 2017	**63,204,163**	**3,456,889**	**3,009,860**	**1,001,656**	**70,672,568**
Net statement of financial position exposure	**(6,817,111)**	**(92,154)**	**(911)**	**(2,806)**	**(6,912,982)**

2016 ASSETS	USD	Euro	GBP	Other	Total
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 financial position exposure	**(8,095,619)**	**(12,982)**	**(6)**	**1,072,250**	**(7,036,357)**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational risk

Operational risk is the potential of loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks. As operational risk arises from all activities carried out within the Group, the potential for operational risk events occurring is a constant challenge. To address this, we aim to achieve effective control design standards for all activities and benchmark practices against peers, other industries and regulatory requirements.

Operational risk profile

The operational risk profile is the Group's overall exposure to operational risk, at a given point in time, covering all applicable operational risk types. The operational risk profile comprises both operational risk events and losses that have already occurred and the current exposures to operational risks which at an aggregate level, includes the consideration of top risks and emerging risks.

Operational risk events and losses

The significant losses recorded during the year were:

- operational loss event relating to regulatory penalty charged due to late submission of a deposit protection insurance payment; and
- operational loss event due to external fraud where multiple clients were impacted by SIM card swapping.

The Group's profile of operational loss events in 2017 and 2016 is summarised in the table below. It shows, by Basel business lines, the percentage distribution of gross operational losses.

	% Loss	
Distribution of operational losses by Basel business line	**2017**	**2016**
Agency services	0.0	0.0
Commercial banking	7.8	6.4
Corporate finance	0.0	0.0
Corporate items	24.2	36.9
Payment and settlements	4.0	3.8
Retail banking	62.5	52.7
Retail brokerage	0.0	0.0
Trading and sales	1.5	0.2
	100.0	**100.0**

The Group's profile of operational loss events in 2017 and 2016 is also summarised in the table below. It shows the percentage distribution of gross operational losses by Basel event type.

	% Loss	
Distribution of operational losses by Basel event type	**2017**	**2016**
Business disruption and system failure	0.0	4.6
Clients' products and business practices	0.0	1.1
Employment practices and workplace safety	0.0	0.0
Execution, delivery and process management	68.8	71.3
External fraud	25.4	21.7
Internal fraud	5.8	1.3
	100.0	**100.0**

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational risk (Continued)

Operational losses are one indicator of the effectiveness and robustness of the operational risk control environment. In addition, lessons learnt reviews and root cause analyses from external and internal loss events, including near misses, are used to improve processes and controls.

Top risks and emerging risks

A top risk is a risk exposure, or a group of highly correlated risk exposures, that has the highest potential to breach the Group's risk capacity. The objective is to identify those risks that can materially impact the Group's risk capacity, and to calibrate metrics as early warning indicators against undesirable outcomes and performance under stress. Top risk candidates are indentified through a top-down assessment of concentration of exposures or aggregation of risks and may also be a gross risk, triggering any one of a set of filtering criteria.

Emerging risks are also considered, both internally from the Group's internal operational risk profile and from external events. Where relevant, an emerging risk may be categorised and prioritised as a top risk for specific monitoring.

Given their significance, top risks attract closer scrutiny from top levels of management and governance committees. Top risks are expected to change over time based on top-down assessments by senior management.

The Group's operational top risks as at 31 December 2017 are shown in the table below.

Top risks	
Macro-prudential, regulatory and external risks	**Internal processes, systems and change risks**
– Regulatory non-compliance – Anti-money laundering and terrorist financing – International sanctions – External fraud – Critical third-party vendors – Additional (staff) conduct	– Data management – Market misconduct – Product management – Collateral management – Information and cyber security

Operational risk governance

The Country Operational Risk Committee (CORC), provides oversight of operational risk management across the Group. It is supported by Country Financial Crime Risk Committee, Data Governance Committee and the Business and Function Operational Risk Forums, which oversee operational risks arising from financial crime compliance, information management, businesses and functions respectively. The Country Operational Risk Committee and the business and function operational risk forums receive regular reports on the respective operational risk profiles.

Internal organisation - Three Lines of Defence

Implementation of operational risk management framework is through the Three Lines of Defence.

The first line of defence has responsibility for identifying and managing all risks within first line processes as an integral part of first line responsibilities.

Operational Risk Function as second line of defence is responsible for setting and maintaining standards for operational risk management approach. In addition, the second line of defence comprises both second line risk owners of each operational risk sub-type and second line Policy Owners.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational risk (Continued)

Internal organisation - Three Lines of Defence (Continued)

The third line of defence is the independent assurance provided by the Group Internal Audit function.

Operational risk is managed within tolerances aligned to achieve the Risk Appetite Statement approved by the Board. The Group aims to control operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise. In order to comply with this statement, the operational risk management approach includes the following requirements:

- the Group will systematically identify top risks and emerging risks with the involvement of senior management and the Board, and define the appropriate treatment which may include business restrictions;
- all processes will be mapped and owned with appropriate key control standards defined to mitigate risks;
- the Group will not miss any opportunity to learn lessons from internal or external events and will implement relevant mitigation actions; and
- the Group will systematically test internal capital adequacy through scenario analysis and stress testing.

Risk classification

Operational risk sub-types are the different ways that we may be operationally exposed to loss. Each risk sub-type is a grouping of potential losses that are material, and which may arise in different activities or areas of the Group.

The Group uses operational risk sub-types principally as an aid to ensure comprehensive and consistent identification of operational risks, where they may arise. Operational risk sub-types are listed in the table below.

Operational risk sub-types

External rules and regulations	Potential for actual or opportunity loss due to failure to comply with laws or regulations, or as a result of changes in laws or regulations or in their interpretation or application.
Liability	Potential for loss or sanction due to a legal claim against any part of the Group or individuals within the Group.
Legal enforceability	Potential for loss due to failure to protect legally the Group's interests or from difficulty in enforcing the Group's rights.
Damage or loss of physical assets	Potential for loss or damage or denial of use of property or other physical assets.
Safety and security	Potential for loss or damage relating to health and safety or physical security.
Internal fraud	Potential for loss due to action by staff which is intended to defraud, or to circumvent the law or company policy.
External fraud	Potential for loss due to criminal acts by external parties such as fraud or theft of financial assets.
Information security	Potential for loss due to unauthorised access, use, disclosure, disruption, modification or destruction of information.
Processing failure	Potential for loss due to failure of an established process or to a process design weakness.
Model	Potential for loss due to a significant discrepancy between the output of credit and market risk measurement models and actual experience. Potential for regulatory breach due to a significant discrepancy between the output of financial crime client risk scoring and financial crime transaction monitoring models and actual experience.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational risk (Continued)

Operational risk management approach

The Group defines and maintains a complete process universe for all client segments, products and functions processes.

The process universe is the complete list of end-to-end processes that collectively describe the activities of the Group and is the reference for the application of the operational risk management approach.

This represents all Group activities, the owners of these activities, and the risk and control standards that are defined by risk and process owners. It also serves as the foundation for policy delivery, as well as risk identification, measurement, management and reporting. The operational risk management approach requires:

- effective process design standards be applied to critical processes;
- control tolerance standards are set for each control for quantity, materiality and timeliness of detection and rectification of defects;
- all processes to be standardised except for regulatory or legitimate system exceptions;
- gross and residual risk assessments by first line and approved by second line;
- risk and control monitoring; and
- prompt execution of risk treatment actions to closure.

The operational risk management approach has been installed for prioritised risks across the Group as part of the Operational Risk Framework Implementation Programme.

(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.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

Supplementary capital on the other hand includes 25% of revaluation reserves of property and equipment, statutory credit risk reserve and the term subordinated debt.

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.

The Company's regulatory capital position at 31 December 2017 was as follows:

	2017	2016
Company	**KShs '000**	KShs '000
Core capital (Tier 1)		
Share capital	**1,997,553**	1,997,553
Share premium	**7,792,427**	7,792,427
Retained earnings	**26,912,026**	26,050,443
Capital contribution reserve	**1,823,673**	1,823,673
	38,525,679	37,664,096
Less deductions from capital:		
Goodwill on acquired intangible (Note 27)	**(1,112,111)**	(1,112,111)
Acquired intangible (Note 27)	**(909,715)**	(1,230,652)
Deferred tax asset	**(875,656)**	(63,348)
	35,628,197	35,257,985
Supplementary capital (Tier 2)		
Revaluation reserves (25%)	**187,837**	114,260
Statutory credit risk reserve	**216,289**	568,868
Subordinated debt (Note 22)	**6,209,897**	6,162,723
	6,614,023	6,845,851
Total capital	**42,242,220**	42,103,836
Risk weighted assets		
Credit risk	**146,667,624**	133,093,591
Market risk	**28,070,120**	19,051,031
Operational risk	**53,374,468**	49,176,025
Total risk weighted assets	**228,112,212**	201,320,647
Deposits from customers	**213,349,290**	186,598,226
Capital ratios		
Core capital/total deposit liabilities (CBK minimum 8.00%)	**16.70%**	18.90%
Core capital/total risk weighted assets (CBK minimum 10.50%)	**15.62%**	17.51%
Total capital/total risk weighted assets (CBK minimum 14.50%)	**18.52%**	20.91%

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

The Company's regulatory capital as at 1 January 2018 following implementation of IFRS 9 is as follows:

	1 January 2018	31 December 2017
Core capital /total deposit liabilities (CBK minimum 8.00%)	15.61%	16.70%
Core capital /total risk weighted assets (CBK minimum 10.50%)	14.73%	15.62%
Total capital /total risk weighted assets (CBK minimum 14.50%)	17.56%	18.52%

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;
- 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.

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 is also 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.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

(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.

(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; and where necessary, corrective action is recommended.

5. SEGMENTAL INFORMATION
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 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 analysis reflects how the client segments are managed internally. This is described as the Management View.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

5. SEGMENTAL INFORMATION (Continued)

The segment results were as follows:

Group income statement For the year ended 31 December 2017	Corporate & Institutional Banking KShs '000	Commercial Banking KShs '000	Retail Banking KShs '000	Central & other items KShs '000	Total KShs '000
Net interest income	4,068,719	1,676,126	7,462,907	4,748,599	**17,956,351**
Non funded income	4,595,218	515,086	3,540,255	19,416	**8,669,975**
Operating income	**8,663,937**	**2,191,212**	**11,003,162**	**4,768,015**	**26,626,326**
Operating expenses	(4,637,442)	(1,256,895)	(6,529,675)	(360,507)	**(12,784,519)**
Net impairment losses on loans and advances	(2,575,378)	(64,047)	(1,131,089)	–	**(3,770,514)**
Profit before taxation	**1,451,117**	**870,270**	**3,342,398**	**4,407,508**	**10,071,293**
31 December 2016					
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**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

5. SEGMENTAL INFORMATION (Continued)

Company income statement For the year ended 31 December 2017	Corporate & Institutional Banking KShs '000	Commercial Banking KShs '000	Retail Banking KShs '000	Central & other items KShs '000	Total KShs '000
Net interest income	4,068,719	1,676,126	7,462,907	4,668,233	**17,875,985**
Non funded income	4,595,218	515,086	2,800,697	19,860	**7,930,861**
Operating income	**8,663,937**	**2,191,212**	**10,263,604**	**4,688,093**	**25,806,846**
Operating expenses	(4,637,442)	(1,247,300)	(6,285,710)	(355,896)	**(12,526,348)**
Net impairment losses on loans and advances	(2,575,378)	(64,047)	(1,131,089)	–	**(3,770,514)**
Profit before taxation	**1,451,117**	**879,865**	**2,846,805**	**4,332,197**	**9,509,984**
31 December 2016					
Net interest income	3,885,933	1,855,233	9,294,153	3,842,716	**18,878,035**
Non funded income	4,628,355	554,336	2,590,057	70,681	**7,843,429**
Operating income	**8,514,288**	**2,409,569**	**11,884,210**	**3,913,397**	**26,721,464**
Operating expenses	(4,352,972)	(1,527,645)	(5,996,644)	(201,519)	**(12,078,780)**
Net impairment losses on loans and advances	(266,229)	(422,491)	(1,189,538)	–	**(1,878,258)**
Profit before taxation	**3,895,087**	**459,433**	**4,698,028**	**3,711,878**	**12,764,426**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

5. SEGMENTAL INFORMATION (Continued)

Group

Statement of financial position as at 31 December 2017	Corporate & Institutional Banking KShs '000	Commercial Banking KShs '000	Retail Banking KShs '000	Central & other items KShs '000	Total KShs '000
Total assets employed	**77,864,985**	**13,660,246**	**66,973,904**	**127,225,306**	**285,724,441**
Of which: loans and advances to customers	45,970,914	13,659,687	66,663,869	–	**126,294,470**
Total liabilities employed	**83,118,022**	**21,015,554**	**124,393,050**	**11,533,278**	**240,059,904**
Of which: Customer deposits	68,456,720	20,966,271	123,926,299	–	**213,349,290**
Other segment items:					
Depreciation and amortisation	398,211	30,866	398,788	52,256	**880,121**
Capital expenditure	–	–	463,552	75,698	**539,250**
31 December 2016					
Total assets employed	**58,256,449**	**11,899,441**	**61,875,043**	**118,451,067**	**250,482,000**
Of which: loans and advances 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**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

5. SEGMENTAL INFORMATION (Continued)

Company

Statement of financial position as at 31 December 2017	Corporate & Institutional Banking KShs '000	Commercial Banking KShs '000	Retail Banking KShs '000	Central & other items KShs '000	Total KShs '000
Total assets employed	77,864,985	13,660,246	66,973,904	126,625,403	285,124,538
Of which: loans and advances to customers	45,970,914	13,659,687	66,663,869	–	126,294,470
Total liabilities employed	83,118,022	21,015,554	124,393,050	12,014,060	240,540,686
Of which: Customer deposits	68,456,720	20,966,271	123,926,299	–	**213,349,290**
Other segment items:					
Depreciation and amortisation	398,211	30,866	398,788	52,256	**880,121**
Capital expenditure	–	–	463,552	75,698	**539,250**

31 December 2016

Total assets employed	**58,256,449**	**11,899,441**	**61,735,126**	**118,383,092**	**250,274,108**
Of which: loans and advances 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**	**15,793,400**	**206,369,329**
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**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

6. NET INTEREST INCOME

Accounting policy

Interest income and expense on available-for-sale assets and financial assets or financial liabilities held at amortised cost is recognised in the income statement 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 of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument 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 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. Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision was made.

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.

	2017		2016	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Loans and advances to customers	13,183,330	13,183,330	14,374,626	14,374,626
Loans and advances to banks	1,350,250	1,350,250	819,826	819,826
Investment securities				
– Available-for-sale	11,052,866	11,001,064	9,905,681	9,889,433
Accrued on impaired assets				
(Discount unwind)	375,067	375,067	470,409	470,409
Interest income	**25,961,513**	**25,909,711**	**25,570,542**	**25,554,294**
Deposits from customers	6,704,350	6,732,914	5,952,318	5,980,831
Deposits from banks	1,300,812	1,300,812	695,428	695,428
Interest expense	**8,005,162**	**8,033,726**	**6,647,746**	**6,676,259**
Net interest income	**17,956,351**	**17,875,985**	**18,922,796**	**18,878,035**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

7. NET FEE AND COMMISSION

Accounting policy

Fees and commissions charged for services provided or received by the Group are recognised on an accrual basis when the service has been provided or significant act performed.

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.

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.

	2017		2016	
	Group	Company	Group	Company
	KShs '000	KShs '000	KShs '000	KShs '000
Commissions	3,950,675	3,211,447	3,910,949	3,281,790
Service fees	1,156,734	1,156,734	1,123,203	1,123,203
	5,107,409	**4,368,181**	**5,034,152**	**4,404,993**
Fee and commission expense				
Inter-bank transaction fees and other fees	**592,715**	**592,715**	**499,868**	**499,868**
Net fees and commission income	**4,514,694**	**3,775,466**	**4,534,284**	**3,905,125**

8. NET TRADING INCOME

Accounting policy

Gains and losses arising from changes in the fair value, and foreign exchange differences on financial instruments held for trading are included in the income statement in the period in which they arise.

Further, 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.

	2017	2016
Group and Company	KShs '000	KShs '000
Gains less losses on foreign currency transactions	2,661,343	2,839,996
Other trading profits	1,037,773	784,631
Interest income on held-for-trading securities	312,812	204,603
	4,011,928	**3,829,230**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

9. OTHER OPERATING INCOME

Accounting policy

Operating lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Dividends on equity instruments are recognised when the Group's right to receive payment is established. This is usually the ex-dividend date for equity securities.

On disposal of available–for-sale financial instruments, the cumulative gain or loss recognised in other comprehensive income is recycled to the income statement in other operating income.

On disposal of a tangible fixed asset, the difference between the consideration and the carrying amount of the asset is recognised as a gain or loss on the sale of the asset.

	2017		2016	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Gains/(losses) on disposal of available-for-sale securities:-				
Government treasury bonds and bills	(16,134)	(16,020)	60,501	60,533
Rental income from operating lease	7,487	7,487	3,768	3,768
Profit on sale of non-current asset held for sale	184,491	184,491	88,039	88,039
Loss on sale of property and equipment	(31,732)	(31,732)	(2,225)	(2,225)
Profit on sale of motor vehicle	–	–	289	289
Other	(759)	(759)	(41,330)	(41,330)
	143,353	**143,467**	**109,042**	**109,074**

10. OPERATING EXPENSES

Accounting policy

Short-term employee benefits: salaries are recognised over the period in which the employees provide the service. Variable compensation is included within share-based payments costs and wages and salaries. Further details are disclosed in the Directors' remuneration report on pages 43 to 46.

Pension costs: contributions to the defined contribution pension scheme are recognised in the income statement when payable. For the defined benefit plan, net interest expense, service costs and expenses are recognised in the income statement. Further details are provided in note 35.

Share-based compensation: The Group's employees participate in equity-settled and cash-settled share-based payment compensation plans 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. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.. For deferred share awards granted as part of an annual performance award, the expense is recognised over the period from the start of the performance period to the vesting date. For example, the expense for awards granted in 2017 in respect of 2016 performance, which vest in 2018-2020, is recognised as an expense over the period from 1 January 2016 to the vesting dates in 2018-2020. For all other awards, the expense is recognised over the period from the date of grant to the vesting date.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

10. OPERATING EXPENSES (Continued)

Accounting policy (Continued)

In addition, employees have the choice of opening a three-year or five-year savings contract under the All Employee Share Save plan. 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 the All Employee Share Save plan..

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options at the date of the grant, which excludes the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

At each balance sheet date, the estimate of the number of options that are expected to vest is revised. The impact of the revision of original estimates, if any, is recognised in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the income statement at the time of cancellation.

Deferred cash awards: Cash-settled awards are revalued at each balance sheet date and a liability recognised on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in the income statement until the awards are exercised. Where forfeitures occur prior to vesting that are attributable to factors other than a failure to satisfy market-based performance conditions, the cumulative charge incurred up to the date of forfeiture is credited to the income statement.

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.

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.

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.

The accounting policy on depreciation is as disclosed in note 26.

Other expenses are recognised in the income statement where no future economic benefits are expected.

Significant accounting estimates and judgments

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.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

10. OPERATING EXPENSES (Continued)

Staff costs

	2017		2016	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Salaries and wages	5,409,440	5,255,927	5,144,158	5,073,321
Contributions to defined contribution plan	580,777	568,731	572,180	565,875
Increase in retirement benefit obligation (Note 35)	45,757	45,757	34,271	34,031
Redundancy charge	173,108	172,599	556,634	556,634
Employee share-based payments expenses	38,482	38,425	38,107	38,021
Deferred cash awards	15,620	15,620	17,814	17,814
Other staff costs	754,692	745,900	816,396	798,600
	7,017,876	**6,842,959**	**7,179,560**	**7,084,296**

The number of employees at the year end was:	2017 No.	2016 No.
Group and Company		
Management	1,240	1,280
Unionisable	213	358
Other	134	234
	1,587	**1,872**

Premises and equipment costs	2017		2016	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Rental of premises	415,992	414,143	412,946	410,114
Rental of computers and equipment	116,831	116,578	121,348	121,338
Electricity	97,756	97,756	115,520	115,520
Other premises and equipment costs	304,062	281,782	324,364	301,790
	934,641	**910,259**	**974,178**	**948,762**

Group and Company

Depreciation and amortisation	2017 KShs '000	2016 KShs '000
Buildings and leasehold land	17,395	15,745
Fixtures, fittings and equipment	398,639	421,341
Motor vehicles	3,937	4,651
Depreciation on property and equipment (Note 26)	419,971	441,737
Amortisation of intangible assets (Note 27)	458,597	461,647
Amortisation of prepaid operating lease rentals (Note 28)	3,423	2,928
	881,991	**906,312**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

11. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2017		2016	
	Group	Company	Group	Company
	KShs '000	KShs '000	KShs '000	KShs '000
Depreciation on property and equipment (Note 26)	419,971	419,971	441,737	441,737
Amortisation of intangible assets (Note 27)	458,597	458,597	461,647	461,647
Amortisation of prepaid operating lease rentals (Note 28)	3,423	3,423	2,928	2,928
Directors' emoluments – Fees	14,184	14,184	14,519	14,519
– Other	292,997	292,997	262,897	262,897
Loss on sale of property and equipment	31,732	31,732	2,225	2,225
Auditors' remuneration	17,519	16,819	15,790	15,290
And after crediting:				
Profit on sale of non-current asset held for sale	184,491	184,491	88,039	88,039
Profit on sale of motor vehicle	–	–	289	289

12. TAXATION

Accounting policy

Income tax expense comprises current and change in deferred tax.

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 provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group financial statements. 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 determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and that are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the current or deferred gain or loss.

Significant accounting estimates and judgments

- determining the Group's tax charge for the year involves estimation and judgment on the potential outcome, which includes an interpretation of tax laws. These judgments take account of external advice where appropriate;
- the Group provides for current tax liabilities at the best estimate of the amount that is expected to be paid to the tax authority where an outflow is probable; and
- the recoverability of the Group's deferred tax asset is based on management's judgment of the availability of future taxable profits against which the deferred tax assets will be utilised.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

12. TAXATION (Continued)

	2017		2016	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Current year's tax at 30%	3,515,603	3,345,011	4,438,008	4,285,827
Prior year corporation tax under – provision	750,293	750,491	61,945	61,299
	4,265,896	4,095,502	4,499,953	4,347,126
Deferred tax credit (Note 29)	(1,108,701)	(1,108,171)	(261,141)	(269,428)
Income tax expense	**3,157,195**	**2,987,331**	**4,238,812**	**4,077,698**

The tax on the accounting profit before taxation differs from the theoretical amount using the basic tax rate as follows:

	2017		2016	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Accounting profit before taxation	**10,071,293**	**9,509,984**	**13,288,119**	**12,764,426**
Computed tax using the applicable corporation tax rate at 30%	3,021,388	2,852,995	3,986,436	3,829,328
Tax exempt income	(93,346)	(93,346)	(30,723)	(30,740)
Non-deductible expenses	243,033	241,364	221,154	217,811
Prior year deferred tax asset under – provision (Note 29)	(764,173)	(764,173)	–	–
Prior year corporation tax under – provision	750,293	750,491	61,945	61,299
Income tax expense	**3,157,195**	**2,987,331**	**4,238,812**	**4,077,698**
Tax recoverable/(payable)				
At 1 January	(1,121,529)	(1,046,259)	141,445	173,246
Current year tax expense	(3,515,603)	(3,345,011)	(4,438,008)	(4,285,827)
Prior year under – provision	(750,293)	(750,491)	(61,945)	(61,299)
Income taxes paid	6,751,493	6,491,821	3,236,979	3,127,621
At 31 December	**1,364,068**	**1,350,060**	**(1,121,529)**	**(1,046,259)**

The current tax liabilities and assets are shown below:

	2017		2016	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Tax recoverable	1,389,789	1,350,060	7,168	–
Tax payable	(25,721)	–	(1,128,697)	(1,046,259)
	1,364,068	**1,350,060**	**(1,121,529)**	**(1,046,259)**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

13. EARNINGS PER ORDINARY SHARE

Accounting policy

The Group measures earnings per share on the profit or loss attributable to ordinary equity holders.

The calculation of Group basic earnings per share at 31 December 2017 and 2016 is based on the profit attributable to ordinary shareholders of KShs 6,746,098,000 (2016 – KShs 8,881,307,000) and a weighted average number of ordinary shares outstanding during the year of 343,510,572 (2016 – 343,510,572).

The calculation of Company basic earnings per share at 31 December 2017 and 2016 is based on the profit attributable to ordinary shareholders of KShs 6,354,653,000 (2016 – KShs 8,518,728,000) and a weighted average number of ordinary shares outstanding during the year of 343,510,572 (2016 – 343,510,572).

	2017		2016	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Profit attributable to ordinary shareholders:				
Net profit for the year	6,914,098	6,522,653	9,049,307	8,686,728
Dividends on non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares	(168,000)	(168,000)	(168,000)	(168,000)
	6,746,098	**6,354,653**	**8,881,307**	**8,518,728**
Basic earnings per share (KShs)	**19.64**	**18.50**	**25.85**	**24.80**

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 2017 and 2016.

14. DIVIDENDS

Accounting policy

Dividends on ordinary shares and preference shares classified as equity are recognised in equity in the year in which they are declared.

In determining if dividends are distributable, and the level of dividends declared, the Board considers a number of factors which include but are not limited to the:

- amount of distributable reserves;
- capital requirements of the Group (see note 4 (e)); and
- level of cash investment projections to achieve the Group's strategy.

Group and Company	2017 KShs '000	2016 KShs '000
Dividends – Ordinary shares	4,293,883	4,809,148
Dividends – Preference shares	84,690	84,230
	4,378,573	**4,893,378**

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting.

14. DIVIDENDS (Continued)

At the Annual General Meeting to be held on 24 May 2018, a final dividend in respect of the year ended 31 December 2017 of KShs 12.50 (2016 – KShs 14.00) for every ordinary share of KShs 5.00 is to be proposed. One interim dividend of KShs 4.50 (2016 – KShs 6.00) for every ordinary share of KShs 5.00 was declared on 29 August 2017 and paid on 24 October 2017. This will bring the total dividend for the year to KShs 17.00 (2016 – KShs 20.00).

At the Annual General Meeting to be held on 24 May 2018, a final dividend in respect of the year ended 31 December 2017 of KShs 84,690,411 (2016 – KShs 84,230,137) for the preference shares is to be proposed. An interim dividend of KShs 83,309,589 (2016 – KShs 83,769,863) was declared on 29 August 2017 and paid on 24 October 2017. This will bring the total dividend for the year to KShs 168,000,000 (2016 – 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.

15. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

Accounting policy

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.

Group and Company	2017 KShs '000	2016 KShs '000
Cash on hand	3,723,226	3,473,071
Balances with Central Bank of Kenya:		
– Restricted balances (Cash Reserve Ratio)	7,187,113	11,274,022
– Unrestricted balances	2,431,253	766,461
	13,341,592	**15,513,554**

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 2017, the Cash Reserve Ratio requirement was 5.25% (2016 – 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%.

16. GOVERNMENT AND OTHER SECURITIES HELD FOR TRADING

Accounting policy

Securities are treasury bills and bonds, debt securities and equity securities acquired principally for the purpose of selling in the short-term. Refer to note 3 Financial assets and liabilities for the accounting policy.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

16. GOVERNMENT AND OTHER SECURITIES HELD FOR TRADING (Continued)

Group and Company

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

	2017			2016		
	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	922,599	3,857,647	**4,780,246**	5,709,525	–	**5,709,525**
Additions	15,209,350	14,824,000	**30,033,350**	4,883,900	11,650,000	**16,533,900**
Disposals and maturities	(11,232,450)	(16,750,000)	**(27,982,450)**	(9,903,500)	(7,700,000)	**(17,603,500)**
Changes in fair value	211,374	4,154	**215,528**	232,674	(92,353)	**140,321**
At 31 December	**5,110,873**	**1,935,801**	**7,046,674**	**922,599**	**3,857,647**	**4,780,246**

The weighted average effective interest rate on government and other securities held for trading at 31 December 2017 was 11.74% (2016 – 10.77%).

17. DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policy

Changes in fair value of any derivative instruments not qualifying for hedge accounting are recognised immediately in the income statement. 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 the income statement.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

17. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Accounting policy (continued)

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.

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	2017			2016		
	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	4,024,322	597,360	491,613	6,259,496	554,026	252,921
Forward exchange contracts	83,994,408	–	–	46,770,055	–	–
	88,018,730	**597,360**	**491,613**	**53,029,551**	**554,026**	**252,921**

18. LOANS AND ADVANCES TO BANKS

Accounting policy

Refer to note 3 financial assets and liabilities for the accounting policy.

Group and Company	2017 KShs '000	2016 KShs '000
Loans and advances to local banks	5,230,390	1,255,156
Loans and advances to foreign banks	95,474	310,879
	5,325,864	**1,566,035**

The weighted average effective interest rate on loans and advances to banks at 31 December 2017 was 1.94% (2016 – 4.87%).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

19. LOANS AND ADVANCES TO CUSTOMERS

Accounting policy

Refer to note 3 Financial assets and liabilities for the accounting policy.

Group and Company

(a) (i) Product classification	2017 KShs '000	2016 KShs '000
Overdrafts	17,927,610	18,198,661
Loans	115,513,129	109,759,762
Bills discounted	887,708	331,978
Gross loans and advances	**134,328,447**	**128,290,401**
Less: Impairment losses on loans and advances	(8,033,977)	(5,579,363)
Net loans and advances	**126,294,470**	**122,711,038**
(ii) Maturity term classification		
Repayable on demand	24,128,214	25,240,482
Less than 3 months	18,643,762	17,606,395
3 months to 1 year	6,560,646	4,150,083
1 to 5 years	48,402,389	44,383,424
5 to 10 years	15,011,700	18,531,188
Over 10 years	21,581,736	18,378,829
Gross loans and advances	**134,328,447**	**128,290,401**

(b) Impairment losses on loans and advances

2017	Specific impairment losses KShs '000	Portfolio impairment provision KShs '000	Total KShs '000
At 1 January 2017	4,631,430	947,933	**5,579,363**
Provisions recognised during the year	4,105,502	386,718	**4,492,220**
Amounts written off during the year	(940,833)	(150,429)	**(1,091,262)**
Recoveries	(571,277)	–	**(571,277)**
Amounts released to interest income (Note 6)	(375,067)	–	**(375,067)**
At 31 December 2017	**6,849,755**	**1,184,222**	**8,033,977**
Provisions recognised during the year	4,105,502	386,718	**4,492,220**
Amounts recovered during the year	(571,277)	(150,429)	**(721,706)**
Net charge to the income statement	**3,534,225**	**236,289**	**3,770,514**
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 (Note 6)	(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 the income statement	**1,885,611**	**(7,353)**	**1,878,258**

The weighted average effective interest rate on loans and advances to customers at 31 December 2017 was 10.37% (2016 – 9.94%).

20. INVESTMENT SECURITIES

Accounting policy

Investment securities are treasury bills and bonds, debt securities and equity securities intended to be held on a continuing basis. The securities are predominantly classified as available-for-sale. Refer to note 3 Financial assets and liabilities for the accounting policy.

	2017		2016	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Available-for-sale				
Treasury bonds	51,189,901	50,541,289	32,432,477	32,289,150
Treasury bills	52,296,183	52,296,183	49,276,026	49,276,026
	103,486,084	102,837,472	81,708,503	81,565,176
Money market bonds	–	–	502,362	502,362
Equity shares	8,999	8,999	7,847	7,847
Total investment securities	**103,495,083**	**102,846,471**	**82,218,712**	**82,075,385**

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

Group	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Equity shares KShs '000	Total KShs '000
2017				
At 1 January	81,708,503	502,362	7,847	**82,218,712**
Additions	121,997,747	–	–	**121,997,747**
Disposals and maturities	(107,209,350)	(500,000)	–	**(107,709,350)**
Changes in fair value	509,286	8,145	–	**517,431**
Movement in accrued interest	314,806	(10,507)	–	**304,299**
Translation differences	–	–	1,152	**1,152**
Amortisation of discounts and premiums	6,165,092	–	–	**6,165,092**
At 31 December	**103,486,084**	**–**	**8,999**	**103,495,083**
2016				
At 1 January	67,416,543	486,797	8,082	**67,911,422**
Additions	94,633,790	–	–	**94,633,790**
Disposals and maturities	(87,052,154)	(22,230)	–	**(87,074,384)**
Changes in fair value	599,776	38,457	–	**638,233**
Movement in accrued interest	333,782	(662)	–	**333,120**
Translation differences	–	–	(235)	**(235)**
Amortisation of discounts and premiums	5,776,766	–	–	**5,776,766**
At 31 December	**81,708,503**	**502,362**	**7,847**	**82,218,712**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

20. INVESTMENT SECURITIES (Continued)

Company 2017	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Equity shares KShs '000	Total KShs '000
At 1 January	81,565,176	502,362	7,847	**82,075,385**
Additions	121,498,447	–	–	**121,498,447**
Disposals and maturities	(107,209,350)	(500,000)	–	**(107,709,350)**
Changes in fair value	523,299	8,145	–	**531,444**
Movement in accrued interest	301,141	(10,507)	–	**290,634**
Translation differences	–	–	1,152	**1,152**
Amortisation of discounts and premiums	6,158,759	–	–	**6,158,759**
At 31 December	**102,837,472**	**–**	**8,999**	**102,846,471**
2016				
At 1 January	67,416,543	486,797	8,082	**67,911,422**
Additions	94,502,589	–	–	**94,502,589**
Disposals and maturities	(87,052,154)	(22,230)	–	**(87,074,384)**
Changes in fair value	600,965	38,457	–	**639,422**
Movement in accrued interest	326,105	(662)	–	**325,443**
Translation differences	–	–	(235)	**(235)**
Amortisation of discounts and premiums	5,771,128	–	–	**5,771,128**
At 31 December	**81,565,176**	**502,362**	**7,847**	**82,075,385**

The weighted average effective interest rate on treasury bonds at 31 December 2017 was 12.52% (2016 – 12.75%) and on treasury bills was 10.78% (2016 – 11.44%).

There were no treasury bills under repurchase agreements outstanding at 31 December 2017 and 2016.

There were no money market bonds as at 31 December 2017. The weighted average effective interest rate on money market bonds at 31 December 2016 was 8.47%.

At 31 December 2017, unamortised premiums on investment securities amounted to KShs 78,557,000 (2016 – KShs 73,561,000) and unamortised discounts amounted to KShs 2,623,784,000 (2016 – KShs 2,501,821,000).

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

21. OTHER ASSETS

Accounting policy

Refer to note 3 financial assets and liabilities for the accounting policy.

	2017		2016	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Un-cleared effects	679,811	679,811	616,253	580,934
Prepayments	207,128	207,128	232,121	232,121
Other receivables	4,531,778	4,515,663	2,380,580	2,357,533
	5,418,717	**5,402,602**	**3,228,954**	**3,170,588**

22. GROUP COMPANY BALANCES

Accounting policy

Refer to note 3 financial assets and liabilities for the accounting policy.

	2017		2016	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Amounts due from group companies	**16,121,687**	**16,090,088**	**14,151,412**	**14,011,495**
Amounts due to group companies	**8,448,453**	**8,448,453**	**10,174,520**	**10,174,520**
Amounts due to subsidiaries	**–**	**528,848**	**–**	**585,036**

Included in amounts due to group companies is an amount of US$ 60 million (KShs 6,209,896,610) (2016 – US$ 60 million (KShs 6,162,723,000)) 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 Group has the right to settle the subordinated debts in certain circumstances as set out in the contractual agreement. The interest on the subordinated debts are referenced to the LIBOR. The weighted average effective interest rate at 31 December 2017 on the subordinated debts was 4.31% (2016 – 3.90%).

The weighted average effective interest rate at 31 December 2017 on amounts due from group companies was 1.34% (2016 – 0.70%) and on amounts due to group companies was 3.58% (2016 – 3.62%).

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 9.20% (2016 – 10.57%).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

23. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Accounting policy

Subsidiaries are entities which the Group controls. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The assessment of power is based on the Group's practical ability to direct the relevant activities of the entity unilaterally for the Group's own benefit and is subject to re-assessment if and when one or more of the elements of control change. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are de-consolidated from the date that control ceases, and where any interest in the subsidiary remains, this is re-measured to its fair value and the change in carrying amount is recognised in the income statement.

In the Company's financial statements, investments in subsidiaries are held at cost less impairment. Inter-company transactions and balances between Group companies are eliminated in the Group accounts.

The following subsidiaries are wholly owned by the Company:

Company	Status	2017 KShs '000	2016 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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

24. BUSINESS COMBINATION

Accounting policy

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 the income statement.

The accounting policy on recognition of goodwill is as disclosed in Note 27.

On 31 October 2010, Standard Chartered Bank Kenya Limited (SCBKL) acquired the custody business of Barclays Bank of Kenya Limited (BBKL). The business was acquired for KShs 1,883,365,000 representing the value of revenue streams of the local customer relationships acquired. No other assets and liabilities other than customer relationships were acquired.

In addition to the purchase price paid by SCBKL, Standard Chartered PLC paid GBP £14,133,404 (KShs 1,823,673,000) in respect of the value that BBKL's custody clients provide across the Pan-African network covered by the Barclays Bank PLC's Africa custody business as a whole. This represents the value deemed to arise as a result of revenue streams from regional and global customer relationships acquired. In effect, the purchase price paid for by Standard Chartered PLC is deemed to be a capital contribution.

The revenue streams from all the customer relationships, both local and global, will therefore accrue to SCBKL and as such the value of the intangible is significantly higher than the purchase price paid locally.

The fair value of the customer relationships acquired were determined by discounting the future cash flows expected to be generated over the useful life determined to be 11 years.

The calculation of the acquired intangible asset was based on the following key assumptions:

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

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

The key assumptions described above may change as economic and market conditions change. Management believes that reasonable possible change in any of the key assumptions on which the fair value of the intangible has been based will not cause the carrying amounts to exceed their recoverable amount.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

24. BUSINESS COMBINATION (Continued)

The intangible asset arising from the acquisition is as follows:

Group and Company	KShs '000
Purchase consideration:	
Cash paid by SCBKL	1,883,365
Cash paid by Standard Chartered PLC (Capital contribution)	1,823,673
Total purchase consideration	**3,707,038**
Less: Fair value of identifiable assets acquired	–
Intangible assets acquired: Customer relationships	3,707,038
Deferred tax liability recognised on business combination	(1,112,111)
Total identifiable net assets	**2,594,927**
Goodwill on acquisition (Note 27)	**1,112,111**

Contribution from the acquisition:	2017 KShs '000	2016 KShs '000
Operating income	1,789,587	1,855,852
Profit before taxation	1,366,046	1,352,496

The goodwill is attributable mainly to the customer relationships acquired, value of the acquired workforce and leveraged synergies within the Pan-African businesses and geographies. None of the goodwill recognised is expected to be deductible for income tax purposes.

The goodwill is wholly attributable to the Securities Services department of the Company.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

25. NON-CURRENT ASSET HELD FOR SALE

Accounting policy

Non-current assets (such as property) and disposal groups (including both assets and liabilities of the disposal group), are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell when:

- their carrying amounts will be recovered principally through sale;
- they are available-for-sale in their present condition; and
- their sale is highly probable.

Immediately before classification as held for sale, the carrying amounts of the assets (or assets and liabilities in the disposal group) are measured in accordance with applicable accounting policies related to the asset or liability before re-classification to held for sale.

Group and Company

	2017			2016		
	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	47,360	–	**47,360**	140,538	106	**140,644**
Disposals	(47,360)	–	**(47,360)**	(93,178)	(106)	**(93,284)**
At 31 December	**–**	**–**	**–**	**47,360**	**–**	**47,360**

The outstanding balance of the non-current asset held for sale as at 31 December 2016 relates to one property which was being sold. The sale was completed in 2017.

26. PROPERTY AND EQUIPMENT

Accounting policy

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 impairment losses.

All other property and equipment is stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Subsequent costs are included in the assets carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

At each balance sheet date, the assets' residual values and useful lives are reviewed and adjusted, if appropriate, including assessing for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down to the recoverable amount. Gains and losses on disposals are included in the income statement.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

26. PROPERTY AND EQUIPMENT (Continued)

Accounting policy (Continued)

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and building comprise mainly branches and offices. Freehold land is not depreciated although it is subject to impairment testing.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– buildings on freehold land – up to 50 years;
– buildings on leasehold land – life of lease up to 50 years;
– fixtures, fittings and equipment – 10 years;
– Automated Teller Machines (ATMs) – 7 years;
– computers – 5 years; and
– motor vehicles – 4 years.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

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 the income statement.

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.

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.

Significant accounting estimates and judgments

– critical estimates are made by management in determining the useful life for 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.

26. PROPERTY AND EQUIPMENT (Continued)

Group and Company 2017	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 2017	245,000	1,032,594	5,487,563	20,262	111,801	**6,897,220**
Additions	–	–	235,396	–	145,072	**380,468**
Transfers	–	–	82,015	–	(82,015)	**–**
Disposals/write-offs	–	(817)	(434,550)	–	–	**(435,367)**
Revaluation surplus	5,000	432,936	–	–	–	**437,936**
At 31 December 2017	250,000	1,464,713	5,370,424	20,262	174,858	**7,280,257**
Depreciation:						
At 1 January 2017	5,175	29,963	3,907,366	16,325	–	**3,958,829**
Charge for the year	2,475	14,920	398,639	3,937	–	**419,971**
Depreciation written back on revaluation	(6,900)	(39,248)	–	–	–	**(46,148)**
Disposals/write-offs	–	(797)	(402,838)	–	–	**(403,635)**
At 31 December 2017	750	4,838	3,903,167	20,262	–	**3,929,017**
Carrying amount:						
At 31 December 2017	**249,250**	**1,459,875**	**1,467,257**	**–**	**174,858**	**3,351,240**
2016						
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 Financial Statements (Continued)

For the year ended 31 December 2017

26. PROPERTY AND EQUIPMENT (Continued)

Included in property and equipment at 31 December 2017 are assets with a gross value of KShs 2,102,129,502 (2016 – KShs 2,336,315,188) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been KShs 554,937,845 (2016 – KShs 639,962,966).

There were no idle assets as at 31 December 2017 and 2016.

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 professional valuers, Damon Appraisers Limited, Ark Consultants Limited and Kiragu & Mwangi Limited as at 30 September 2017. 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 2017.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year ended 31 December 2017 (2016 - Nil).

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

	2017 KShs '000	2016 KShs '000
Cost	647,215	648,032
Accumulated depreciation	(115,722)	(100,588)
Carrying amount	**531,493**	**547,444**

The major land and building properties owned by the Group comprise:

Standard Chartered@Chiromo located at Westlands, Nairobi. This is a leasehold property classified as a commercial property which hosts the Group's Head Office within a seven-storey modern building. The property sits on 1.880 acres.

Treasury Square Branch located at Mombasa Island. This is a freehold property classified as a commercial property and gazetted as a Heritage site. It consists of a three-storey building sitting on 0.21090 acres in old Town, Mombasa.

Kenyatta Avenue Branch located at Kenyatta Avenue, Nairobi. This is a leasehold property classified as a commercial property and gazetted as a Heritage site. It consists of a two-storey building at the junction of Kenyatta Avenue and Wabera Street in Nairobi. The property sits on 0.34435 acres.

Nyeri Branch located in Nyeri Town. This is a leasehold property classified as a commercial property and gazetted as a Heritage site. Its located in the historic area of Nyeri town. The property consists of a single-storey Branch with a two-storey residential house sitting on 0.4101 acres.

Nanyuki Branch in Nanyuki Town. This is a leasehold property classified as a commercial property and consists of a single-storey building on the main Nanyuki – Meru Highway. The property sits on 0.17218 acres.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

27. GOODWILL AND INTANGIBLE ASSETS

Accounting policy

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired business at the date of acquisition.

Goodwill included in intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units (CGUs) and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgment. Goodwill is allocated to CGUs for the purpose of impairment testing. CGUs represent the lowest level within the Group at which the goodwill is monitored for internal reporting purposes. These are smaller than the Group's reportable segments (as set out in note 5).

Significant accounting estimates and judgments

The carrying amount of goodwill is based on the extent of judgments including the basis of assumptions and forecasts used for determining cash flows for CGUs, headroom availability, and sensitivities of the forecasts to reasonably possible changes in assumptions. The Group undertakes an annual assessment to evaluate whether the carrying value of goodwill on the balance sheet is impaired. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgment.

Acquired intangibles

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 24). 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 amortised on the basis of their expected useful lives. At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Significant accounting estimates and judgments

The carrying amount of acquired intangibles is based on the extent of judgments including the basis of assumptions and forecasts used for determining future cash flows, period over which cash flows are expected to be generated and sensitivities of the forecasts to reasonably possible changes in assumptions. The estimation of future cash flows, the level to which they are discounted and the estimated useful life is inherently uncertain and requires significant judgment.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Direct costs of the development of separately identifiable internally generated software are capitalised where it is probable that future economic benefits attributable to the assets will flow from its use (internally generated software). These costs include salaries and wages, materials, service providers and contractors, and directly attributable overheads. Costs incurred in the ongoing maintenance of software are expensed immediately when incurred. Internally generated software is amortised over a three-year period.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

27. GOODWILL AND INTANGIBLE ASSETS (Continued)

Group and Company

	2017				2016			
	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	558,821	**5,377,970**	3,707,038	1,112,111	545,746	**5,364,895**
Additions	–	–	221,839	**221,839**	–	–	13,075	**13,075**
At 31 December	3,707,038	1,112,111	780,660	**5,599,809**	3,707,038	1,112,111	558,821	**5,377,970**
Amortisation								
At 1 January	2,476,386	–	444,165	**2,920,551**	2,117,242	–	341,662	**2,458,904**
Charge for the year	320,937	–	137,660	**458,597**	359,144	–	102,503	**461,647**
At 31 December	2,797,323	–	581,825	**3,379,148**	2,476,386	–	444,165	**2,920,551**
Carrying amount								
At 31 December	**909,715**	**1,112,111**	**198,835**	**2,220,661**	**1,230,652**	**1,112,111**	**114,656**	**2,457,419**

As at 31 December 2017, assets with a gross value of KShs 354,438,836 (2016 – KShs 303,918,101) are fully amortised but still in use. The notional amortisation charge for the year on these assets would have been KShs 118,146,279 (2016 – KShs 101,964,067).

There were no idle assets as at 31 December 2017 and 2016.

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 (2016 - 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 2017 was determined similarly as in 2016. 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 2017. 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.

28. PREPAID OPERATING LEASE RENTALS

Accounting policy

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 the income statement 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.

Group and Company	2017 KShs '000	2016 KShs '000
Cost		
At 1 January and 31 December	**277,578**	**277,578**
Amortisation		
At 1 January	33,598	30,670
Charge for the year	3,423	2,928
At 31 December	**37,021**	**33,598**
Carrying amount at 31 December	**240,557**	**243,980**

29. DEFERRED TAX

Accounting policy

Refer to note 12 Taxation for the accounting policy.

The net deferred tax assets at 31 December 2017 and 2016 are attributable to the following:

(a) Group 2017 Asset	At 1 January 2017 KShs '000	Income statement current year KShs '000	Other Comprehensive income KShs '000	At 31 December 2017 KShs '000
Property and equipment				
– Current year	(74,087)	44,331	–	(29,756)
– Prior year over-provision	–	(8,016)	–	(8,016)
Acquired intangible asset	(369,196)	96,282	–	(272,914)
Portfolio impairment provision	284,380	70,887	–	355,267
Specific impairment provision				
– Current year	–	213,297	–	213,297
– Prior year under-provision	–	772,189	–	772,189
Revaluation surplus	(141,003)	16,593	(155,581)	(279,991)
Fair value reserve	(117,398)	–	(155,229)	(272,627)
Accrued interest	238,032	(13,673)	–	224,359
Other provisions	217,364	(87,736)	–	129,628
Retirement benefit obligation	25,613	4,547	19,151	49,311
	63,705	**1,108,701**	**(291,659)**	**880,747**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

29. DEFERRED TAX (Continued)

(b) Company

2017 Asset	At 1 January 2017 KShs '000	Income statement current year KShs '000	Other Comprehensive income KShs '000	At 31 December 2017 KShs '000
Property and equipment				
– Current year	(74,087)	44,331	–	(29,756)
– Prior year over-provision	–	(8,016)	–	(8,016)
Acquired intangible asset	(369,196)	96,282	–	(272,914)
Portfolio impairment provision	284,380	70,887	–	355,267
Specific impairment provision				
– Current year	–	213,297	–	213,297
– Prior year under-provision	–	772,189	–	772,189
Revaluation surplus	(141,003)	16,593	(155,581)	(279,991)
Fair value reserve	(117,755)	–	(159,433)	(277,188)
Accrued interest	238,032	(13,673)	–	224,359
Other provisions	217,364	(88,266)	–	129,098
Retirement benefit obligation	25,613	4,547	19,151	49,311
	63,348	**1,108,171**	**(295,863)**	**875,656**

(c) Group

2016 Asset				
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 obligation	3,661	(1,118)	23,070	25,613
	(29,036)	**261,141**	**(168,400)**	**63,705**

(d) Company

2016 Asset				
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 obligation	3,661	(1,118)	23,070	25,613
	(37,323)	**269,428**	**(168,757)**	**63,348**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

30. DEPOSITS FROM BANKS

Accounting policy

Refer to note 3 Financial assets and liabilities for the accounting policy.

Group and Company	2017 KShs '000	2016 KShs '000
Balances from local banks	11,139,733	1,618,256
Balances from foreign banks	1,561,623	1,428,159
	12,701,356	**3,046,415**

The weighted average effective interest rate on deposits from banks at 31 December 2017 was 4.24% (2016 – 4.37%).

31. DEPOSITS FROM CUSTOMERS

Accounting policy

Refer to note 3 Financial assets and liabilities for the accounting policy.

Group and Company

(a) Maturity profile	2017 KShs '000	2016 KShs '000
Payable on demand	172,001,047	146,797,308
Payable within 3 months or less	15,063,509	4,623,711
Payable after 3 months	26,284,734	35,177,207
	213,349,290	**186,598,226**

(b) Product classification		
Current and demand accounts	132,774,629	121,390,200
Savings deposits	34,588,582	22,966,838
Time deposits	43,387,977	39,214,904
Other	2,598,102	3,026,284
	213,349,290	**186,598,226**

The weighted average effective interest rate on interest bearing deposits from customers at 31 December 2017 was 8.20% (2016 – 6.50%).

32. OTHER LIABILITIES

Accounting policy

Refer to note 3 Financial instruments for the accounting policy.

	2017		2016	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Bills payable	850,337	850,337	770,120	770,120
Dividends payable	584,636	584,636	3,033	3,033
Other trade payables	3,444,127	3,421,782	3,818,864	3,807,423
	4,879,100	**4,856,755**	**4,592,017**	**4,580,576**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

33. CONTINGENT LIABILITIES AND COMMITMENTS

Accounting policy

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events, that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

Where the Group undertakes to make payment on behalf of its customers for guarantees issued, such as performance bonds or as irrevocable letters of credit as part of the Group's Transaction Banking business for which an obligation to make a payment has not arisen at the reporting date, those are included in these financial statements as contingent liabilities.

(i) Trade contingents

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:

	2017 KShs '000	2016 KShs '000
Guarantees and standby letters of credit	32,944,900	24,969,554
Letters of credit, acceptances and other documentary credits	8,172,337	10,646,143
	41,117,237	**35,615,697**

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.

(ii) Legal and regulatory matters

Accounting policy

Where appropriate, the Group recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. The uncertainties inherent in legal and regulatory matters affect the amount and timing of any potential outflows with respect to which provisions have been established.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

33. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(ii) Legal and Regulatory matters (continued)

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.

  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 KShs 14.6 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.

- 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 2017, 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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

34. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

Accounting policy

The leases entered into by the Group are primarily operating leases. An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor. The Group leases various premises under non-cancellable arrangements. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as an expense in the period in which the termination takes place. If an operating lease contains a reinstatement clause, a provision will be raised for the best estimate of the expenses to be incurred at the end of the lease to reinstate the property to its original condition. This cost is amortised over the life of the lease.

Group and Company

The commitments under non cancellable operating leases expiring:

	2017		2016	
	Premises KShs '000	Equipment KShs '000	Premises KShs '000	Equipment KShs '000
Within 1 year	319,866	99,316	355,171	149,198
After 1 year but less than 5 years	551,445	26,734	689,061	121,354
After 5 years	8,634	–	5,524	–
	879,945	**126,050**	**1,049,756**	**270,552**

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.

35. RETIREMENT BENEFIT OBLIGATION

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. However, the Company's actuary did a review for the year ended 31 December 2017. The review was consistent with previous valuations performed using the projected unit credit method.

Accounting policy

For the defined benefit plan, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on government securities that have a term to maturity approximating to the term of the related pension liability. Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The Group determines the net interest expense on the net defined liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognised in the income statement.

35. RETIREMENT BENEFIT OBLIGATION (Continued)

Accounting policy (Continued)

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 the plan. 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 the income statement 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 income statement.

For the defined contribution plan, the Group pays contributions into a separate privately administered pension plan on a contractual basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

The employees and the 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 operating expenses in the year to which they relate.

Significant accounting estimates and judgments

There are many factors that affect the measurement of Retirement benefit obligation as it requires the use of assumptions which are inherently uncertain. The sensitivity of the liabilities to changes in these assumptions is shown in the note below.

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

Group and Company	2017 KShs '000	2016 KShs '000
Fair value of plan assets	655,099	669,824
Present value of funded obligations	(819,470)	(755,200)
Retirement benefit obligation as at 31 December	**(164,371)**	**(85,376)**
Plan assets consist of the following:		
Government bonds and bills	241,106	384,865
Corporate bonds	75,385	90,629
Other	338,608	194,330
	655,099	**669,824**
Movement in plan assets		
Fair value of plan assets at 1 January	669,824	729,544
Expected return on plan assets	92,596	102,393
Benefits paid by the plan	(128,684)	(129,446)
Employer contributions	30,600	38,000
Recognised actuarial losses	(3,101)	(64,667)
Administrative expenses paid	(6,136)	(6,000)
Fair value of plan assets at 31 December	**655,099**	**669,824**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

35. RETIREMENT BENEFIT OBLIGATION (Continued)

	2017 KShs '000	2016 KShs '000
Retirement benefit obligation at 1 January	755,200	741,748
Interest cost	102,216	100,664
Past service cost	30,000	30,000
Benefits paid by the plan	(128,684)	(129,446)
Recognised actuarial losses	60,738	12,234
Retirement benefit obligation at 31 December	**819,470**	**755,200**

The net charge recognised in the income statement is as follows:

	2017	2016
Interest cost	(102,216)	(100,664)
Expected return on plan assets	92,596	102,393
Past service cost	(30,000)	(30,000)
Administration expense	(6,136)	(6,000)
Total charge included in staff costs	**(45,756)**	**(34,271)**

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

	2017 KShs '000	2016 KShs '000
At 1 January	(85,376)	(12,204)
Employer contributions	30,600	38,000
Charge to the income statement	(45,757)	(34,271)
Recognised in other comprehensive income	(63,838)	(76,901)
At 31 December	**(164,371)**	**(85,376)**

Historical information	2017 KShs '000	2016 KShs '000	2015 KShs '000	2014 KShs '000	2013 KShs '000
Fair value of plan assets	655,099	669,824	729,544	831,203	835,956
Present value of funded obligations	(819,470)	(755,200)	(741,748)	(790,000)	(735,800)
Retirement benefit obligation before asset ceiling	(164,371)	(85,376)	(12,204)	41,203	100,156
Irrecoverable surplus	–	–	–	(41,203)	(100,156)
Additional liability for minimum funding requirements	–	–	–	(4,700)	(9,000)
Retirement benefit obligation	**(164,371)**	**(85,376)**	**(12,204)**	**(4,700)**	**(9,000)**

35. RETIREMENT BENEFIT OBLIGATION (Continued)

Key assumptions

The principal actuarial assumptions used at the reporting date were:

	2017 % pa	2016 % pa
Discount rate	13.8	14.8
Expected return on plan assets	13.8	14.8
Future pension increases	–	–

The overall expected long term rate of return on the assets is 13.8% (2016 – 14.8%) based on the portfolio as a whole and not on the sum of returns on the individual assets.

These assumptions are likely to change in the future and this will affect the value placed on the liabilities. For example, changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined obligation by the amounts shown below:

	2017		2016	
	Increase KShs '000	Decrease KShs '000	Increase KShs '000	Decrease KShs '000
Discount rate (-1% movement)	37,500	–	33,800	–
Discount rate (+1% movement)	–	35,500	–	32,200
Future mortality (longevity of member aged 60 increasing by 1year)	40,900	–	33,400	–

Although this analysis does not look at simultaneous changes in the assumptions, it does provide an approximation of the sensitivity to the main assumptions. While changes in other assumptions would also have an impact, the effect would not be as significant.

36. SHARE CAPITAL AND RESERVES

Accounting policy

Share capital issued is classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue a variable number of own equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Dividends are recognised in equity in the period in which they are declared.

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 the income statement as interest expense.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

36. SHARE CAPITAL AND RESERVES (Continued)

Group and Company

(a) Share capital

Authorised

The authorised share capital of the Company at 31 December 2017 was KShs 1,998 million (2016 – KShs 1,998 million) made up of 344 million (2016 – 344 million) ordinary shares of KShs 5.00 each and 56 million (2016 – 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 2017	Number of ordinary shares (‘000)	Number of preference shares (‘000)	Authorised share capital KShs ‘000
At 1 January 2017 and 31 December 2017	**343,511**	**56,000**	**1,997,553**
2016			
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**
Issued and fully paid			
2017			
At 1 January 2017 and 31 December 2017	**343,511**	**56,000**	**1,997,553**
2016			
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**

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 Financial Statements (Continued)

For the year ended 31 December 2017

36. SHARE CAPITAL AND RESERVES (Continued)

(a) Share capital (Continued)

The shareholders at 31 December 2017 that had large holdings were as follows:

Name	Number of shares ('000)	%
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 Kenya Nominees – A/C KE002382	1,738	0.51
5. Standard Chartered Nominees – RESD A/C KE11450	1,712	0.50
6. Standard Chartered Nominees – A/C 9230	1,525	0.44
7. Kenya Commercial Bank Nominees Limited – A/C 915B	1,483	0.43
8. Standard Chartered Africa Limited	1,452	0.42
9. Old Mutual Life Assurance Company Limited	1,349	0.39
10. Standard Chartered Nominees – RESD A/C KE11401	1,177	0.34
11. Others	73,756	21.48
	343,511	**100.00**

The distribution of shareholders as at 31 December 2017 and 2016 was as follows:

	2017			2016		
Share range	Number of shareholders	Shares held ('000)	%	Number of shareholders	Shares held ('000)	%
Less than 500	9,665	1,745	0.51	9,513	1,736	0.51
501 to 5,000	19,972	27,060	7.88	20,240	27,423	7.98
5,001 to 10,000	396	2,730	0.79	404	2,774	0.81
10,001 to 100,000	522	15,968	4.65	525	16,083	4.68
100,001 to 1,000,000	114	25,097	7.31	114	26,322	7.66
Above 1,000,000	11	270,911	78.86	10	269,173	78.36
Total	**30,680**	**343,511**	**100.00**	**30,806**	**343,511**	**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.

	2017 KShs '000	2016 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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

36. SHARE CAPITAL AND RESERVES (Continued)

(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.

37. STATEMENT OF CASH FLOWS

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

		2017		2016	
		Group	Company	Group	Company
	Note	KShs '000	KShs '000	KShs '000	KShs '000
Profit before taxation		10,071,293	9,509,984	13,288,119	12,764,426
Depreciation	26	419,971	419,971	441,737	441,737
Amortisation of intangible assets	27	458,597	458,597	461,647	461,647
Profit on sale of non-current asset held for sale		(184,491)	(184,491)	(88,039)	(88,039)
Loss on sale of property and equipment		31,732	31,732	2,225	2,225
Profit on sale of motor vehicle		–	–	(289)	(289)
Amortisation of prepaid operating lease rentals	28	3,423	3,423	2,928	2,928
Retirement benefit obligation	35	45,756	45,756	34,271	34,271
Reversal of revaluation deficit from prior years		4,521	4,521	–	–
(Increase)/decrease in operating assets					
Balances with Central Bank of Kenya					
– Cash Reserve Ratio		4,086,909	4,086,909	(1,839,359)	(1,839,359)
Government and other securities held for trading		(2,266,428)	(2,266,428)	929,279	929,279
Derivative financial instruments		(43,334)	(43,334)	134,512	134,512
Loans and advances to banks		250,000	250,000	500,000	500,000
Loans and advances to customers		(3,583,432)	(3,583,432)	(7,585,611)	(7,585,611)
Investment securities		(23,739,731)	(23,220,434)	(20,532,571)	(20,388,055)
Amounts due from group companies		(5,165,000)	(5,165,000)	–	–
Other assets		(2,189,763)	(2,232,013)	(583,591)	(529,649)
Increase/(decrease) in operating liabilities					
Deposits from customers		26,751,064	26,751,064	14,562,170	14,562,170
Derivative financial instruments		238,692	238,692	(205,748)	(205,748)
Amounts due to group subsidiaries		–	(56,188)	–	41,796
Amounts due to group companies		(946,716)	(946,716)	(2,023,000)	(2,023,000)
Defined benefit obligations		(30,600)	(30,600)	(38,000)	(38,000)
Other liabilities		287,083	276,179	575,032	575,658
Cash generated from/(used in) operating activities		**4,499,546**	**4,348,192**	**(1,964,288)**	**(2,247,101)**
Income taxes paid	12	(6,751,493)	(6,491,821)	(3,236,979)	(3,127,621)
Net cash used in operating activities		**(2,251,947)**	**(2,143,629)**	**(5,201,267)**	**(5,374,722)**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

37. STATEMENT OF CASH FLOWS (Continued)

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

	2017		2016	
	Group	Company	Group	Company
	KShs '000	KShs '000	KShs '000	KShs '000
Cash on hand	3,723,226	3,723,226	3,473,071	3,473,071
Unrestricted cash balances with Central Bank of Kenya	2,431,253	2,431,253	766,461	766,461
Treasury bills	–	–	2,980,792	2,980,792
Loans and advances to banks	5,325,864	5,325,864	1,316,035	1,316,035
Deposits from banks	(12,701,356)	(12,701,356)	(3,046,415)	(3,046,415)
Amounts due from group companies	10,956,687	10,925,088	14,151,412	14,011,495
Amounts due to group companies	(2,220,169)	(2,220,169)	(2,999,520)	(2,999,520)
	7,515,505	**7,483,906**	**16,641,836**	**16,501,919**

38. ASSETS PLEDGED AS SECURITY

As at 31 December 2017, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities.

39. FIDUCIARY ACTIVITIES

Accounting policy

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.

The Group holds asset security documents on behalf of customers. 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.

	2017		2016	
	Group	Company	Group	Company
	KShs '000	KShs '000	KShs '000	KShs '000
Value of asset security documents held on behalf of customers	859,620,118	339,973,729	765,476,584	327,714,199

40. RELATED PARTY TRANSACTIONS

Directors and officers

Details of directors' remuneration is disclosed in the Directors' Remuneration Report on pages 43 to 46.

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 22. These transactions are at arm's length. The parent company also provides technical support and consultancy services which are charged at market rates.

IAS 24 *'Related party disclosures'* requires the following additional information for key management compensation. Key management comprises executive directors and persons discharging managerial responsibilities of the Company.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2017

40. RELATED PARTY TRANSACTIONS (Continued)

Group and Company	2017 KShs '000	2016 KShs '000
Salaries and other employee benefits	654,646	635,735

During the year, the number of key management staff was 14 (2016: 15).

Transactions with directors and others

At 31 December 2017, balances relating to deposits from directors, employees and associates amounted to KShs 893,734,029 (2016 – KShs 759,314,719).

The interest expense paid during the year on deposits from directors, employees and associates amounted to KShs 24,434,966 (2016 – KShs 7,938,182).

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

Group and Company

Loans and advances to directors, employees and their associates	2017 KShs '000	2016 KShs '000
At start of the year	6,248,394	5,946,533
Amounts advanced during the year	3,564,683	4,638,853
Amounts repaid during the year	(3,433,696)	(4,336,992)
At end of the year	**6,379,381**	**6,248,394**
Loans and advances to directors or companies controlled by directors or their families	50,203	21,237
Loans and advances to employees	6,329,178	6,227,157
	6,379,381	**6,248,394**

The interest income earned during the year on loans and advances to directors, employees and associates amounted to KShs 502,925,199 (2016 – KShs 562,489,921).

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

None of the loans and advances above are impaired at 31 December 2017 (2016 – Nil).

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 2017, deposits from SCKPF and SCKSRBS 2006 amounted to KShs 124,468,741 (2016 – KShs 99,272,293).

41. 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.

42. INTERNATIONAL FINANCIAL REPORTING STANDARD 9 (IFRS 9): FINANCIAL INSTRUMENTS

On 24 July 2014, the International Accounting Standards Board (IASB) issued the final IFRS 9 Financial Instruments standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

On 1 January 2018, the Group adopted IFRS 9. In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). This amendment is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

IFRS 9 replaces a number of elements of International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial instruments; the recognition and measurement of credit impairment provisions; and providing for a simplified approach to hedge accounting.

The Company has elected to continue hedge accounting in line with the IAS 39 requirements and has not therefore applied the IFRS 9 hedging requirements. Comparative information will not be restated, as it is not permitted to do so if it cannot be done without the use of hindsight.

Changes in Impairment of financial assets approach

IAS 39:

For debt instruments held at amortised cost or available-for-sale, specific loss allowances are only recognised where there is objective evidence of an incurred loss.

For instruments held at amortised cost, where losses are known to have been incurred but have not been separately identified, a portfolio impairment provision is recognised.

A portfolio impairment provision is not, however, recognised for available-for-sale instruments. Impairment loss allowances are also not recognised for loan commitments and financial guarantees.

Where there is objective evidence of impairment for available-for-sale debt instruments, the entire unrealised loss held in reserves is transferred to the income statement and recognised as an impairment.

Equity shares classified as available-for-sale are considered impaired when there is a significant or prolonged decline in their value compared to initial recognition. On impairment, the entire unrealised loss held in reserves is transferred to the income statement and recognised as an impairment.

IFRS 9:

Expected Credit Losses (ECL) are recognised for all financial debt instruments, loan commitments and financial guarantees that are classified as hold to collect / hold to collect and sell, and have cash flows that are solely payments of principal and interest.

An ECL allowance is recognised at the time of initial recognition for all financial assets that are in the scope of ECL in respect of default events that may occur over the next 12 months (so-called "stage 1 assets" with allowances equivalent to 12-months expected credit losses). ECL continues to be determined on this basis until there is either a significant increase in credit risk or the asset becomes credit impaired.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2017

42. INTERNATIONAL FINANCIAL REPORTING STANDARD 9 (IFRS 9): FINANCIAL INSTRUMENTS (Continued)

Changes in Impairment of financial assets approach (Continued)

IFRS 9 (Continued)

If a financial asset (or portfolio of financial assets) experiences a significant increase in credit risk since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset (so-called "stage 2 assets" with provisions equivalent to lifetime expected credit losses).

A significant increase in credit risk is assessed in the context of an increase in the risk of a default occurring over the life of the financial instrument when compared to that expected at the time of initial recognition. It is not assessed in the context of an increase in the expected credit loss.

Similar to the current IAS 39 requirements for individual impairment provisions, lifetime ECL is recognised for loans that are in default or are otherwise credit-impaired (so-called "stage 3 assets").

The definition of default is aligned to the regulatory definition within the Prudential Guidelines and considered to occur when an asset is 90 days or more past due on contractual payments of principal and/or interest or is considered unlikely to pay without realisation of any collateral held.

To the extent that assets are credit-impaired at the point of initial recognition, they are classified as purchased or originated credit-impaired ('POCI').

An expected credit loss allowance is not recognised at initial recognition. Any changes in lifetime expected losses after initial recognition are charged or credited to the income statement through 'Impairment'.

The measurement of ECL across all stages is required to reflect an unbiased and probability weighted amount that is determined by evaluating a range of reasonably possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Where credit losses are non-linear in nature, multiple forward looking scenarios are incorporated into the range of reasonably possible outcomes. The period considered when measuring ECL is the contractual term of the financial asset. However, certain revolving portfolios, including credit cards, are measured over the period that the Group is exposed to credit risk rather than the contractual term.

For assets measured at amortised cost, the balance sheet amount reflects the gross asset less the allowance for ECL. For debt instruments held at Fair Value Through Other Comprehensive Income (FVOCI), the balance sheet amount reflects the instruments' fair value, with the ECL held as a separate reserve within other comprehensive income. ECL allowances on off-balance sheet instruments are held as liability provisions to the extent they can be separately identified.

Notice and agenda of the Annual General Meeting

To the members of Standard Chartered Bank Kenya Limited

Notice is hereby given that the thirty second Annual General Meeting of the Company will be held at the Safari Park Hotel, Thika Road, Nairobi on Thursday, 24 May 2018 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 the Consolidated and Company financial statements for the year ended 31 December 2017 with the Auditors' report thereon.

2. To confirm the payment of one interim dividend of KShs 4.50 paid on 24 October 2017 and to approve the payment of a final dividend of KShs 12.50 for each ordinary share of KShs 5.00 on the issued share capital of the Company in respect of the year ended 31 December 2017. This will bring the total dividend payout for the year ended 31 December 2017 to KShs 17.00 per ordinary share.

   To approve the payment of a final dividend of KShs 84,690,411 on the non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares. An interim dividend of KShs 83,309,589 was declared on 29 August 2017 and paid on 24 October 2017.

   The dividends are payable to shareholders registered on the Company's Register at the close of business on 24 April 2018 and will be paid on or after 25 May 2018. The Register will remain closed on 25 April 2018 for the preparation of dividend warrants.

3. To elect the following Directors:

   Directors retiring by rotation

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

   ii. Dr. Catherine Adeya-Weya, 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.

   Appointment of Director

   i. Mr. Richard Etemesi, being a casual director offers himself for election in accordance with Article 98 (1) of the Company's Articles of Association.

   Retirement of Director

   i. Mr. Kaushik Shah, a director retiring by rotation, does not offer himself for re-election.

   Board Audit Committee

   In accordance with 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. Patrick Obath

4. To approve the Directors' remuneration policy and 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
11 April 2018

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, 5th Floor Barclays Plaza, Loita Street, P.O. Box 9287 – 00100 GPO, Nairobi, so as to be received not later than 22 May 2018 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 Chairperson of the meeting to be my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday 24, May 2018 at the Safari Park Hotel, Thika Road, Nairobi at 11.30 a.m. or an adjournment thereof.

As my witness my/our hands this day of____2018

Signed: ____

Note:

1. **The completed Form of Proxy by members must be lodged at the Share Registrar, Image Registrars Limited, 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 22 May 2018, 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 kura kwa niaba yangu/yetu kwenye mkutano wa kila mwaka wa kampuni utakaofanywa Alhamisi saa tano na nusu za asubuhi Mei 24 2018, Safari Park Hotel, Thika Road, Nairobi na wakati wa ahirisho lolote litakalotokea baadaye.

Kama shahidi siku hii: ____2018

Sahihi:____

Muhimu:

1. **Hii fomu ya uwakilishi lazima irudishwe kwa afisi ya Image Registrars Services, orofa la tano, Barclays Plaza, Barabara ya Loita, ama itumwe kwa njia ya posta kwa kutumia anwani ya Image Registrars Services, SLP 9287 – 00100, Nairobi kufika kabla ya Jumanne saa tisa alasiri Mei 22 2018. 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

Head Office

Standard Chartered Bank Kenya Limited
48 Westlands Road
P.O 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

Standard Chartered